

CHAPTER – III

3. REVIEW RELATING TO STATUTORY CORPORATION

3. Karnataka State Financial Corporation

HIGHLIGHTS

The Corporation started incurring losses since 1996-97 and the net worth was eroded completely during 1998-99 and stood at (-) Rs.204.73 crore as at 31 March 2001.

(Paragraph 3.5)

The gap between the borrowing and net outstanding loans increased from Rs.297 crore in 1996-97 to Rs.1327.08 crore in 2000-01. The Corporation had not evolved a system for Asset Liability Management so as to avoid fresh borrowings to repay earlier loans.

(Paragraph 3.7)

The targets fixed for recovery of Term loan were not commensurate with the recoverable and the recovery percentage to total recoverable declined from 55 per cent in 1996-97 to 36 per cent in 2000-01 and net recoverable has increased from Rs.979.18 crore in 1996-97 to Rs.1280.25 crore in 2000-2001.

(Paragraph 3.8.2)

The Non Performing Assets in respect of term loans increased sharply from 15 per cent of net loans outstanding in 1996-97 to 48 per cent in 2000-01. In respect of cases test checked in Audit an amount of Rs.25.78 crore has become bad/doubtful due to failure in appraisal, follow up and ineffective recovery.

(Paragraph 3.7, 3.8.3, 3.8.4 and 3.8.5.1)

The Non Performing Assets of subscription to Non-Convertible Debenture and Factoring Services was 75 per cent and 93 per cent respectively as on 31 March 2001. Rs.47.23 crore has become bad/doubtful due to weak appraisal and poor post disbursement monitoring.

(Paragraph 3.7, 3.9.1 and 3.9.2)

Extension of Financial Guarantee and loan assistance in one case in violation of provision of SFC Act and by relying on fake title deeds of the property rendered recovery of Rs.12.18 crore doubtful.

(Paragraph 3.9.3)

3.1 Introduction

The Karnataka State Financial Corporation (Corporation) was established in March 1959, under Section 3 (1) of the State Financial Corporation Act, 1951 (SFC Act), by the Government of Karnataka for extending financial assistance to entrepreneurs for setting up of tiny, small and medium scale industrial units in the State. The Corporation also registered (October 1994) as a merchant banker with SEBI and formed a separate Merchant Banking and Financial Services (MB&FS) Division.

3.2 Activities

The Corporation is mainly engaged in the following activities:

- (i) Sanction and disbursement of Term loans for setting up projects.
- (ii) Working capital term loan (WCTL) assistance.
- (iii) Merchant banking and financial services to entrepreneurs.
- (iv) Hire purchase assistance and leasing of assets.

3.3 Organisational setup

The Management of the Corporation is vested in a Board of Directors consisting of 12 Directors including a Chairman and a Managing Director. The Managing Director (MD) is the Chief Executive in-charge of the day-to-day working of the Corporation and is assisted by two Executive Directors (Finance and Operations).

The business is carried on through a network of 7 Zonal offices headed by the Deputy General Managers (DGM) and 29 Branches headed by DGMs/Assistant General Managers/Managers. The Corporation has formed Executive Committee, Management Committee, Default Review Committee, Audit Committee, Project Implementation Review Committee and Small Loans Advisory Committee to assist the Board.

3.4 Scope of Audit

The present review covers the activities of the Corporation for the last five years ending 31 March 2001. The records maintained at head office and 10 out of 29 branches were test checked between November 2000 and April 2001 and the findings thereof are given in the succeeding paragraphs.

3.5 Financial position and working results

The financial position and the working results of Corporation for the 5 years ending 31 March 2001 are given in the Annexure 13 and 14.

As could be seen from the Annexure-13 there was erosion in Reserves and Surplus from Rs.11.83 crore in 1996-97 to Rs.4.25 crore during 2000-2001 due to loss incurred by the Corporation from 1997-98 to 2000-2001. The increase in Other liabilities and provisions was due to increase in provision made for Non Performing Assets (NPA) from Rs.68.27 crore in 1996-97 to Rs.256.77 crore in 2000-01. The net worth of Corporation has been declining over the years and eroded in the year 1998-1999 and was (-) Rs.8.12 crore. The net worth further eroded and stood at (-) Rs.204.73 crore as at 31 March 2001. Considering the continuing poor performance of the Corporation, the IDBI downgraded the Corporation from "A" to "B" category during 2000-01.

Further, it could be seen from the Annexure-14 that the loss of Rs.2.88 crore during 1996-97 increased to Rs.102.21 crore during 2000-2001. This was mainly due to reduction in net income spread from 2.8 per cent to 0.10 per cent and increased provision for 'Non Performing Assets' (NPAs) from Rs.18.81 crore to Rs.44.67 crore during the same period.

The guarantee commission payable to Government of Karnataka as on 31 March 2001 was Rs.26.80 crore which had not been provided for in the accounts.

3.6 Sources of funds

The following table depicts the resource-mix used by the Corporation for disbursement of loans, investments in shares, release of subsidy and disbursement of margin money on behalf of government agencies, during five years upto March 2001.

| Particulars | (Amount. Rs. in crore) | | | | |
|--------------------------------|------------------------|---------|---------|---------|---------|
| | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
| (A) Total cash outflow: | 654.09 | 472.10 | 415.89 | 300.91 | 329.13 |
| (B) Resources | | | | | |
| <i>(i) Share Capital</i> | | | | | |
| Amount | 1 | - | 13 | 10 | 3.60 |
| Percentage* | 0.15 | -- | 3.13 | 3.32 | 1.10 |
| <i>(ii) Plough back</i> | | | | | |
| Amount | 116.83 | 65.40 | 21.45 | -12.2 | -93.58 |
| Percentage | 17.86 | 13.85 | 5.16 | -4.07 | -28.40 |
| <i>(iii) Refinance</i> | | | | | |
| Amount | 334.90 | 142.20 | 213.60 | 238.80 | 244.09 |
| Percentage | 51.20 | 30.12 | 51.36 | 79.36 | 74.20 |
| <i>(iv) Bonds</i> | | | | | |
| Amount | 55.16 | 231.50 | 62.00 | 0 | 74.71 |
| Percentage | 8.43 | 49.04 | 14.91 | 0.00 | 22.70 |

* Percentages represent percentage of resource to total disbursements.

| Particulars | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|
| (v) Others [*] | | | | | |
| Amount | 146.20 | 33.00 | 105.84 | 64.36 | 100.31 |
| Percentage | 22.35 | 6.99 | 25.45 | 21.39 | 30.40 |
| Total | 654.09 | 472.10 | 415.89 | 300.91 | 329.13 |

The availability of funds for disbursement through plough back declined constantly resulting in over dependence on refinance which increased from 51.36 per cent of total disbursement in 1998-99 to 79.36 per cent in 1999-2000 and to 74.20 per cent in 2000-2001.

3.7 Disbursement and Asset Liability Management

The overall number of applications, sanctions and disbursements for the last 5 years is detailed below:

| During the Year | No of Applications sanctioned | Sanctions | Disbursements |
|-----------------|-------------------------------|----------------|---------------|
| | | (Rs. in crore) | |
| 1996-97 | 13053 | 859.84 | 649.46 |
| 1997-98 | 6970 | 577.37 | 469.56 |
| 1998-99 | 3753 | 371.96 | 358.97 |
| 1999-00 | 2878 | 340.27 | 298.50 |
| 2000-01 | 2677 | 440.05 | 328.78 |

The table below indicates the net outstanding loans and borrowings of the Corporation for the last 5 years ending 31 March 2001.

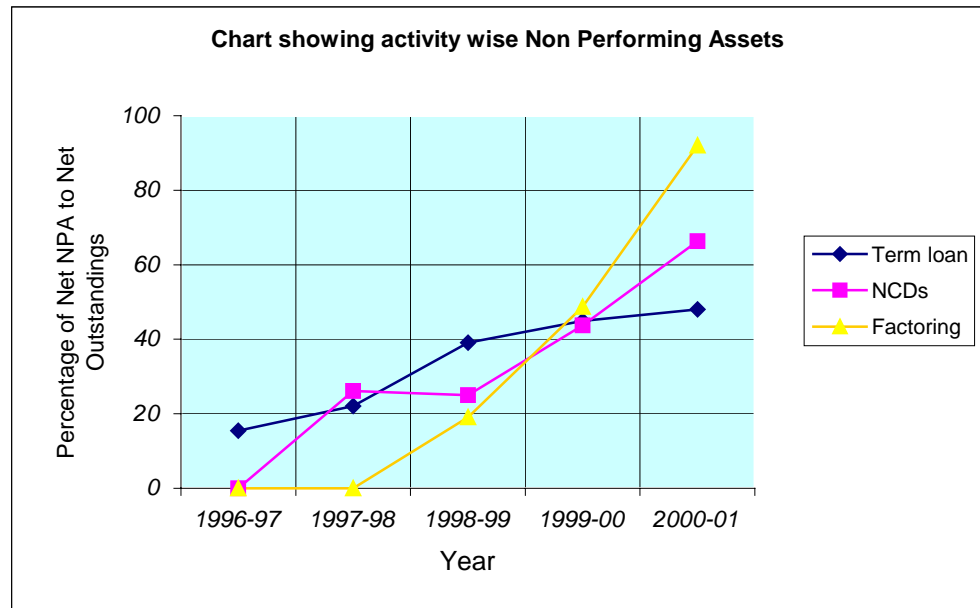
| Particulars | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|--|----------------|---------|---------|---------|---------|
| | (Rs. in crore) | | | | |
| Outstanding loans | 1906.87 | 1984.17 | 1941.12 | 1850.48 | 1878.34 |
| Non Performing Assets | 321.19 | 496.10 | 799.72 | 913.03 | 1006.50 |
| Net outstanding loans | 1585.68 | 1488.07 | 1141.40 | 937.45 | 871.84 |
| Outstanding Borrowings | 1882.68 | 1992.23 | 2074.17 | 2115.61 | 2198.92 |
| Gap between borrowings and net outstanding loans | 297.00 | 504.16 | 932.77 | 1178.16 | 1327.08 |

It could be seen from the above table that creation of bad portfolios by the Corporation has resulted in increase of NPAs from Rs.321.19 crore during 1996-97 to Rs.1006.50 crore during 2000-2001 leaving a huge gap of Rs.1327.08 crore to discharge the outstanding borrowings. The recovery rate of demands raised from loans classified as NPA was insignificant and was only 1.10 per cent during 2000-2001.

The gap between the borrowings and outstanding loans has increased by more than 4 times during the period 1996-97 to 2000-01. This would push the Corporation into a debt trap wherein the Corporation has to go for fresh borrowings to repay the earlier loans.

^{*} Other sources include Fixed Deposits, Line of credit and term loans from banks, Vishwa assistance from Government and ad-hoc borrowings from Reserve Bank of India /Industrial Development Bank of India Limited /Small Industries Development Bank Limited.

Detailed activity wise Non Performing Assets is indicated in Annexure 18. The following diagram depicts the percentage of Non Performing Assets (activity wise) for the five year ending 31 March 2001.



As could be seen from the graph the net NPAs of term loan increased from 15.43 per cent in 1996-97 to 47.99 per cent of net outstanding loans in 2000-01 whereas NPAs of NCDs and factoring services increased from 0 to 66.32 per cent and 0 to 92.03 per cent respectively during the same period.

The points noticed during a test check of performance of Term loans, Merchant banking and Financial services and Equipment leasing are discussed in paragraphs 3.8, 3.9 and 3.10 of this review.

3.8 Term loans

3.8.1 Sanction and Disbursements of loans

Sanction and disbursement of Term loans for six years ending 31 March 2001 is tabulated below:

| Sl No | Particulars | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|-------|---------------------|----------------|---------|---------|---------|---------|---------|
| | | (Rs. in crore) | | | | | |
| 1 | Effective Sanctions | 566.18 | 583.96 | 370.84 | 210.93 | 231.36 | 363.76 |
| 2 | Disbursements | 484.60 | 556.78 | 401.79 | 290.17 | 257.41 | 297.38 |

It can be seen from the above that disbursements for 2 years ending 31 March 1997 registered a comparable growth to effective sanctions. The Corporation sanctioned and disbursed liberally during 1995-96 and 1996-97 (total disbursements during these two years was Rs.1,041.38 crore which was 47.25 per cent of its cumulative disbursements of Rs.2,204.00 crore till 1994-95, since inception 1959).

3.8.2 Recovery performance

The total demand (Principal and Interest) raised, targets fixed for recovery and actual recoveries made in respect of term loans during the last 5 years ending 31 March 2001 is tabulated below:

| Particulars | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|--|---------------|---------|---------|---------|---------|
| | (Rs in crore) | | | | |
| A .Amount due for recovery | | | | | |
| (i) Opening overdues* | 316.44 | 438.58 | 570.77 | 486.16 | 732.46 |
| (ii) Amount due during the year | 662.74 | 703.60 | 768.34 | 802.41 | 547.79 |
| (iii) Net recoverable (i)+(ii) | 979.18 | 1142.18 | 1339.11 | 1288.57 | 1280.25 |
| B. Target for recovery | 511.01 | 666.34 | 726.76 | 644.80 | 615.00 |
| Percentage of Target fixed to net recoverable (percentage of B to A) | 52.19 | 58.34 | 54.27 | 50.04 | 48.04 |
| C. Recovery | | | | | |
| (i) Against current demand | 463.23 | 488.40 | 427.73 | 440.79 | 299.32 |
| (ii) Against over dues | 77.37 | 83.01 | 144.28 | 115.32 | 156.88 |
| (iii) Total Recovery | 540.60 | 571.41 | 572.01 | 556.11 | 456.20 |
| D. Closing over dues | 438.58 | 570.77 | 767.10 | 732.46 | 824.05 |
| Percentage of C (iii) to B | 105.79 | 85.75 | 78.71 | 86.25 | 74.18 |
| Percentage of C (i) to A (ii) | 69.90 | 69.41 | 55.67 | 54.93 | 54.64 |
| Percentage of C (ii) to A (i) | 24.45 | 18.93 | 25.28 | 23.72 | 21.42 |
| Percentage of C (iii) to A (iii) | 55.21 | 50.03 | 42.72 | 43.16 | 35.63 |

As could be seen the target fixed ranged from 48.04 per cent to 58.34 per cent of total recoverable. Despite fixation of lower targets, the Corporation was not able to achieve the targeted recovery in any of the years except in 1996-97. The percentage of total recovery to total demand declined from 55.21 per cent in 1996-97 to 35.63 per cent in 2000-01. The recovery against current demand also declined from 69.90 per cent to 54.64 per cent during the same period. Similarly the recovery against over dues ranged from 18.93 per cent to 25.28 per cent only.

3.8.3 Appraisal and disbursement

The Corporation has evolved a detailed appraisal and disbursement procedure. The Appraisal officer (usually a technically qualified officer) evaluates the applications received with special reference to the project, promoter and various financial pre-requisites as per requirements and in cases of viability/feasibility, loans are recommended for sanction to the appropriate authority. A few cases test checked in Audit revealed that an amount of Rs.16.33 crore has become bad/doubtful, mainly due to incorrect appraisal. Few such cases are discussed below and the remaining cases are detailed in Annexure 15.

In respect of few cases test checked in Audit, Rs.16.33 crore has become bad/doubtful due to incorrect appraisal.

* Figures for 1999-00 and 2000-01 exclude, cases, suit filed and cases referred to revenue authorities.

3.8.3.1 *Precitech Engineering*

The Corporation sanctioned a Term loan of Rs.1.20 crore for purchase of machinery and factoring[#] assistance of Rs.30 lakh to Precitech Engineering, a partnership firm during February 1998. The securities offered were land, building, plant & machinery worth Rs.1.80 crore, a residential site worth Rs.35.93 lakh and a new 400 MT Press worth Rs.36 lakh. The loan was disbursed between February 1998 and March 1998. The loanee became a defaulter and Rs.1.5 crore along with interest of Rs.71 lakh was outstanding as on 31 March 2001. Audit scrutiny of the concerned records revealed the following:

Disbursement of loans on fraudulent documents led to recovery of Rs.2.21 crore becoming doubtful.

- (i) The total assistance of Rs.1.5 crore sanctioned by the Executive Director (Finance) exceeded the maximum ceiling limit of Rs.1.2 crore to a Partnership firm. This fact was not put up to Board for ratification.
- (ii) The promoter obtained the loan fraudulently by furnishing Xerox copies of invoices of assets on which Karnataka State Industrial Investment Development Corporation (KSIIDC) and Karnataka Bank had already extended loans on hypothecation of the same. The Corporation ignored the list of machineries intimated by Karnataka Bank (19 February 1998) on which it had sanctioned loans and loans were disbursed on the same machineries by accepting the Xerox copies of invoices.
- (iii) The supply invoices were inflated to secure higher loan amounts as revealed by the supplier.
- (iv) Some of the machineries stated to have been supplied were not at all manufactured by the supplier and the supply bills were fake.
- (v) The Corporation had not initiated action to seize the assets under Section 29 of SFC Act for default in repayment of dues.

The loanee admitted the frauds committed by him in the joint meeting held on 8 December 2000. Thus, extension of undue favour, collusion of officials and intentional suppression of facts by the officials of the Corporation resulted in doubtful recovery of Rs.2.21 crore.

3.8.3.2 *Varlak Agrotech Private Limited*

Failure to assess the feasibility of the project and to verify the genuineness in purchase of land from the promotee Director resulted in a doubtful recovery of Rs.4.47 crore.

The Corporation sanctioned and disbursed (March 1996) a Term loan of Rs.1.9 crore to Varlak Agrotech Private Limited (Company) for setting up of a 100 per cent export oriented floriculture unit. The Company had entered (March 1995) into a collaboration agreement with an Israeli firm with an exclusive arrangement to sell the flowers through the firm. The project failed due of lack of basic infrastructure facilities like absence of international flights from Bangalore, etc., to carry the flowers grown. The case was referred to Debt Recovery Tribunal in May 2000. An amount of Rs.4.47 crore was outstanding as on 31 March 2001 against the Company.

[#] Buying of trade debts or lending of money on the security of the same.

In this regard, the following points were observed:

- (i) The promoters did not have any previous experience in the field of floriculture.
- (ii) The date of the collaboration agreement was altered by the promoters from 17 March 1995 to 8 February 1996 to facilitate sanction of the loan.
- (iii) The Company offered 14 acres of agriculture land as primary security whose value as per the purchase agreement was Rs.1.54 crore whereas the value of the land as per the Balance Sheet was only Rs.98.00 lakh. However, the property was not transferred in the name of the Company.
- (iv) The Corporation sanctioned loan without ensuring the availability of international flights which was necessary as the produce was meant for export and highly perishable.

Thus, failure of the Corporation to assess the feasibility of the project and to verify the genuineness of dealings in purchase of land from the promotee Director resulted in a doubtful recovery of Rs.4.47 crore (March 2001).

3.8.3.3 Loans to borewell companies, Kolar

Disbursement of loans on the collateral security of residential buildings in slums and accepting fake documents resulted in loss of Rs.1.66 crore.

The Corporation disbursed a total loan of Rs.39.60 lakh to 4 firms i.e. Balaji Enterprises, Tubewell Enterprises, Raja Enterprises (Rs.10.77 lakh each) and Raghavendra Enterprises (Rs.7.29 lakh) during August 1993 to November 1993 for acquisition of compressors for cleaning of borewells. The third party collateral securities of residential buildings at Bangalore situated in slums were offered in addition to the primary security of the compressors. All the 4 firms defaulted and Rs.39.51 lakh was outstanding along with interest of Rs.1.26 crore as on 31 March 2001.

In this regard, the following points were observed:

- (i) All the loanees were absconding along with the equipment and were not traceable.
- (ii) The Corporation attached the 3rd party collateral securities of buildings situated in slums in Bangalore and all the parties had brought stays from High Court of Karnataka.
- (iii) In the case of Tubewell Enterprises, it was observed that R Janakiram who had died (8 September 1985) 8 years before sanction of loan was stated to have signed the documents as guarantor on 6 November 1993.
- (iv) In respect of Balaji Enterprises, loan was sanctioned as a new unit. However, it was observed that the loanee had already a running unit of compressor. The loan was released on the Xerox copies of supply bills, which were bearing different KST and CST numbers as compared to Delivery Challans.

Thus, by sanctioning loans on the collateral security of residential buildings in slums the value of which had not been verified, releasing of loans without ensuring the genuineness of the guarantors and accepting fake documents resulted in loss of Rs.1.66 crore.

3.8.3.4 Assistance to Borewell Rigs

Sanction of loan to bore well rigs of outdated technology resulted in doubtful recovery of Rs.2.33 crore.

The Corporation sanctioned (January 1994 to June 1997) term loans of Rs.2.41 crore to 19 persons from Andhra Pradesh on the primary security of assets financed and collateral security of immovable properties. 16 of these loanees defaulted (between February 1996 and June 1999) and an amount of Rs.2.33 crore including interest of Rs.90.15 lakh was outstanding as on 31 March 2001.

In this regard, the following points were observed:

- (i) The loan sanctioned was for borewell rigs of outdated technology.
- (ii) The loan was sanctioned to the residents of Hyderabad without verifying the status of these borrowers from Andhra Pradesh Financial Corporation Limited.
- (iii) The primary securities i.e. borewell rigs were not traceable. The Corporation is yet to take action to seize the collateral securities offered in Andhra Pradesh
- (iv) The board of directors decided (January 1994) the collateral security in respect of assistance to bore well should be 75 per cent of loan sanctioned, however, the value of collateral obtained from these loanees were not on record.

Thus, sanction of loan to borewell rigs of the outdated technology resulted in doubtful recovery of Rs.2.33 crore.

3.8.4 Follow-up of the assisted units

Rs.5.84 crore has become doubtful/bad mainly due to failure/inadequate follow up.

The Corporation did not monitor the physical implementation of the units as per schedule before disbursement of loans. The Corporation does not have adequate arrangements for follow-up of loans disbursed and collection of periodical information of loanee units' and performance subsequent to disbursement. As per loan agreements the assisted units are required to send annual financial statements to the Corporation. It was observed that there was no pursuance in this regard.

A few test checked cases wherein the Corporation could not recover Rs.5.84 crore mainly due to failure/inadequate follow up of the assisted units are discussed below. A few other cases are detailed in Annexure 16.

3.8.4.1 B L Chemicals Private Limited, Bidar

The Corporation sanctioned and disbursed (between December 1989 and December 1992) a Term loan of Rs.1.40 crore to BL Chemicals Private

Limited, Bidar on the security of land, buildings, plant and machinery and personal guarantees of all the directors. The Corporation subscribed (December 1995) Rs.70 lakh to Non Convertible Debentures (NCDs) apart from releasing a corporate loan of Rs.62.25 lakh during December 1994. The unit became a defaulter (April 1996) and Rs.1.50 crore was outstanding along with interest of Rs.1.38 crore as on 31 March 2001. Due to default in making the payment the unit was taken over (March 2000) by the Corporation under Section 29 of the SFC Act.

In this regard, the following points were observed:

- (i) Even though the unit became a defaulter since April 1996, it was taken over only in March 2000 and could not be disposed off due to lack of demand.
- (ii) The value of plant and machinery, which was considered worth Rs.1.60 crore as on 31 March 1996, was valued (October 2000) by Chartered Engineer appointed by the Corporation at Rs.28.52 lakh considering 25 per cent depreciation from 1995 to 2000.
- (iii) The Corporation could not recover the loan as the unit was closed due to neglect of the unit by the management, improper product mix and poor market demand for some of its products.
- (v) The Corporation had also not invoked the personal guarantees of promoters for recovery of loans.

Delay in initiating action for recovery resulted in doubtful recovery of Rs.2.88 crore.

Thus, inaction of the Corporation from April 1996 to March 2000 resulted in recovery of Rs.2.88 crore becoming doubtful. The Corporation replied (March 2001) that a private agency was entrusted the work of investigating into the personal property of promoters.

3.8.4.2 Padmashree Industries, Mysore

The Corporation disbursed (between October 1994 and March 1997) Rs.27.50 lakh to Padmashree Industries, promoted by two woman entrepreneurs to set up facilities for manufacture of table moulded bricks against a security of proposed primary assets of Rs.34 lakh and collateral security of land valued at Rs.7 lakh. The unit became a defaulter and the matter was referred (March 2000) to revenue authorities under Karnataka Public Money Recovery of Dues Act, 1951 for recovery. A sum of Rs.50.91 lakh was outstanding as on 31 March 2001.

In this regard, the following points were observed:

- (i) All these assets projected to have a value of Rs.41 lakh at the time of sanction were valued at Rs.9.50 lakh when the officials visited (November 1998) the unit for the first time after default. Thus in the absence of post sanction and disbursement monitoring, the loan released was not properly utilised for creation of assets.
- (ii) The building constructed was in a dilapidated condition.

Failure to monitor periodically the actual utilisation of funds rendered recovery of Rs.0.51 crore becoming doubtful.

The Corporation admitted (May 2001) that in the eagerness to expedite the project, amounts were released on ad-hoc basis. Thus the corporation failed to monitor periodically to ascertain the value of assets created, resulting in doubtful recovery of Rs.50.91 lakh.

3.8.4.3 S Panduranga, Mysore

Sanction of loan ignoring the information furnished by other branch and delay in initiating action for recovery rendered recovery of Rs.0.46 crore doubtful.

The Corporation sanctioned (December 1996) a Term loan of Rs.25 lakh to S Panduranga for purchase of 'winches' (mining equipment to lift granite stones in the mining site) on the security of primary asset financed, a third party collateral security of a residential building valued at Rs.51.05 lakh and personal guarantee of the promoter. The winches were moved out of the state during May 1997. The unit became a defaulter since December 1997 and Rs.45.51 lakh was outstanding as on 31 March 2001. In this regard, the following points were observed:

- (i) The matter was referred to the Deputy Commissioner for recovery of dues under Karnataka Public Money (Recovery of Dues) Act, 1979 only in February 2000 after a lapse of 3 years.
- (ii) The loatee along with his brothers had obtained loans of Rs.34.80 lakh both in their individual capacity and in the name of partnership firm from Chamrajanagar Branch for purchase of winches. Though the Chamarajanagar branch had informed the Mysore branch during November 1996 that the loanees had failed to submit original invoices, the officials at Mysore Branch failed to enquire about the details of assets purchased out of loan sanctioned by Chamrajanagar branch.

It was replied (May 2001) that individual loan was sanctioned as the group was doing well and it was difficult to trace moveable property. The reply is not tenable as the Partnership firm where the loatee was a partner failed to submit original invoice to Chamarajanagar branch. Further, the Corporation had not evolved a mechanism to track moveable property effectively.

3.8.4.4 Nirup Electronics Private Limited

Failure to take immediate action to call back the loan and delay in disposing the unit resulted in recovery of Rs.0.46 crore being doubtful.

A Term loan of Rs.65 lakh was sanctioned (February 1993) to Nirup Electronics Private Limited for establishing a new unit for manufacturing RF coaxial connectors. The unit had drawn the loan to the extent of Rs.20.95 lakh and the balance loan was cancelled (March 1996), as the unit did not implement the project. The unit was taken over under Section 29 of SFC Act during January 1998. Total dues outstanding as on 31 March 2001 were Rs.45.72 lakh.

In this regard, the following points were observed:

- (i) The Corporation did not take immediate action to call back the loan when the project was abandoned in March 1996.
- (ii) Action was taken (January 1998) to dispose the unit only after a lapse of 18 months from the date of take over.

- (iii) Due to delay in initiation of action to dispose of the unit the offer of Rs.27 lakh received during July 1999 had come down to Rs.17 lakh in August 2000 and hence the unit was not disposed off so far.

Thus, failure to take immediate action to call back the loan and delay in disposing the unit resulted in accumulation of arrears of Rs.45.72 lakh, the recovery of which is doubtful.

3.8.5 Recoveries and overdues

The Corporation is empowered (i) to take over the management or possession of the unit or both as well as to sell the property pledged/mortgaged (Section 29 of SFC Act), (ii) to recall its entire loan before the agreed period if there is a reasonable apprehension that the assisted concern is unable to pay its dues (Section 30 of SFC Act), (iii) to recover its dues without prejudice to any other mode of recovery as arrears of land revenue under Karnataka Public Money (Recovery of dues) Act 1979 and (iv) to File suit before the Debt Recovery Tribunal (DRT) in case of default in repayment or violation of terms and conditions.

As on 31 March 2000, Rs.622.04 crore was under default. The interest and other debits outstanding on such defaulted loans was Rs.1055.56 crore. Out of this, the Corporation has initiated action (Sec 29) against 2532 units for recovery of Rs.175.48 crore principal and Rs.274.52 crore towards interest and other debits and referred 4232 cases to revenue authorities for recovery of Rs.99.15 crore principal and Rs.395.99 crore interest and other debits. In respect of balance of Rs.347.41 crore principal and Rs.385.05 crore interest, the Corporation had not taken any action to recover the same.

3.8.5.1 Ineffective recovery of dues

A few cases test checked in Audit where the Corporation could not recover Rs 3.61 crore mainly due to collusion of officials and non-enforcement of recovery procedures are discussed in subsequent paragraphs.

a) MHA Estate (Private) Limited, Chitradurga

MHA Estate (Private) Limited was sanctioned and disbursed Rs.1.22 crore between 1994 and 1997 to establish a Hotel in Chitradurga on the security of building (Rs.1.58 crore), plant and machinery (Rs.15.41 lakh) and personal guarantee of Directors. The firm requested (April 2000) for one time settlement by offering Rs.1 crore but failed to make payment of 5 per cent caution deposit for processing the proposal. The unit defaulted right from the beginning and Rs.2.03 crore including interest of Rs.85.19 lakh was due as on 31 March 2001.

In this connection it was observed that the Corporation did not acquire the assets under Section 29 of SFC Act, even though it was estimated that rent receivable from 18 shops of the building was around Rs.1 lakh to Rs.1.25 lakh per month.

The Corporation did not acquire the hotel even though the rental income was around Rs.1 lakh to Rs.1.25 lakh per month.

b) Maruthi Inn, Chitradurga

By release of title deeds without repayment of loan, the Corporation lost the opportunity of recovering Rs.0.30 crore out of Rs.0.61crore outstanding.

The Corporation sanctioned and disbursed (February 1994) a Term loan of Rs.23.98 lakh to Muruthi Inn, Chitradurga for construction of a Hotel. An additional Term loan of Rs.14.50 lakh was sanctioned (April 1996) for expansion. As there was a court order for attaching the primary security the Corporation released (May 1996) Rs.6.5 lakh after obtaining a collateral security of a residential property in Koramangala, Bangalore, valued at Rs.30 lakh The expansion project has not been completed so far (May 2001). The loanee became a defaulter and Rs.61 lakh was outstanding as on 31 March 2001.

In this connection it was observed that the Corporation released the title deeds during February 1997 for disposing of residential property at Bangalore to discharge the loans on the request of the guarantor. The guarantor neither returned the documents nor repaid the loan. With the release of the title deeds, the Corporation does not have any security to recover the dues. Thus, the Corporation had lost the opportunity of recovering Rs.30 lakh from the sale of collateral security.

c) Vijayalakshmi Oil Mills, Gulbarga

Release of seized unit at the instance of political leaders resulted in doubtful recovery of Rs.0.67 crore.

The Corporation sanctioned (between April 1993 to July 1995) Term loan of Rs.15 lakh, bridge loan of Rs.2.34 lakh and working capital loan of Rs.8.60 lakh to Vijayalakshmi Oil Mills, Gulbarga. The unit defaulted in payment of instalments since beginning and total dues outstanding, as on 31 March 2001 was Rs.66.70 lakh.

In this connection it was observed that the unit was taken over by the Corporation thrice in April 1997, February 1999 and August 1999 but released at the instance of certain political leaders. The case was referred (February 2000) to the Deputy Commissioner for recovery of dues under Karnataka Public Money (Recovery of dues) Act as arrears of land revenue. Thus, non-disposal of assets taken over under Section 29 of SFC Act and release of the same at the instance of political leaders resulted in overdues of Rs.66.70 lakh, the recovery of which is doubtful.

d) Wavetel Cyber Automation, Bangalore

Delay in taking over of the unit rendered recovery of Rs.0.30 crore doubtful.

The Corporation sanctioned a Term loan of Rs.25 lakh and released (March 1997) Rs.23 lakh to Wavetel Cyber Automation, owned by K Rajasekar, an ex-employee of the Corporation to set up an SSI unit for software development. The security offered was computer machinery worth Rs.35 lakh and personal guarantee of the loanee including Fixed Deposit of Rs.6.25 lakh with the Corporation. The loanee abandoned the implementation of the project (October 1997) and left India for Hong Kong and Rs.29.71 lakh was outstanding as on 31 March 2001. The unit was taken over under Section 29 in November 1997. It was noticed that assets worth Rs.17.50 lakh were missing at the time of seizure and hence a complaint was lodged (February 1998) with the police.

Even though, the officials of the Corporation apprehended in October 1997 that the loanee may shift the assets and dispose of the machinery, no action was taken to take over the unit immediately resulting in non recovery of Rs.29.71 lakh.

3.8.5.2 *Theft of seized assets*

The assets seized under Section 29 of the SFC Act 1951 are being entrusted to Private Security agencies to guard the same till their disposal or handing over to loanees after payment of dues. It was observed that assets valued at Rs.1.79 crore were stolen while under the custody of these agencies. Even though agreements provide to make good the loss of assets entrusted, no action has been taken to recover the value of the assets stolen. Police complaints were lodged both by the security agencies and the Corporation. No progress has been achieved to trace the stolen properties so far (May 2001).

3.9 **Merchant Banking & Financial Services**

Merchant banking is a function which includes financing of goods and providing financial and commercial help viz., Subscription to NCDs, Bill discounting and Factoring, Equipment leasing, and preparation of project reports, issue appraisal, management of public issues etc.,. The following table summarises the performance of MB&FS Division of the Corporation from 1996-97 to 2000-2001.

| Particulars | 1996-97 | 1997-98 | 1998-99 | 1999-00 | 2000-01 |
|-------------------------------|-----------------------|---------|---------|---------|---------|
| No of applications sanctioned | 96 | 70 | 65 | 12 | 4 |
| | (Rs. in crore) | | | | |
| Sanction | 135.12 | 65.23 | 49.92 | 9.65 | 1.45 |
| Disbursement | 66.62 | 43.22 | 41.70 | 25.56 | 19.10 |
| Recovery (i) Principal | 31.67 | 45.57 | 46.70 | 35.99 | 19.25 |
| (ii) Interest | 6.17 | 8.78 | 10.30 | 13.79 | 9.90 |
| Other Income earned | 9.05 | 4.27 | 1.19 | 0.53 | 0.32 |

As could be seen from the above table, there was consistent decline in sanction and disbursements, which was mainly due to high incidence of default, which forced Corporation to reduce further exposure in this line. The Corporation failed, as funding under this line of activity demanded managerial expertise in appraisal and post disbursement monitoring as brought out in succeeding paragraphs.

3.9.1 *Subscription to Debentures*

As per Section 28 (1) (d) of SFC Act, the Corporation cannot assist any unit whose paid up share capital with free reserves is more than Rs.3 crore without the prior approval of the Central Government. However on a test check, it was observed that the Corporation extended financial assistance of Rs.23.80 crore to 13 companies whose share capital and free reserves was more than Rs.3 crore without Central Government approval.

The Corporation could not recover Rs.41.24 crore due to failure in appraisal, follow-up and recovery.

As on 31 March 2001 a sum of Rs.84.37 crore was outstanding. Of this Rs.63.51 crore was classified as NPAs representing 75 per cent of debenture dues. On a test check it was observed that the Corporation could not recover Rs.41.24 crore due to failure in appraisal, follow-up and recovery. A few cases are discussed below. The remaining cases are detailed in Annexure 17.

3.9.1.1 Lan Eseda group companies

Corporation failed to enquire about the assets acquired out of NCD and failed to create a charge on the same resulting in loss of Rs.18.14 crore.

The Corporation subscribed Rs.1.5 crore each (August 1995 to December 1995) to NCDs of 5* Lan Eseda group companies engaged in software development to meet long-term working capital needs. The debentures were to be redeemed in full over a period of 5 years starting from March 1997 and the interest was to be paid half yearly in June and December. All the 5 companies paid the first half yearly interest due in June 1996 but defaulted thereafter. As on 31 March 2001 a sum of Rs.18.14 crore was outstanding.

The following irregularities in appraisal, pre and post disbursement of financing were observed:

- (i) The extension of assistance was in violation of Section 28 (1) (d) of SFC Act, as the paid up capital and free reserve were more than Rs.3.00 crore.
- (ii) Financial assistance in the form of subscription to NCDs involving financial commitment were extended to 4 out of 5 companies which were registered outside Karnataka.
- (iii) Corporation accepted Lan Eseda industries shares held by other group of companies as security for NCDs without obtaining any other security.
- (iv) Though it was stipulated that the borrower should create a charge on moveable properties acquired out of NCD proceeds, the Corporation failed to enquire about the assets acquired and create a charge on the same.
- (v) At the instance of Executive Director (Finance), the Corporation did not obtain personal guarantees of all the Directors of the assisted units as per the original terms and conditions of sanction.

Due to above lapses the Corporation could not recover Rs.18.14 crore and treated as loss assets.

* (1) Cauvery Software Engineering system Limited (2) European Software alliance Limited (3) Lan Eseda Industries Limited (4) Scintilla Software Technology Limited (5) Uniport Computers Limited.

3.9.1.2 *Karnataka Malladi Biotics Limited*

Assistance to a newly promoted unit and failure to monitor the diversion of funds resulted in doubtful recovery of Rs.4.55 crore.

The Corporation subscribed (September 1995 and June 1996) Rs.1.5 crore to NCDs for meeting long term working capital on security of moveable assets created out of NCD proceeds and no collateral security was taken. The Company became a defaulter in payment of interest and redemption of debentures since inception and Rs.3.03 crore was outstanding as on 31 March 2001.

In this regard, the following points were observed:

- (i) The NCD assistance was given to a newly promoted unit against the norm of lending to units, which are in production line for 3 years.
- (ii) The Company had diverted the proceeds of the NCDs to other companies of the group.
- (iii) No action has been taken to invoke the personal guarantees of the Directors or to file a petition before Debts Recovery Tribunal (DRT).
- (iv) The Company also defaulted in payment of lease rentals and an amount of Rs.1.52 crore (including interest) was outstanding as on 31 March 2001.

Thus, extending assistance to a newly promoted unit and failure to monitor the diversion of funds resulted in doubtful recovery of Rs.4.55 crore.

3.9.1.3 *CRB Corporation Limited*

Failure to notice diversion of funds and not pursuing for creation of charge on the securities offered resulted in loss of Rs.2.99 crore.

The Corporation subscribed (March 1995) Rs.1.50 crore of NCDs towards long-term working capital on the security of the shares of the same group of companies i.e. CRB Capital Markets and CRB Shares Custodian Services Limited. The unit was a defaulter since January 1997 in repayment of principal and interest. The Corporation recalled (June 1997) the NCDs and requested the Canara Bank (Trustees of NCDs) to dispose off the pledged shares. As RBI had frozen the operations of all the group companies, the shares could not be sold. Petition was filed before the Debt Recovery Tribunal (DRT) for recovery of dues (February 1999). The amount outstanding as on 31 March 2001 was Rs.1.50 crore towards principal and Rs1.49 crore towards interest.

In this regard, the following points were observed:

- (i) The loan sanctioned was in violation of Section 28(1)(d) of SFC Act as the paid up capital and free reserves of the Company was more than Rs.3 crore.
- (ii) The funds were diverted to other group companies.

- (iii) Though, the loanee offered (March 1997) to assign the first charge on the two Gangsaw machines valued at Rs.2.50 crore, the Corporation did not pursue the same.

Thus, failure to notice diversion of funds before subscribing to NCDs, and not pursuing the securities offered resulted in loss of Rs.2.99 crore.

3.9.1.4 Oceania Peninsula Private Limited

Failure to verify the authenticity of the title deeds offered as collateral security resulted in loss of Rs.0.97 crore.

The Corporation subscribed (July and October 1997) Rs.80 lakh to the NCDs of the Company on the collateral security of Rs.75 lakh (a third party residential building) and Fixed Deposit of Rs.24 lakh. During inspection it was observed (July 1999) that the unit had stopped functioning and the Registered office was also closed. The overdues after encashment of fixed deposit were Rs.97.34 lakh as on 31 March 2001.

In this connection it was observed that when the collateral security was seized (September 2000), the owner of residential building challenged the seizure in the High Court on the ground that no property or title deeds was offered as security. The Court observed (April 2001) that the title deeds produced were fake which the legal officer also confirmed after verifying the same from the sub-registrar's office in February 2001. The Corporation did not take any action against the loanee.

Thus, failure of the Corporation officials to verify the authenticity of the title deeds offered as collateral security resulted in loss of Rs.97.34 lakh.

3.9.2 Factoring services

Due to irregularities in factoring services Rs.5.99 crore has become bad/doubtful.

Factoring involves buying of trade debts or lending of money on the security of the same. As on 31 March 2001, Rs.3.46 crore was outstanding under factoring services. Out of this Rs.3.23 crore was classified as NPAs representing 93 per cent of net outstandings.

A few cases of irregularities noticed in Factoring services where the Corporation could not recover Rs.5.99 crore are discussed in the succeeding paragraphs.

3.9.2.1 Master Strips Private Limited

The Corporation sanctioned (August 1998) factoring limit of Rs.90 lakh to Master Strips Private Limited in addition to the subscription (March 1998) of Rs.1.50 crore to NCDs to meet its long-term working capital requirements on the collateral security of residential building valued at Rs.2.80 crore. The limit was renewed during December 1999.

In this connection, the following observations are made:

- (i) Eventhough, bills amounting to Rs.66.90 lakh were dishonoured and outstanding as on 31 December 1999 and Rs.17.72 crore was outstanding to various financial institutions, the Corporation renewed the factoring limit in December 1999 on the basis of improved

turnover achieved during 1998-99 without ascertaining the reasons for non-payment of earlier factored bills.

- (ii) The Corporation sanctioned (January 2001) a corporate loan of Rs.1.00 crore against the collateral security obtained earlier to adjust the dues outstanding on factoring and interest on NCDs to regularise the over dues thereby pre-empting the Corporation from taking penal action for default.

This has resulted in accumulation of dues amounting to Rs.2.31 crore, recovery of which is doubtful.

3.9.2.2 Skand Private Limited

The Corporation sanctioned (July 1996) factoring limit of Rs.75 lakh and deferred payment guarantee of Rs.2.00 crore to Skand Private Limited promoted by Shri Y R Ghorpade and his family members. The securities offered were personal guarantees of the Directors and shareholders and mortgage of the existing assets of the Company along with a collateral security of a property at Sandur. All the bills were factored on a group Company i.e., Sandur Udyog Limited and were dishonoured from October 1998, totaling Rs.88.76 lakh, and the Company failed to settle the same. Further, the Company failed to pay the suppliers to the extent of Rs.62.90 lakh, the liability of which also devolved (31 March 2001) on the Corporation, under the Deferred Payment Guarantee Scheme. Total dues as at the end of March 2001 amounted to Rs.1.57 crore (including interest). The Company did not respond to the various notices for settlement of dues. In this connection it was observed that even after a lapse of 30 months from the date of default (October 1998), the Corporation had neither taken action under Section 29 to take over the unit nor invoked the personal guarantee of the Director/shareholders so far.

3.9.2.3 Venkatadri Cotton Mills Private Limited

Sri Venkateshwara Industries, Bellary was sanctioned (July 1997) factoring limit of Rs.60 lakh on a collateral security of building at Coimbatore and personal guarantee of all the partners. In order to enhance the limits beyond Rs.90 lakh applicable to Partnership firms at the behest of the then Deputy Chief Minister, the Corporation advised the partnership firm to convert itself into a Private Limited Company. The firm accordingly converted (October 1997) into a Private Limited Company viz., Venkatadri Cotton Mills Private Limited and additional limit of Rs.40 lakh was sanctioned (December 1997). The Company factored the bills on only one customer viz., Yemmiganur Spinning Mills, a group Company. The bills were not honoured and Rs.1.44 crore was outstanding as on 31 March 2001. In this connection the following observations are made:

- (i) The Corporation failed to verify the actual working capital requirements at the time of sanction. When the Company became (December 1998) a defaulter, the Corporation assessed that the actual working capital requirement was only Rs.58 lakh. Against this the Corporation had sanctioned Rs.1.00 crore.

The loan was sanctioned on a collateral security of a building already acquired by Central Government and this has rendered recovery of Rs.1.44 crore doubtful.

- (ii) When the Corporation initiated action to attach the collateral security of a property at Coimbatore, it came to know that the property, which currently housed the General Post office of Coimbatore city, was already acquired by the Central Government in 1972. The official of the Corporation who inspected the property at the time of appraisal did not report the same.

Thus, accepting of collateral security, which was already acquired by Central Government, resulted in overdues of Rs.1.44 crore, the recovery of which is doubtful.

3.9.2.4 *Kemtrode Private Limited*

Ignoring the advice of Canara Bank in discounting the bills resulted in recovery of Rs.0.61 crore, being doubtful.

The Corporation sanctioned (April 1996) factoring limit of Rs.50 lakh to Kemtrode Private Limited on a collateral security of Rs.50 lakh and personal guarantee of the Directors. Many of the customers defaulted and the Company failed to settle the factored bills. The overdue as on 31 March 2001 was Rs.60.95 lakh.

In this connection the following irregularities were noticed:

- (i) The personal guarantee was required from all the Directors as per sanction order. However, the Corporation did not obtain the personal guarantee of one Director for which reasons were not on record.
- (ii) The Company's bank (Canara Bank) advised the Corporation to factor the supply bills of 13 specified customers only. The Corporation ignored the advice and factored the bills of other customers also. Of the overdue factored bills, Rs.52.30 lakh (about 85 per cent) pertained to the bills of the customers who were not recommended by the bank.
- (iii) Though, the Company was a chronic defaulter, the Corporation neither initiated action to recover the dues under Karnataka Public Money Recovery of Dues Act nor invoked the personal guarantee of the Directors.

Thus, ignoring the advice of Canara Bank in discounting the bills of specific customers resulted in dues of Rs.60.95 lakh, the recovery of which is doubtful.

3.9.3 *Financial Guarantee*

The Corporation extended the following financial assistance to B.L Industries, Bidar:

- (a) Term loans of Rs.3.82 crore between April 1993 and April 1996
- (b) Guaranteeing of deferred payments of Rs.1.79 crore.
- (c) Financial Guarantee of Rs.5.50 crore to Global Trust Bank (GTB) (October 1998) towards loan sanctioned by them.

Violation of the provisions of the Act and extension of Financial Guarantee on fake title deeds of the property rendered recovery of Rs.12.18 crore doubtful.

The collateral security offered for above loans was 25 acres and 28 guntas of non-agricultural land at Hyderabad valued at Rs.7.20 crore in addition to personal guarantee of Directors.

The firm defaulted in repayment of loan to GTB and they invoked (December 1999) the guarantee against the Corporation. Entire amount along with interest amounting to Rs.5.84 crore was paid by the Corporation in March 2001. The total outstanding as on 31 March 2001 stood at Rs.12.18 crore.

In this connection the following irregularities were noticed:

- (i) As per Section 26 of the SFC Act, the total amount outstanding against a concern in respect of all financial assistance including deferred payment guarantee should not exceed Rs.2.40 crore. However total financial assistance of Rs.11.11 crore was extended in violation of the above provisions.
- (ii) Financial Guarantee was extended (October 1998) for Rs.5.50 crore inspite of loanee being a defaulter in payment of term loan dues (Rs.99.18 lakh outstanding as on March 1998).
- (iii) Title deeds of the property offered as security were fake and the Corporation officials failed to verify the genuineness of the property situated outside the State.
- (iv) The Corporation received an offer (December 2000) of Rs.20 lakh only for assets acquired due to default in repayment of Term loan against its valuation of Rs.2.64 crore.

Thus, extension of Financial Guarantee in violation of provisions of SFC Act and failure to verify the genuineness of the property offered as collateral security rendered recovery of Rs.12.18 crore doubtful.

3.10 Equipment leasing

Under the scheme, the Corporation (lessor) acquires the assets by paying the full cost and grants the same to the user (lessee) to use the same for a specified period in return for payment of lease rent. The leased asset can be taken back if the lessee defaults in payment of lease rentals. The following table summarises the lease finance sanctioned and disbursed during 5 years ending 31 March 2001.

| Year | Number of Sanction | Amount Sanctioned | Amount Disbursed |
|---------|--------------------|-------------------|------------------|
| | | (Rs. in crore) | |
| 1996-97 | 35 | 40.87 | 13.66 |
| 1997-98 | 13 | 17.22 | 19.94 |
| 1998-99 | 10 | 15.45 | 14.58 |
| 1999-00 | 12 | 8.40 | 6.02 |
| 2000-01 | 7 | 7.61 | 9.31 |

The Corporation could not recover Rs.14.87 crore due to failure in appraisal, follow up and recovery under lease financing.

It could be seen from the above table that the sanctions declined drastically.

On a test check it was observed that the Corporation could not recover Rs.14.87 crore due to failure in appraisal, follow up and recovery. These cases are discussed below.

3.10.1 *Dandeli Steel and Ferro Alloys Limited,*

The Corporation sanctioned (March 1997) lease assistance of Rs.10.50 crore to Dandeli Steel and Ferro Alloys Limited for purchasing diesel generation power set. Of this, a sum of Rs.10.33 crore was disbursed towards the cost of the equipments between March 1997 and August 1998. The lessee became a chronic defaulter in payment of lease rent and amount outstanding as on 31 March 2001 was Rs.13.96 crore.

- (i) The lessee was under rehabilitation package of BIFR since 1988 and came out of BIFR in early 1990. It was declared a sick Company by BIFR again in March 1999. The Corporation ignored the fact that steel industry was in the grip of severe recessionary trend at the time of appraisal and went ahead with the assistance.
- (ii) The Corporation did not investigate into the defaults of the Company to other financial institutions.

The Corporation could not take the possession of the machinery, as it was heavy and embedded to the ground. Thus failure to enquire with other financial institutions regarding default and ignoring the recession in steel industry rendered recovery of Rs.13.96 crore doubtful.

3.10.2 *Sundara Industries, Bangalore*

The Corporation sanctioned (March 1998) equipment-leasing assistance of Rs.1.50 crore to Sundara Industries for import of machinery. The loan was sanctioned without verifying the credit worthiness of the promoters as well as guarantor. When it was known that the guarantor was a defaulter to Bank of Maharashtra before disbursement of loan, the Corporation insisted for providing additional security. The loan was released at the instance of court as Unit approached the court for release of loan. The total outstanding as on 31 March 2001 was Rs.91.40 lakh. The loanee brought an injunction order against seizing of assets and the case is still pending (May 2001). Thus, sanction of lease assistance without verifying the credit worthiness resulted in doubtful recovery of Rs.91 lakh.

3.10.3 *Non repossession of lease expired assets*

As per the lease agreement on expiry of the lease period (called primary lease), the lessee shall return the assets to the lessor (i.e., Corporation) or lessees may opt for second lease at a very nominal rent of Rs.1.00 PTPM (Re.1.00 per thousand per month of the cost of equipment).

It was observed in 9 cases test checked in Audit that though the primary lease period had expired, the lessee had not opted for secondary lease nor the Corporation repossessed the assets. Further the Corporation also not collected Rs.9.75 lakh from these 9 lessees on the assets, which are still in the possession of the lessees.

The Corporation replied (May 2001) that it has since taken up the issue with the lessee.

Conclusion

The Corporation was formed with the objective of extending financial assistance for setting up of tiny, small and medium scale industrial units in the State. Most of the units assisted had become sick or unviable. Imprudent sanction of loans and advances during 1995-96 and 1996-97 resulted in creation of bad portfolios and erosion of net worth in 1998-99. The Non Performing loans constituted 48 per cent of the total dues outstanding as on 31 March 2001. This was mainly due to failure in appraisal, follow-up and recovery procedures. There is an urgent need for the Corporation to review and revamp its appraisal procedures and strengthen its follow up and recovery functions.