CHAPTER 3
MINISTRY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF SCIENCE AND TECHNOLOGY

Functioning of Technology Development Board

HIGHLIGHTS

- **Out of 26 projects studied in audit, in six cases TDB had sanctioned projects in contravention of its own funding guidelines and assessed the project proposals inadequately. This contributed to foreclosure, non-achievement of objectives and default in repayment of loans.**

(Paragraph 3.7.1)

- **The production and sales projections were invariably found to be inflated. In 15 completed projects, the production and sales projected in the proposals were in between zero to 62 *per cent*. In five projects, the commercial production was yet to commence, while commercialization status was unknown in one project. Of the remaining five projects, three had been foreclosed while two had not been completed successfully.**

(Paragraph 3.7.2)

- **In 12 projects, TDB had released various installments of loan amounting to Rs 44.67 crore without fulfilling some of the prescribed milestones required in the loan agreement.**

(Paragraph 3.7.3)

- **Regular monitoring was not done in 17 projects. In five projects, the recommendations of the PMC were not properly implemented. There was delay in receipt of prescribed returns including project completion report in 17 projects including some where none was received. Audited annual accounts were not received in 14 projects. Moreover, companies did not insure the assets or properties making TDB as a sole beneficiary in 11 projects.**

(Paragraph 3.7.4)

- **The repayment had been received only in two projects while in four other cases repayment was not due. In another project, loan was converted into preference shares and recovery of interest was deferred. In the remaining 19 projects the companies had defaulted on repayments, sixteen of them not having repaid principal or interest at all. Repayment including interest**

amounting to Rs 48.97 crore due as on 31 October 2005 was still outstanding. TDB had not initiated prompt legal action and in seven cases there was delay between seven and twenty five months in handing over cases to asset managers.

(Paragraph 3.7.5)

- **Out of 19 default cases, in 13 cases TDB tried to accommodate the companies by revising the repayment schedule, sometimes more than once. Of these, in nine cases the companies had again defaulted on repayments under revised schedules.**

(Paragraph 3.7.5)

SUMMARY OF RECOMMENDATIONS

- **While appraising and sanctioning the project, TDB should adhere to its own funding guidelines and carry out proper assessment of project proposal. The past history, performance and financial status of the promoter as well as the company should be assessed before entering into an agreement.**

- **The production and sales projections of the company may be critically examined by the technical and financial experts before acceptance to avoid such wide variances between targets and actual achievements.**

- **TDB may ensure that loan installments are released only on fulfilling the milestones prescribed in the loan agreement. For adequate caution, the claims of the company should be verified from independent sources like Registrar of Companies (ROC) before release of each installment.**

- **PMC meetings should be arranged more frequently, and the PMC should verify the status of implementation of the project against the benchmarks indicated under the agreement. The recommendations of the PMC should be followed up regularly. The periodic returns, audited annual accounts and insurance policies of assets should be obtained from the companies strictly within the time schedule prescribed in the agreement. TDB should examine these documents properly so as to keep close watch on the developments under the project.**

- **TDB may take prompt action on defaulters. Obtaining additional collaterals from the borrowers while revising the repayment schedule could be considered to ensure better adherence to revised schedules.**

3.1 Introduction

The Government of India constituted the Technology Development Board **(TDB)** in September 1996, under the provisions of the Technology Development Board Act, 1995 with the following objectives:

- to provide equity capital, subject to such conditions as may be determined by regulations, or any other financial assistance to industrial concerns and other agencies attempting commercial application of indigenous technology or adapting imported technology for wider domestic application;

- to provide financial assistance to such research and development institutions engaged in developing indigenous technology or adaptation of imported technology for commercial application, as may be recognized by the Central Government;

- to perform such other functions as may be entrusted to it by the Central Government.

The Board consists of 11 Members including the Chairperson (Secretary, Department of Science and Technology). The membership of the board consists of six Secretaries to the Government of India, four members appointed from persons having experience in technology development and application, banking and finance, industry, agriculture and rural development. The Secretary, TDB acts as Member Secretary of the Board.

3.2 Financial Management

TDB is mainly financed through grants released by the Department of Science and Technology (**DST**). TDB received a grant of Rs 435.44 crore from DST during the period 1996-2005. During 1997-2005, TDB had sanctioned 131 projects under 11 sectors. The sector wise details of projects are as follows:

(Rs in crore)

S. No.	Sector	No. of Projects	Amount sanctioned by TDB
1.	Health and Medical	35	151.29
2.	Engineering	31	86.14
3.	Road Transport	10	81.20
4.	Air Transport	2	68.20
5.	Energy and waste utilization	4	43.98
6.	Chemicals	12	36.18
7.	Agriculture	14	24.52
8.	Telecommunication	5	11.86
9.	Information Technology	14	29.07
10.	Technology Transfer Centres	1	0.50
11.	Other Agencies	3	130.00
	TOTAL	**131**	**662.94**

The total cost of 131 projects sanctioned during 1997-2005 and the TDB's commitments (towards loan, equity and grants) for these projects were Rs 2043.89 crore and Rs 662.94 crore respectively. TDB had disbursed Rs 526.41 crore during 1997-2005.

3.3 Audit objectives

The projects financed by TDB during 1999-2005 along with recovery of loan, interest and royalty against these projects were studied to assess whether:

- TDB funded eligible projects
- TDB funding was in compliance with the laid down rules/procedure
- TDB had adequate monitoring mechanism to ensure timely feedback and action

3.4 Scope of audit

Audit was carried out through examination of documents in respect of 26 selected projects that were implemented during 1999-2005.

3.5 Audit methodology

Keeping in sight the audit objectives, the projects were divided into six categories based on the information provided by TDB. Out of a total of 131 projects, 26 projects (Annexure I) with high loan value were selected for audit scrutiny as indicated below. Project files and documents pertaining to these projects were examined.

Category	Total No. of projects	No. of projects selected
1. Projects completed successfully	68	11
2. Projects completed but not successfully	18	6
3. Projects foreclosed/ abandoned/ terminated midway	12	2
4. Projects held in abeyance	2	1
5. Projects given extension and ongoing	8	3
6. Projects on-going as per original schedule	23	3
Total	**131**	**26**

TDB had sanctioned loan assistance of Rs 165.51 crore for these 26 projects and released Rs 160.11 crore.

3.6 Criteria for analysis of projects

3.6.1 Scrutiny and approval of project proposal

The application for grant of financial assistance is examined by the Initial Screening Committee **(ISC)**, consisting of experts mainly from the

Ministry of Science and Technology, from the point of view of completeness of the application, objective of the project, status of the technology, track record of the applicant and the total cost. If the project is for the commercialisation of technology developed by an R&D institution, there should be a proper agreement executed between the R&D institution and the industrial concern, which proposes to commercialise the technology. Based on the recommendations of ISC, the application is evaluated by the Project Evaluation Committee **(PEC)** for an independent evaluation of the project proposal for its scientific, technological, commercial and financial merits. The applicant is given an opportunity to present his case along with the technology provider. The chairperson is authorised to sanction loan assistance up to rupees one crore on the recommendation of the PEC. For loan assistance above rupees one crore and upto rupees five crore, a sub-committee of the Board examines the proposals recommended by PEC for appropriate decision. All cases of sanction of loan assistance for amount above rupees five crore are submitted to the Board. In every case of loan assistance for implementation of a project the beneficiary is required to enter into a formal agreement with TDB. The repayment of loan together with interest thereon should commence one year after the project is successfully completed and in any case before the end of the fourth year from the date of disbursement of loan and the loan along with interest should be recoverable within five years of project completion.

3.6.2 Terms and conditions of granting loan assistance and equity subscription

TDB had been providing loan assistance mainly to industrial concerns at six *per cent* simple interest per annum. The rate of interest on the loan has been reduced to 5 *per cent* per annum with effect from 13 May 2002. Earlier, the beneficiary had to pay royalty on sales of the product developed with TDB's assistance. The royalty was abolished from 13 May 2002 in respect of future agreements. TDB does not levy administrative, processing or commitment charges. In the alternative, TDB may subscribe by way of equity capital in a company, during its commencement, start-up and/or growth stages. The equity subscription can be up to 25 *per cent* of the project cost.

3.6.3 Monitoring of the projects

Each approved project is required to be monitored periodically as per the terms of the agreement by the officers of TDB and/or DST including experts from outside. The recipients of financial assistance are required to submit a progress report every six months. The report of the Project Monitoring Committee **(PMC)** is submitted to the Chairperson. The progress of the ongoing projects is periodically placed at the Board meeting.

3.7 Audit findings

3.7.1 Sanction of ineligible projects

According to the evaluation criteria prescribed in TDB's project funding guidelines, all project proposals were required to be evaluated for their scientific, technological, commercial and financial merits. The evaluation criteria included: (i) the soundness, scientific quality and technological merit, (ii) the potential for wide application and the benefits expected to accrue from commercialisation, (iii) the adequacy of the proposed effort, (iv) the capability of the R&D institution(s) in the proposed action network, (v) the organisational and commercial capability of the enterprise including its internal accruals, (vi) the reasonableness of the proposed cost and financing pattern, (vii) measurable objectives, targets and milestones and (viii) track record of the entrepreneur. Further, the technology provider should be a national laboratory, academic institution or an in-house R&D unit recognized by DSIR. In six cases out of 26 projects selected (Annexure II), TDB had sanctioned projects in contravention of its own funding guidelines and assessed the project proposals inadequately. This contributed to foreclosure, non-achievement of objectives and default in repayment of loans. Two significant cases are discussed below:

3.7.1.1 In May 1999, TDB entered into an agreement with M/s Meditech Health Products, Chennai (erstwhile M/s Reddy Meditech Health Product Limited) for providing loan assistance of Rs four crore on a project for development and commercialization of spiral type male condoms. It had been mentioned in a communication from IDBI of September 1998, addressed to TDB that M/s Gujarat Health Care Limited (GHCL), another company having the same promoter had earlier in 1989 been sanctioned financial assistance by a financial consortium with IDBI in the lead. Assistance of Rs 9.39 crore (Rs.7.49 crore as term loan and direct subscription to equity of Rs.1.90 crore) had been provided for manufacture of female prophylactic devices in Gujarat. In July 1993, financial irregularities were noticed which seriously affected the project. The company made losses since its commencement of operation and continuously defaulted in repayment with dues amounting to Rs.27.42 crore as on March 1997. In December 1997 the company was referred to the Board for Industrial and Financial Reconstruction (BIFR). In the meantime, without stabilizing the operations of this company, the same promoter promoted another company viz. M/s Reddy Meditech Health Products for manufacture of male condoms. IDBI refused financial assistance for the new project. TDB, though aware ignored the past history of the promoter and sanctioned the project. The technology has been partially commmercialised. The company was making continuous losses since 1998-99 and dues of TDB amounting to Rs 4 crore plus interest had not been recovered. In November 2001, the company filed a reference in BIFR for declaring the company as sick but BIFR dismissed the reference as time- barred. In May 2005, the company again approached BIFR.

3.7.1.2 A project proposal was submitted in January 1998 to TDB by M/s Tria Fine Chem Ltd. (M/s. Tria), Mumbai. At the time of appraisal of the project proposal, TDB was aware that M/s. Tria had failed to commercialize the know-how within a period of three years as per Technology Transfer Agreement (TTA) signed with the Indian Institute of Petroleum, Dehradun (IIP) in May 1995. Further, M/s. Tria was financially unsound having issued cheques for Rs 25 lakh that had been dishonoured by the banks. The PEC suggested (May 1998) that M/s Tria should form a new company for clear hypothecation. Accordingly, the same promoter purchased (September 1998) another company viz. M/s Puskar Chem Ltd., Mumbai (M/s Puskar) which was incorporated in April 1995. Subsequently, in June 1999, TDB signed an agreement with M/s Puskar providing a loan assistance of Rs 1.62 crore for implementation of the project for development and commercialization of two butylated phenol based anti-oxidants within fifteen months. Audit noticed that at the time of evaluation of proposal and signing of agreement, M/s Puskar did not have any land for erection of plant and machinery. A new TTA had been signed with IIP in December 1998 after expiry of previous agreement. As per this TTA, IIP was to demonstrate the technology before March 1999. However, the company did not arrange for the demonstration. The company had not carried out any business/ commercial operations since incorporation in April 1995 to March 1997. Besides, the company did not have any technical staff on its roll for the implementation of the project. TDB thus did not adhere to its project funding guidelines, which emphasized ensuring technical and financial soundness of the beneficiary. The project had since been fore-closed without commercialization of technology. The company had defaulted in repayment of its dues of Rs 133.84 lakh including interest. At present, the promoter of the Company was reported absconding raising further doubts on repayment of the loan.

Recommendation

- **While appraising and sanctioning the project, TDB should adhere to its own funding guidelines and carry out proper assessment of project proposal. The past history, performance and financial status of the promoter as well as the company should be assessed before entering into an agreement.**

3.7.2 Inflated sales projections

The projects were sanctioned by TDB after considering product, sales and profitability projections given by the companies in their project proposals. The success of any project including repayment of loan depended on these projections. It was observed that in 15 completed projects (including nine projects declared successfully completed by TDB), the production and sales projected in the proposals were not achieved as indicated in Annexure III. TDB had accepted these projections while sanctioning the projects. Later at the time of repayment, companies attributed lower production and sales to various reasons such as low market demand, high cost of raw material including components, cheaper alternatives available in market etc. The status of achievement of production/sales against projected targets in the 15 completed projects is given below:

Achievement in percentage	No. of projects
Less than 5 percent	6
6 to 20 percent	3
21 to 62 percent	6

In another five projects studied, the commercial production was yet to commence, while commercialization status was unknown in one project. Of the remaining five projects audited, three had been foreclosed while two had not been completed successfully. Thus none of the 26 projects studied achieved their target of production/ sales.

Recommendation

- **The production and sales projections of the company may be critically examined by the technical and financial experts before acceptance to avoid such wide variances between targets and actual achievements.**

3.7.3 Release of loan installments without fulfilling required conditions of agreement

Article 1.1 of each loan agreement stipulates that each installment of loan would be released after accomplishment of the prescribed milestones. However, it was observed that in 12 projects, TDB had released various installments of loan amounting to Rs 44.67 crore (Annexure IV) without fulfilling some of the prescribed milestones viz. bringing of equity capital by the promoter, hypothecation/ mortgage deed of assets including Form 8 and 13 duly registered with Registrar of Companies (ROC), submission of original share certificate, share transfer form, certificate regarding non disposal of shares, audited expenditure statement, project completion report etc. Further, TDB did not verify that the collaterals taken as security were adequately covering the amount of TDB's loan. TDB did not check the claims of the company from independent sources like ROC before release of each installment. Release of loan installments without adequate safeguards increased the risk of the loan transaction and was not in the best interests of TDB. Two cases are discussed below:

3.7.3.1 In July 1998, TDB signed an agreement with M/s A.V. Alloys Limited, Hyderabad (Company) for providing loan of Rs 4.80 crore out of total project cost of Rs 9.94 crore for implementation of the project development and commercialization of high speed steel sheets and plates through electro slag refining process within twenty four months. Out of the remaining project cost, the promoters had to bring in equity share capital Rs 2.74 crore and the company had to avail term loan of Rs 2.40 crore from the State Bank of India, Hyderabad (SBI). Audit noticed that in contravention of the loan agreement, TDB released first installment of Rs 80 lakh in November 1998 even before the company had signed the term loan agreement with SBI. The promoters had not submitted share transfer form, non disposal of share-holding undertaking and agreement for pledge of shares. Similarly, in July 2000, TDB released Rs 2.30 crore towards fourth, fifth and a major part of the sixth installment, without ensuring allotment of additional equity of Rs 99.97 lakh and release of proportionate amount of loan sanctioned by SBI. Further, the remaining part of the sixth installment of Rs 10 lakh was released in December 2000 without verifying whether the company had actually incurred the stated expenditure of Rs 994 lakh on the project, procured and installed all the Plant and Machinery and received the balance amount of the loan from SBI. As per the Audited Balance Sheet of the company as on 31 May 2001, the company had not availed of any other loan except that of TDB.

The company defaulted in making repayment of loan including interest to TDB from August 2003 onwards. In August 2005, PMC observed that the promoter does not have an inclination to service the debt. The loan has remained unrecovered as of October 2005.

3.7.3.2 In September 1999, TDB signed an agreement with M/s. Shriram Coconut Products Limited, Coimbatore (Company) for providing loan of Rs three crore out of total project cost of Rs 9.09 crore for implementation of the project development and manufacture of coconut milk powder, desiccated coconut and allied products within twelve months. In contravention of the loan agreement TDB released first installment of Rs 2.30 crore in September 1999 without obtaining original share certificates alongwith share transfer form and certificate regarding non-disposal of shares. Similarly, TDB released second installment of Rs 50 lakh in March 2000 without obtaining audited expenditure statement. The company was referred to BIFR and defaulted in repayments.

Recommendation

- **TDB may ensure that loan installments are released only on fulfilling the milestones prescribed in the loan agreement. For adequate caution, the claims of the company should be verified from independent sources like Registrar of Companies before release of each installment.**

3.7.4 Inadequate monitoring

The loan agreement envisaged that the Project Monitoring Committee (PMC) continuously monitor each project. The company was to submit periodic returns and duly audited annual accounts within six months from the close of its accounting year and insure its assets naming TDB as the sole beneficiary till the loan amount was repaid.

It was observed that generally the PMC monitored the projects only before the release of the second and subsequent installments. This monitoring was deficient, as the PMC did not verify the status of implementation against the benchmarks indicated under the agreement. In the 26 projects studied, audit noticed that regular monitoring was not done in 17 projects. In five projects, the recommendations of the PMC were not properly implemented. There was delay in receipt of prescribed returns and project completion report in 17 projects including some where none was received. Audited annual accounts were not received in 14 projects. Moreover, companies did not insure the assets or properties making TDB as a sole beneficiary in 11 projects. The status of monitoring is given in Annexures II and V. Some of the cases are discussed below:

3.7.4.1 In December 1999, TDB signed an agreement with M/s Acme Metal Powder Private Limited, Pondicherry providing a loan of Rs two crore for implementation of the project development and commercialisation of iron powder within nine months. TDB released Rs 1.90 crore during December 1999 to August 2000. The monitoring of the project was done once in July-

August 2000 before the release of the second installment of loan. The company did not furnish the prescribed six monthly returns after June 2000. The project completion report, the audited annual accounts for 2001-05 and the insurance policy of its assets were also not furnished. It was noticed that the production capacity of the plant was only 3-4 tonnes of iron powder against the projected target of 10 tonnes per day, indicating inadequate assessment and monitoring on the part of TDB. In June 2001, an inspection team who visited the company suggested that the plant should be inspected by technical and financial experts to pinpoint the cause of the problem and suggest remedial measures to overcome the crisis of the company. However, TDB did not organize any such inspection. The project was treated as foreclosed by TDB. The entire loan of Rs 1.90 crore plus interest remained unrecovered.

3.7.4.2 In August 2000, TDB signed an agreement with M/s Medirad Tech India Limited, New Delhi for providing a loan of Rs 8.50 crore for the project development and commercialisation of technology in radiation therapy and allied sciences. The project was to be completed by May 2002. TDB released Rs 8.40 crore during December 2000 to May 2005. As per the original agreement, this was an information technology project, which comprised of networking of advanced medical imaging devices, transfer of digital imaging data and their utilization for radiotherapy for cancer treatment and development of related software. The company had also projected income of Rs 1.2 crore to Rs 4.80 crore during third to eighth year from software products. Considering these factors, TDB had approved Rs 50 lakh for procurement of Software Tools and Rs one crore for Software Consultancy in the original agreement. However, the Company had diverted funds and constructed additional buildings, while deferring the software programme. The Monitoring Committee of the project, which had carried out ‘on-site’ visits to project sites, did not bring these deviations to the notice of TDB. The agreement was subsequently modified in May 2005 through a ‘Supplementary Loan Agreement’, wherein the project cost was revised to Rs 22.58 crore, the project duration extended by 44 months to January 2006 and repayment schedule (loan and royalty) deferred from May 2003 to February 2007. However, no provision was kept for development of software in the supplementary agreement. As such, the original objective of the project to develop, test, evaluate and commercialise products like 3-dimensional treatment planning system (3D-TPS), virtual simulation, intensity-modulated radiation therapy (IMRT) and related products remained unachieved.

3.7.4.3 In June 2002, TDB signed an agreement with M/s Vardaan Agro Tech Private Limited, Delhi for providing loan of Rs 4.95 crore for implementation of the project commercialisation of irradiation technology for preservation of agro products, fish, meat, medical products, cereals, etc. The project was to be completed by June 2003. TDB released Rs 4.60 crore during October 2002 to January 2005. The repayment of loan including payment of interest was to be started from July 2004. Audit noticed that TDB ignored the PEC’s suggestion to ensure that the promoter submit consent letters from able administrators, eminent technocrats, scientists and bankers confirming their joining the company’s Board of Directors and project team. Majority of these persons did not join the company. TDB received the first progress report after more than a year from the date of agreement. There was no on-site monitoring of the project by PMC for the almost two years. While monitoring the project for the first time in May 2004, the PMC observed that there was negligible physical progress in the project. There was no further monitoring after December 2004. The project was still classified as ‘ongoing’ despite a delay of about two and half years and even though TDB had not formally approved extension of the project.

3.7.4.4 In June 2000 TDB signed an agreement with M/s Sai Papain Ltd. providing a loan of Rs 2.50 crore for development and commercialization of papain from papaya. In June 2000, TDB released Rs 1.65 crore for the project. TDB did not carry out any on site monitoring of the project as required under the agreement. The actual physical and financial progress was not ascertained by TDB at any stage during the implementation of the project. In September 2002, the company intimated that the project was not being pursued. In June 2003, TDB handed over the case to an Asset Manager, who informed that over invoicing, gross negligence and fraud had been committed by the promoters in the affairs of the company. The Asset Manager also intimated that while the company claimed to have spent Rs 3.80 crore on various assets, the inventory held in the company was valued at only Rs 4.12 lakh indicating over invoicing of assets. The communication to the Director of the company sent by TDB in August 2004 was returned as the addressee did not claim the letter. In November 2004, the Company’s Chartered Accountant also admitted that he had issued a certificate without actually verifying the bank statement or physical assets. In December 2004, the case was handed over to another Asset Manager, on whose advice, the equipment in custody of TDB were sold for Rs seven lakh in August 2005.

Recommendation

- **PMC meetings should be arranged more frequently, and the PMC should verify the status of implementation of the project against the benchmarks indicated under the agreement. The recommendations of the PMC should be followed up regularly. The periodic returns, audited annual accounts and insurance policies of assets should be obtained from the companies strictly within the time schedule prescribed in the agreement. TDB should examine these documents properly so as to keep close watch on the developments under the project.**

3.7.5 Default in repayment

The repayment of loan together with interest thereon commences one year after the project is successfully completed and in any case before the end of the fourth year from the date of disbursement of loan. The loan amount along with interest due thereon is recoverable in installments (quarterly, six monthly or annual) within five years. The repayment schedule is given in the loan agreement. In case the borrower requests for extension of project duration, consequent rescheduling of repayment of loan is done with the approval of the Chairperson of TDB on the recommendation of PMC. The required modification in this regard is also carried out in the loan agreement.

The annual accounts of TDB for the year 2004-05 indicated that there was an outstanding loan of Rs 58.78 crore against 58 projects as on 31 March 2005. Apart from this, interest amounting to Rs 36.08 crore due from the loanees was not received.

In the 26 projects scrutinized by audit, TDB had sanctioned loan assistance of Rs 165.51 crore and released Rs 160.11 crore. The repayments due under these projects including interest as on 31 October 2005 was Rs 65.31 crore. Of this, TDB could recover only Rs 16.34 crore and remaining Rs 48.97 crore was still outstanding. Besides, royalty due under these projects was also not received by TDB. Audit noticed that repayment had been received only in two projects while in four other cases repayment was not due yet as of 31 October 2005. In another project, loan of Rs 18.46 crore was converted (May 2003) into preference shares and recovery of interest of Rs 3.96 crore was deferred from 1 August 2002 to 1 April 2006. In the remaining 19 projects the companies had defaulted on repayment, 16 of them not having repaid any principal or interest at all.

Though the companies had repeatedly defaulted under these 19 projects, TDB had neither initiated prompt legal action nor invoked guarantees (legal notice, revoking of corporate/ personal guarantee, taking possession of hypothecated / mortgaged assets, transfer of pledge shares etc.) available with it. In 13 cases of default in repayments, TDB tried to accommodate the companies by revising the repayment schedule, sometimes more than once, which was also not adhered to. In July 2003, TDB decided to entrust management of loan recoveries to asset managers. An asset manager was to manage recovery, negotiate one time settlement and initiate legal proceedings against defaulters. It was noticed that in seven cases, there was a delay between seven and twenty five months in handing over cases to asset managers. The expenditure incurred towards charges/ fee of Asset Managers was not on record. The status of revision in repayment schedule, default in repayment and handing over of case to Asset Managers and lack of action on part of TDB is indicated in Annexures II and VI.

Further, it was observed that in nine out of thirteen projects for which repayment had been rescheduled, the companies had again defaulted on repayments under revised schedules. Thus the revision of repayment schedule at the request of the company had not been fruitful in all cases. A few significant cases are discussed below:

3.7.5.1 In December 2000, TDB signed an agreement with M/s. Reva Electric Car Company (Private) Limited, Bangalore for providing loan of Rs 4.65 crore for the project development and commercialization of battery operated Reva Electric Car for a duration of 12 months. The project was completed in January 2002 and repayment of loan including payment of interest was to commence from January 2003. However, repayment schedule was revised twice in February 2003 and October 2004. The repayment was to finally commence from 1 January 2005. As per the revised schedule, the company was also to pay royalty @ 0.25 *per cent* on the annual turnover of the product from January 2005 for a period of five years subject to a minimum aggregate amount of Rs 47 lakh and a maximum Rs 55 lakh. The company had not started the repayment of loan and Rs 3.20 crore (including interest) plus royalty were due as on 1 July 2005. PMC observed in September 2005 that the company was in losses for the last three years and had sustained a loss of Rs 29.6 crore for the period ended 31 March 2005 resulting in erosion of its networth. This showed that PMC's decision to bail out the Company by revising repayment schedule twice, for the last three years, proved futile.

3.7.5.2 In February 2002, TDB signed an agreement with M/s Shriram Energy Systems Limited, Hyderabad for providing a loan of Rs.15.35 crore (out of total project cost of Rs 38.00 crore) for development and commercialization of generation of electric power by setting up of processing plant for conversion of municipal solid waste into refused derived fuel. The repayment of loan was to begin from 1 May 2004. Besides, royalty of Rs.1.5 crore was also payable in five equal installments commencing from 1 May 2004. The repayment schedule for loan and royalty was deferred to December 2004, vide supplementary agreement signed in October 2003. The recovery schedule for the royalty however remained unaltered. The company defaulted on the payment of royalty, yet in May 2005 TDB signed a second supplementary agreement and deferred the repayment schedule of loan by one more year to December 2005.

3.7.5.3 In March 1998, TDB signed an agreement with M/s Naveen Additives Limited, Hyderabad for providing loan of Rs 2.70 crore (out of total project cost of Rs 6.74 crore) for implementation of the project development and commercialisation of sulfonates and Extensive Pressures (EP) Additives components. The sulfonates plant and EP Additives plant were to be completed by 1 February 1999 and 1 April 1999 respectively. The repayment of loan including royalty @ one *per cent* of annual sales turnover was to commence on 1 April 2000. TDB agreed to provide additional loan of Rs 45 lakh and extension of repayment from 1 April 2000 to 1 April 2001 vide supplementary agreement dated 27 June 2000. The company did not repay even as per the revised schedule. The case was first handed over to Asset Manager in June 2003, who could not arrive at any concrete result for more than 20 months. TDB then handed over the case to another Asset Manger in June 2005, who reported (July 2005) that promoters of the Company were not interested in continuing with the business and were neither interested in nor in touch with the market. Only in July 2005, TDB decided to recall the loan and initiate legal action.

3.7.5.4 In July 2000, TDB signed an agreement with M/s Shantha Marine Biotechnologies Private Limited, later renamed M/s Samudra Biopharma Private Limited (Company) for providing loan assistance of Rs 3.50 crore for establishment of a production facility for the culture of an indigenous strain of the marine alga Dunaliella Saline and the harvesting of the biomass for the extraction of the provitamin A, Betacarotene. The repayment of loan including royalty @ 1.5 *per cent* of annual sales turnover was to commence from 1 May 2002. In August 2002, TDB signed a supplementary agreement with the

Company wherein the repayment schedule of loan was deferred to commence from 1 November 2002. The Company defaulted in repayment of loan and TDB had to sign another Deed of Settlement in June 2005. TDB did not invoke the corporate guarantee given by the Company. The case was handed over to the Asset Manager only in February 2004 fifteen months after the default by the Company. The Company had submitted 48 post dated cheques to TDB. Seven of these cheques amounting to Rs 43.21 lakh presented by TDB during 30 November 2004 to 31 July 2005 were dishonoured. However, TDB did not take any legal action against the Company. It was noticed that TDB did not present three post dated cheques amounting to Rs 22.50 lakh due for payment during 31 August 2005 to 31 October 2005 into the bank. As against repayment of Rs 96.50 lakh due as on 31 October 2005, TDB received only Rs 57.00 lakh.

Recommendation

- **TDB may take prompt action on defaulters. Obtaining additional collaterals from the borrowers while revising the repayment schedule could be considered to ensure better adherence to revised schedules.**

3.8 Conclusions

- TDB had funded projects in contravention of its own project funding guidelines. Project proposals were inadequately assessed.

- The production and sales projections were invariably found to be inflated. The companies could achieve these targets only partially. TDB was unable to check these projections while appraising the proposal and sanctioning the projects.

- TDB had released loan installments without fulfillment of some of the prescribed milestones as per the loan agreement. TDB did not verify that the collaterals taken as security adequately covered the loan amount. The claims of the borrower were not checked from independent sources before release of funds.

- Projects were not monitored regularly. There were lapses in implementation of recommendations of monitoring committee. Prescribed returns including project reports and audited accounts were not received or received late. Moreover, often the companies did not insure the assets naming TDB as a sole beneficiary as required under the loan agreement.

- Prompt legal action was not taken in case of default of repayment. While TDB revised repayment schedule at the request of the companies, even the revised schedules were not honoured.

3.9 Acknowledgement

The audit plan including the audit objectives was presented in the entry conference held on 3 August 2005. Memorandum containing audit observations were issued to TDB management. While the cooperation of the TDB management during the course of audit is acknowledged with thanks, inadequate response by way of written reply to audit observation memos was received. The draft audit report was issued to the Chairperson, TDB and the Joint Secretary and Financial Advisor, Department of Science and Technology on 1 December 2005 with a request to furnish response within the prescribed period of six weeks. The draft audit report along with recommendations were discussed on 6 January 2006 in the exit conference attended by the Secretary, TDB including individual project coordinators/scientists. During exit conference, facts and figures mentioned in the draft report were not contested by TDB. However, in the exit conference the time limit for furnishing reply was extended up to 20 January 2006. The Department as well as TDB did not furnish the reply to the draft audit report by the extended time. The audit findings and conclusions in this report are, therefore, constrained with the limitation of not having the response from the Department and TDB.

(MALASHRI PRASAD)
New Delhi **Director General of Audit**
Dated : **Posts and Telecommunications**

Countersigned

New Delhi **(VIJAYENDRA N. KAUL)**
Dated : **Comptroller and Auditor General of India**