Chapter III

3. Thematic Audit

Dakshin Haryana Bijli Vitran Nigam Limited

3.1 Accumulation of arrears on account of electricity charges

Introduction

3.1.1 Timely billing and collection of charges for the electricity sold is important for power distribution companies (DISCOMS) for their healthy cash flow. Dakshin Haryana Bijli Vitran Nigam Limited (Company), a DISCOM, supplies electricity in 10 Districts[@] in the State through six Operation Circles namely Hisar, Sirsa, Bhiwani, Faridabad, Gurgaon and Narnaul in two Zones (Hisar and Delhi). Each zone is headed by Chief Engineer (Operation) who is further assisted by three Superintending Engineers (SEs) each. The Company had a consumer base of 23.78 lakh connections as on 31 March 2012.

We conducted a scrutiny of the outstanding receivables on account of electricity charges of the Company at Head office and 13[*] Operation Sub Divisions in three Operation Circles[∆] out of six Operations Circles of the Company, selected on the basis of quantum of defaulting amount.

The Sales Circular D-33/2006 of the Company lays down that the accumulation of electricity charges arrears should not be more than the Advance Consumption Deposit (ACD) of the consumer which is equivalent to the amount of two billing cycles[1].

Audit Findings

3.1.2 The para was reported to the Government/ Management in July 2012 and discussed in the Exit Conference held in September 2012 which was attended by the Additional Chief Secretary to Government of Haryana, Power

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@ Hisar, Sirsa, Bhiwani, Faridabad, Gurgaon, Narnaul, Fatehabad, Nuh, Rewari and Palwal.

* Civil line, Hisar; City Hisar; Satrod; Hansi Sub Urban; Mundhal; Narnaund; City Sub Division, Tohana; No 3 Faridabad NIT; No 4 Old Faridabad; Mathura Road, Old Faridabad; Kheri kalan, Old Faridabad; No 1 Ballabhgarh and KCG sub division Gurgaon.

∆ Hisar, Gurgaon and Faridabad.

1 Bi-monthly for domestic and non domestic categories of consumers and monthly for other categories of consumers.

Department and Chief Auditor of the Company. Views of the Government/ Management have been considered while finalising the para.

Arrears Outstanding

3.1.3 Haryana Electricity Regulatory Commission (HERC) while issuing the order (May 2011) on ARR for the year 2011-12 suggested that in order to improve the cash cycle and reduce the need for expensive short term borrowings, there was an urgent need to introduce efficient revenue collection measures besides launching a sustained campaign for speedy recovery of old dues including those from Government departments. Details of arrears outstanding in respect of the Company at the beginning of year, revenue billed and amount realised during the year and balance outstanding at the end of the period of five years as on 31 March 2012 are detailed below:

(₹ in crore)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Revenue billed during the year	3,329.52	3,919.90	4,404.98	5,304.71	6,495.76
2	Balance outstanding at the beginning of the year	1,388.07	1,563.16	1,846.75	1,902.21	1,914.46
3	Total amount due for realisation (1+2)	4,717.59	5,483.06	6,251.73	7,206.92	8,410.22
4	Amount realised during the year	3,154.43	3,636.31	4,349.52	4,956.35	6,230.53
5	Amount of unrealised surcharge adjusted during the year	-	-	-	336.11	-
6	Balance outstanding at the end of the year	1,563.16	1,846.75	1,902.21	1,914.46	2,179.69
7	Arrears in terms of No. of months billed	5.63	5.65	5.18	4.33	4.03

We observed:

- The balance outstanding increased from ₹ 1,388.07 crore in April 2007 to a staggering ₹ 2,179.69 crore in March 2012, an increase in debtors by ₹ 791.62 crore. Though the arrears in terms of number of months of amount billed decreased from 5.63 to 4.03 but this should be seen in the light of waiver of ₹ 570.15 crore* during 2007-08 to 2011-12 under 'arrears / surcharge waiver schemes' floated by the State Government. The increase in debtors showed that effective steps were not taken by the Company to recover the dues as suggested by the HERC.

- Age-wise analysis of above dues of ₹ 2,179.69 crore (including inter State sale of power: ₹ 179.64 crore) as on 31 March 2012 revealed that it included ₹ 445.50 crore outstanding for more than three years, ₹ 299.40 crore outstanding for more than two years but less than three years, ₹ 286.76 crore outstanding for more than one year but less than

* ₹ 457.54 crore during 2007-08, ₹ 81.60 crore during 2008-09, ₹ 23.07 crore during 2009-10 and ₹ 7.94 crore during 2010-11.

two years and ₹ 968.39 crore outstanding for less than one year. This shows that necessary steps were not taken to recover outstanding amount as per instructions which require restriction of outstanding amount up to two billing cycles only.

- Outstanding debtors of ₹ 2,179.69 crore included ₹ 179.64 crore of inter State sale of power leaving net debtors of ₹ 2,000.05 crore whereas debtors outstanding as per consumer ledgers were ₹ 1,881.67 crore. There was difference of ₹ 118.38 crore in the two set of figures, which showed lack of proper internal control. The Company stated (May 2012) that difference in figures were being reconciled.

Dues recoverable from connected defaulters

3.1.4 The 'Sales Manual' and 'Regulation regarding duties and responsibilities of various functionaries' of the Company provide that, in case a consumer fails to make payment of his electricity bill, Commercial Assistant (CA) of the concerned sub division should issue Temporary Disconnection Order (TDCO) after the expiry of notice period of 15 days and then issue Permanent Disconnection Order (PDCO) after the expiry of 30 days from TDCO. The Junior Engineer (Field) should ensure the return of TDCO, PDCO (Compliance Report) to CA within a week and Sub Divisional Officer (SDO) should ensure that duties assigned to concerned officials are duly exercised. In any case, the accumulation of arrears should not be more than consumption security (equivalent of two billing cycles) of the consumer. Category wise position of arrears of revenue for the five years ending 31 March 2012 is shown in ***Appendix 10***.

As on 31 March 2012 there were 4,54,188 defaulters having outstanding dues of ₹ 1,183.01 crore.

A perusal of appendix revealed that there were 4,54,188 connected defaulters having outstanding dues amounting to ₹ 1,183.01 crore as on 31 March 2012. The defaulters had increased from 16.40 *per cent* of the total consumers in 2007-08 to 19.09 *per cent* in 2011-12. The matter was also discussed at Para No. 2.3.31 of Audit Report (Commercial) 2006-07, Government of Haryana. The outstanding dues from the defaulters had increased in all categories during five years period ending March 2012. The defaults from Agriculture Pump Set (AP) consumers increased by ₹ 24.25 crore (85.42 *per cent*), Non Domestic Supply (NDS) consumers by ₹ 39.42 crore (63.23 *per cent*), Domestic Supply (DS) rural by ₹ 200.76 crore (50.50 *per cent*), Domestic Supply (DS) Urban consumers by ₹ 22.03 crore (27.59 *per cent*) and industrial consumers by ₹ 8.38 crore (14.99 *per cent).* The continued increase in defaulting amount was indicative of trend that despite consumers not clearing their dues timely, their power supply was not being disconnected, even temporarily. The defaulting amount from Government departments marginally decreased from ₹ 275.63 crore in 2007-08 to ₹ 264.16 crore (4.16 *per cent*) in 2011-12.

Test check of records of 13 sub divisions revealed that 79,158 consumers owed ₹ 328.82 crore as on March 2012 which had accumulated from1990-91 to March 2012. We observed:

- Out of 79,158 consumers, TDCOs / PDCOs were issued in 60,542 cases (76.48 *per cent*) during April 2011 and March 2012 by the sub divisions and out of these TDCOs were affected only in 22,131 cases (36.55 *per cent*). In 18,616 cases (23.52 *per cent*), no TDCO/ PDCO was issued. The Company failed to implement the instructions *ibid* in all these cases as all these consumers were connected to the system and were getting power supply (March 2012). No action was taken by the Company against the delinquent officials for non issue/ non-effecting of TDCOs/ PDCOs causing loss to the Company.

- In Mundhal and Narnaul, sub divisions, ₹ 174.90 crore were outstanding against 15,674 consumers for more than 17 years.

- In case of Mini Secretariat, (NDS) Gurgaon dues of ₹ 1.55 crore were outstanding (October 2012) for more than two years.

- Public Health Department (PHD), Hisar with four connections defaulted in payment (May 2009). The amount in default had accumulated to ₹ 3.85 crore (October 2012). The Department disowned the payment of ₹ 16.10 lakh (A/C No. NGPW-005) and disputed the dues of ₹ 1.11 crore (A/C No. MCPW–0001). The balance of ₹ 2.58 crore had not been recovered (October 2012).

  The HERC directed (May 2011) the Company to take up the matter with the State Government for installation of prepaid meters on Government buildings to reduce the incidents of non-payment of bills. The Company stated (November 2012) that the specifications for purchase of pre-paid meters is in process.

- In one case[λ] Large Supply (LS) category, connection was sanctioned for the software business purpose. However, the Metering and Protection (M&P) Division of the Company had shown the nature of the connection as Call Centre in July 2005 and February 2006. Accordingly, the internal audit wing considered (February 2007) it as NDS category instead of LS category (where tariff was lower) and charged an amount of ₹ 57 lakh but the same was not recovered. On representation made by the consumer, the premises was rechecked (25 October 2007) by M&P division of the Company and it was concluded that software business was being run in the premises and as such the connection was rightly categorised under LS category. The Chief Auditor directed (30 October 2007) the Operation Circle, Gurgaon that connection may be rechecked in association with the M&P division and the premises were belatedly rechecked on 22 June 2011. By that time, the consumer had vacated the premises. This delay of more than three years in inspecting the premises by the officials of the Company resulted in loss of revenue of ₹ 1.47 crore (including surcharge) till October 2012.

The Company suffered loss of revenue of ₹ 1.47 crore due to delay in inspecting the premises of consumer.

The Company while admitting the fact stated (May 2012) that action against connected defaulters was difficult to take due to socio, political reasons, which is indicative of lack of will and non execution of action plan on the part of the Company and the Government to take strict measures to recover such dues.

λ A/C No. HLS- 18 of M/s Hector Enterprises, Udyog Vihar, Gurgaon

They further stated that bad and doubtful debts were bound to occur as distribution of electricity is high risk business because of large and highly diverse consumer mix and efforts were being made to recover the dues. The reply is not convincing because legally binding instructions should be implemented strictly by taking all steps for enforcing the same. Non implementation thereof indicates weak administration.

Dues recoverable from permanently disconnected defaulters

Dues outstanding from permanently disconnected consumers as on 31 March 2012 was ₹ 244.19 crore.

3.1. 5 As per instructions of the Company, after issue of PDCO, the recovery of the dues after adjusting ACD can be made as arrears of land revenue under the provisions of Haryana Government Electricity Undertaking (Dues Recovery) Act 1970, We observed that outstanding amount from permanently disconnected consumers after adjusting unrealised surcharge of ₹ 336.11 crore (during 2010-11) was ₹ 244.19 crore as on 31 March 2012. It included ₹ 1.12 crore recoverable on account of miscellaneous receipts but no details thereof were available with the Company. The Company stated that the above debtors of ₹ 1.12 crore pertained to the period prior to 1 July 1999 and efforts were being made to locate division wise breakup of the same.

Test check of records of 13 sub divisions revealed 44,413 permanently disconnected consumers owed ₹ 78.04 crore as on March 2012, accumulated from 1990-91 to March 2012. We noticed that:

- In four sub divisions[♣], 9,624 consumers (21.67 *per cent*) owed ₹ 18.87 crore (24.18 *per cent)* pertaining to period 1990-91 and March 2012.
- The company adjusted ACD of ₹ 0.45 crore in 784 cases and in remaining 43,629 cases, ACD had not been adjusted so far.
- Out of total 44,413 defaulting consumers, only 4,399 cases (9.90 *per cent)* were referred to land revenue authorities for recovery as arrears of land revenue.
- In one case (M/s. Bhanu Steel, Satrod - A/C No. LS-27) in Satrod Sub division, the amount accumulated to ₹ 0.52 crore during the period April 1997 and July 1998 and the consumer remained connected to the system whereas the ACD with the Company was only ₹ 15.20 lakh. This was adjusted in July 1998 after issue of PDCO. Though ₹ 13 lakh had been deposited by the consumer during June 2008 and July 2011, amount of ₹ 23.80 lakh was still outstanding.
- In five cases[#] in City Hisar Sub Division, ₹ 39.82 lakh (total outstanding ₹ 1.05 crore) accumulated before issue of PDCOs whereas the ACD with the Company was ₹ 0.61 lakh only.

♣ City Sub division, Tohana; No. 4, Old Faridabad; Mathura Road, Old Faridabad; Kheri Kalan, Old Faridabad and KCG sub division, Gurgaon.

Devender Kumar, Sohan Lal, Arora Poultry Farm, M/S Ganesh Atta and Shri Bharat Lal (cases having outstanding of more than ₹ one lakh)

The Company while admitting the facts and figures stated (May 2012) that HERC had also directed (March 2012) the Company to issue instructions to all SDOs (Operation) in whose areas such defaulters (except litigation cases) were still existing and disconnect such connections within a period of one month failing which they would be held personally responsible and suitable disciplinary action be taken against them. A bi-monthly report about the action taken in the matter and the progress made was to be sent to HERC regularly. No action has been taken by Company (November 2012).

Amount in default against temporary supply consumers

3.1.6 Sales Manual of the Company requires sufficiency of the security to cover the dues in case of temporary connections. In accordance with instruction 1.33 of Sales Manual, ACD of the concerned consumers has to be enhanced in case the amount of monthly bill is found more than ACD already deposited. Further, realisations of bills have also to be monitored regularly by the SDO and in case of default of one month in payment, the supply has to be disconnected immediately.

Test check of records of 13 sub divisions revealed that in nine Sub divisions[$] ₹ 1.25 crore was recoverable from 219 temporary consumers as on March 2012 after adjustment of ACD. This recoverable amount pertained to the period 2007 and onwards. The reasons for accumulation of arrears of these consumers more than their ACD were not on record. Since all the connections had already been disconnected, chances of recovery of ₹ 1.25 crore were remote. The Company did not fix responsibility of the officers did not disconnect the defaulting temporary consumers immediately after default of payment of one month and allowed the debtors to accumulate.

The Company stated (May 2012) that matter had been taken up with the Sub Divisions concerned.

Recovery of dues in theft cases

3.1.7 Section 135 of the Electricity Act, 2003 provides "whoever dishonestly taps, makes or causes to make any connection with overhead, underground or tampers a meter or destroys an electric meter, apparatus, uses electricity through tampered meter, or uses electricity for the purpose other than the purpose for which usage of electricity was authorised shall be punishable with imprisonment (up to 3 years) or fine (depending on illegal financial gains or both. The licensee or supplier, as the case may be, on detection of such theft of electricity immediately disconnects the supply. Such officer of the licensee or supplier, as the case may be, shall lodge a complaint in writing relating to the commission of such offence in police station having jurisdiction within twenty four hours from the time of such disconnect. Notice is issued to the consumer for deposit of the amount. In case the accused does not deposit the amount of

[$] Civil Line Hisar, City Hisar, Narnaud, City Tohana, Kherikalan, Sub Division No. 4 Faridabad, Sub Division No 3 Faridabad, Mundhal and Sub-Urban Hansi.

compounding within 72 hours, FIR was to be lodged against him. Further, in case the police does not register the complaint, the Company shall file case directly in the appropriate Court through authorised officer".

The Company did not recover ₹ 140.54 crore against the penalty imposed on theft cases.

We observed that during the five years period ending 31 March 2012, 1,03,083 theft cases were detected and penalty amounting to ₹ 217.55 crore was imposed. Out of this, amount of ₹ 77.01 crore (35.39 *per cent*) was recovered by the Company. In the remaining 50,622 cases, the Company filed FIRs with police authorities. Against this, only 2,324 (4.59 *per cent*) cases were actually registered. In remaining 48,298 cases where FIRs were not registered by the police authorities, the Company authorities did not file the case in the Courts. This resulted in non recovery of ₹ 140.54 crore. The Company had not taken any action for fixing responsibility of delinquent officers/ officials.

During Exit Conference, while agreeing with the facts of the para, Additional Chief Secretary intimated that necessary corrective action to augment recoveries and to prevent theft of electricity were being taken by the Government.

Conclusion

- **The arrear position of the Company has been steadily increasing. It did not implement the instructions of Sales Manual for timely issue of TDCOs / PDCOs.**
- **Ineffective recovery action led the Company to bear burden of interest on working capital loan adversely affecting its finance.**

Recommendations

The Company may:

- **improve its recovery procedures and position.**
- **take effective steps to the issue TDCOs/ PDCOs timely.**
- **review its entire billing and collection system, so that cash flow cycle improves which would result in reduction in borrowings and improving the liquidity position of the Company. This will ultimately benefit the consumer while deciding the tariff.**

Haryana Financial Corporation

3.2 Implementation of One Time Settlement Schemes

Introduction

3.2.1 The Haryana Financial Corporation (Corporation) was established in April, 1967 under the State Financial Corporations (SFCs) Act, 1951 to provide loan assistance to small and medium scale industrial units to accelerate industrial growth in the State. The Corporation had sanctioned ₹ 2,870.40 crore to 18,531 units since its inception to May 2010 and disbursed ₹ 1,781.06 crore to 17,160 units. The Corporation stopped its disbursement activity in May 2010 finding its operation unviable and only recovery process is in operation.

Scope of Audit

3.2.2 A Performance Audit on the working of the Corporation was included in the Audit Report (Commercial) Government of Haryana for the year ended 31 March 2008 wherein 'One Time Settlement Scheme' was covered. COPU discussed the performance audit report in June 2011. COPU made no recommendation as the Government had decided in principle to close down activities of the Corporation. The present audit scrutiny covers the cases settled under 'Policy for Compromise Settlement of Chronic Non Performing Assets[•] (NPA) and Loss Assets[♦] ' also known as One Time Settlement Scheme (OTS) during the period from April 2008 to March 2012.

Audit findings

3.2.3 Our audit findings are discussed in subsequent paragraphs. The audit findings were reported to the Government/Management in July 2012 and discussed in the Exit Conference held on 20 December 2012, which was attended by the MD and heads of the departments of the Company. Views of the Management have been duly considered while finalising this report.

[•] Non Performing Assets are those in which interest and/or installment of principal remain overdue for more than 90 days.

[♦] Loss Assets are those in respect of which both primary (unit itself *i.e.* land, building and machinery) and collateral securities (security obtained by the Corporation to supplement the primary security) pledged with the Corporation have been disposed off and agreement to sell stands executed and 100 *per cent* of sale amount stands received by the Corporation in the process of its recovery.

One Time Settlement Scheme

3.2.4 OTS scheme was introduced by the Corporation in the year 2003 to reduce the NPAs and to improve the recovery rates. Similar OTS scheme was also introduced in the year 2005 which was extended from time to time and last such extension was granted up to 31 December 2009. A new further liberalised scheme known as "Compromise NPAs & Loss Assets, 2011" was introduced in 2011 which ended on 31 March 2012.

The details of outstanding loans in terms of Assets Classification as per guidelines of Small Industries Development Bank of India (SIDBI) for the four years ended 31 March 2012 are given below:

(₹ in crore)

Asset Classification	2008-09		2009-10		2010-11		2011-12 (Provisional)	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Standard Assets [f]	344	123.68	308	107.59	239	73.72	178	46.92
Sub-standard assets [♣]	46	4.80	25	9.76	14	4.99	16	3.17
Doubtful Assets [♦]	378	60.26	337	52.00	280	43.69	257	41.64
Loss Assets	51	5.91	64	7.13	71	12.70	71	11.85
Total	**819**	**194.65**	**734**	**176.48**	**604**	**135.10**	**522**	**103.58**
Percentage of Standard Assets	-	63.54	-	60.96	-	54.57	-	45.30
Percentage of sub standard, doubtful and loss Assets	-	36.46	-	39.04	-	45.43	-	54.70

It would be seen from above table that the percentage of sub-standard, doubtful and loss assets was increasing during the period under scrutiny and recovery position of the Corporation was not satisfactory. Due to lack of timely and effective measures for recovery, these loans became doubtful and ultimately was settled through OTS Schemes.

The following table indicates number of cases settled, outstanding amount there against, amount settled and amount waived off during four years ended 31 March 2012.

[f] Standard Assets are those in which interest and/or instalment of principal remain overdue for less than 180 days (six months).

[♣] Sub-standard Assets are those in which interest and/or instalment of principal remain overdue for more than six months up to 24 months.

[♦] Doubtful Assets are those in which interest and/or instalment of principal remain overdue for more than 24 months.

(₹ in crore)

Year	No. of cases settled	Outstanding at time of settlement	Amount at which account settled	Amount waived off	Percentage of amount waived	Percentage of amount recovered
2008-09	31	143.24	17.56	125.67	87.74	12.26
2009-10	19	26.79	3.41	23.39	87.29	12.71
2010-11	15	39.16	3.92	35.24	89.99	10.01
2011-12	15	82.34	2.15	80.20	97.39	2.61
Total	**80**	**291.53**	**27.04**	**264.50**	**90.73**	**9.27**

- It would be seen from the above table that the total amount waived during four years was ₹ 264.50 crore. The yearly waivers were staggering and ranged from 87.29 *per cent* to 97.39 *per cent* of the outstanding amount in respect of 80 cases settled during the period from 2008-09 to 2011-12. The Corporation could recover only a meagre 9.27 *per cent* of the due amount. The Management stated (June 2012) that interest chargeable after taking over possession of Units was notional. The reply was not reflective of the true situation as the Corporation had availed refinance from Small Industries Development Bank of India (SIDBI) for financing the Units and it had to pay interest to SIDBI till the loan had been repaid.

While agreeing to the amount waived of as a result of One Time Settlement Schemes (OTS), the MD in Exit Conference stated that OTS was introduced to improve the recovery position of the Corporation.

OTS Scheme 2005

3.2.5 The OTS scheme 2005 covered the accounts of the borrowers/ defaulters which were classified as NPA accounts which became doubtful or loss assets as on 31 March 2002. The policy also covered NPAs classified as sub-standard as on 31 March 2002 which subsequently became doubtful or loss asset and all loan accounts which were categorised as Loss Accounts as on 15 June 2005. The policy also covered cases pertaining to bridge loans availed against State subsidy, lease assistance, working capital and soft loan.

The Corporation settled 65 cases under this scheme during 2008-09 to 2010-11. We noticed the following:

3.2.6 The average rate of return[∅] in 35 cases as detailed in ***Appendix 11*** ranged from as low as 0.43 to 8.74 *per cent per annum* whereas Corporation's cost of borrowing was 9.95 *per cent per annum* on the refinance obtained from SIDBI. The Management replied (June 2012) that had the settlement been delayed, average rate of return would have declined further. It is indicative of the fact that the Corporation had not taken timely action to recover the amount. They also stated that SIDBI was approached (December 2010) for waiving of interest to reduce cost of funds on which decision was awaited (November 2012).

∅ Rate of Return is the interest earned on amount disbursed from the date of disbursement to the date of final adjustment of account.

3.2.7 In 37 cases involving defaulted amount of ₹ 153.40 crore (Principal ₹ 15.28 crore and Interest ₹ 138.12 crore), in 29 cases no instalment was paid and in remaining eight cases only one instalment was received from loanees.

The Management stated (June 2012) that the loanees enjoyed moratorium period of 18 months after disbursement but sometimes failed to repay even a single instalment due to unforeseen financial or technical problems. The reply was not acceptable as the feasibility report of the units examined at the time of sanction of loans kept in view all contingencies. The scenario did not change so drastically within 18 months that the loanees could not repay even one instalment. Further, the loans were disbursed during 1983 to 2002 whereas final settlement was done during 2008 and 2010 which indicates lack of interest of Corporation in making recoveries.

Three Units could not operate as they failed to get electricity facility despite the fact that at the time of appraisal it was envisaged that the electricity facility would be available.

3.2.8 At the time of appraisal of three projects[ϒ], it was envisaged that electricity was easily available to the Units and Corporation would also make efforts for getting electricity facility. It disbursed loans of ₹ 14.35 lakh during 1994 and 1998. But the Units could not operate as they did not get electricity facility. The Corporation in these cases also did not dispose of the securities due to legal impediments. The Corporation settled (October 2008 to June 2009) them for ₹ 20.13 lakh against outstanding dues (principal and interest) of ₹ 1.13 crore, thereby foregoing interest of ₹ 93 lakh.

The Management stated (June 2012) that failure of the Unit due to non availability of power or on account of any other reason was not in their control. The reply was not acceptable as disbursement of loan without ensuring the viability of the Unit was imprudent.

The Unit could not come into operation due to improper assessment of working capital requirement.

3.2.9 The Corporation disbursed ₹ 9.35 lakh during July 1995 and May 1996 to M/s Swastika Lamps, Panipat without properly assessing the working capital requirements. The Unit did not come into existence. The Corporation realised ₹ 6.01 lakh by selling the collateral security but could not sell the primary security due to litigation. The Unit failed to repay any amount and the Corporation settled the case for ₹ 10.29 lakh in June 2008, foregoing interest of ₹ 83.58 lakh.

The Management stated in Exit Conference that though assessment of the working capital of the Unit was made, it could not come in existence. The reply is not acceptable since the unit could have come into existence had the initial assessment been done properly.

The Corporation sanctioned loan against security in the form of lessee rights instead of ownership rights.

3.2.10 The Corporation disbursed (March 1992 to May 1995) loan amounting to ₹ 1.97 crore for manufacturing of Girder and Ingot Hot strips to M/s Haryana Strips without taking proper and adequate security against the loan disbursed. The security in the form of lessee rights was incorrectly accepted instead of ownership rights. Due to this wrong decision, the Corporation had to forego (June 2008) ₹ 20.50 crore (amount outstanding including interest ₹ 23.35 crore, amount settled ₹ 2.85 crore).

ϒ M/s 7-Bhai Ice Plant Faridabad, M/s National Chemicals Gurgaon and M/s Bico Lux Auto Lamps Faridabad.

We observed that though this unit was stated to be in possession of the Corporation since November 2001, the fact that the Unit had paid central excise & sale tax during April and July 2008 gives rise to the position that the Unit was working with or without the knowledge of the corporation. The Corporation failed to fix responsibility for the loss caused, against the officials concerned.

3.2.11 In a similar case the Corporation disbursed (October 1992) loan amounting to ₹ 78.15 lakh for manufacturing of MS Steel Ingot to M/s Bhanu Steel Limited after taking security amounting to ₹ 1.46 crore. After taking possession (November 2001) of the Unit, the Corporation could not sell the security as the same was under litigation. Due to this, the Corporation had to forego (June 2008) ₹ 13.19 crore (amount outstanding including interest ₹ 14.32 crore, amount settled ₹ 1.13 crore). The fact that the Unit had paid sales tax for the period 2008-09 and it was also having power connection up to July 2008, gives rise to the position that the company was working with or without the knowledge of the corporation. The possession of the Unit was restored in April 2009 as per records.

Regarding Haryana Strips and Bhanu Steel limited, the Management in Exit Conference agreed to the observations of the Audit and stated that matter regarding payment of excise duty and sales tax by the units, despite units being in possession of the Corporation, would be taken up with the loanees and status would be intimated to Audit, which was awaited (December 2012).

3.2.12 In another case[f] the Corporation sustained a loss of ₹ 7.50 lakh where a loanee was sanctioned a loan of ₹ 2.94 lakh in July 1990. The loanee went into default and the Corporation did not sell the collateral security as Board of Directors desired to formulate a new policy for small borrowers who had availed of loans up to ₹ 10 lakh and where cases could not be settled in view of the higher value of security mortgaged with the Corporation Audit observed that no such policy has been formulated by the Corporation so far (June 2012). The Management stated that recovery through sale of property would put the entire family of borrower into trouble. The reply was indicative of the fact that the Corporation had not kept its commercial interest in view while handling its affairs.

The Corporation could not sell collateral security to recover its dues due to faulty documentation.

3.2.13 In the case of M/s Prem Metal Udyog, Sonepat, the Corporation disbursed three loans-term loan of ₹ 5.16 lakh (account I), working capital loan of ₹ 1.87 lakh (account II) and additional term loan of ₹ 2.19 lakh (account III). The second loan was sanctioned with the stipulation that it would be disbursed by extending the securities taken against first loan. An undertaking was given by the borrower in this regard. On failure to pay the loan amount, the Corporation took (16 October 2006) the deemed possession of the collateral security but it could not encash it due to lack of documentation regarding creation of charge on the collateral security. The assessed value of the collateral security was ₹ 98.90 lakh and loans (account II and III) were settled under OTS at ₹ 4.51 lakh by foregoing ₹ 23.18 lakh.

[f] Shri Satbir Singh, Patiala.

3.2.14 The Corporation disbursed ₹ 1.82 crore (term loan I: ₹ 85.45 lakh, term loan II: ₹ 7.70 lakh and term loan III: ₹ 89.25 lakh during March 1993 and October 1996) to M/s B.R. Cements, Ambala and ₹ 76.09 lakh (term loan: ₹ 62.69 lakh, additional term loan: ₹ 2.80 lakh and bridge loan: ₹ 10.60 lakh during July 1993 and March 1996) to M/s Haryana Transmissions, Bahadurgarh. Due to default, the Corporation disposed of primary securities of these units for ₹ 93.60 lakh (M/s B. R. Cements, Ambala ₹ 60 lakh and M/s Haryana Transmissions, Bahadurgarh ₹ 33.60 lakh) leaving an amount of ₹ 21.12 crore (M/s B. R. Cements, Ambala ₹ 9.29 crore and M/s Haryana Transmissions, Bahadurgarh ₹ 11.83 crore) outstanding as on June 2008. The Corporation settled (June 2008) two cases ♦ at ₹ 1.99 crore (M/s B.R. Cements, Ambala ₹ 1.16 crore and M/s Haryana Transmissions, Bahadurgarh ₹ 83.46 lakh) by appropriating the sale proceeds of the primary security in three loan accounts each proportionately on the request of the borrowers in contravention of its policy to adjust term loan–I in first instance i.e. at ₹ 2.29 crore in these cases. It resulted in short recovery of ₹ 29.41 lakh.

3.2.15 If the conditions of OTS are not fulfilled, the benefit of this scheme would be forfeited and money received under this scheme was to be considered as if the same was received in the normal course. We observed that the Corporation settled two cases viz. (M/s Kishkanda Foods, Jind and M/s Vivo Chemicals, Jind in January 2007 and August 2008 respectively for ₹ 1.17 crore) under OTS 2005 and the loanees deposited ₹ 32.90 lakh initially but did not deposit balance amount of ₹ 84 lakh and as a result the Corporation cancelled the settlement. Subsequently, both the loanees again approached for settlement in 2009 and the Corporation accepted the same. While working out the settlement amount, it considered ₹ 32.90 lakh already paid by these two loanees although as per its own policy, it was to forfeit this amount. This resulted loss of ₹ 32.90 lakh to the Corporation.

In the cases of Prem Metal Udyog, BR Cements, Kishkanda Foods and Vivo chemicals, the Management in Exit Conference stated that the Board of Directors (BoDs) were empowered to approve necessary relaxation in the OTS. It is observed that by doing so, the very purpose of framing such schemes was defeated.

Settlement of loss assets

The Corporation disposed of primary/collateral security at ₹ 3.99 crore as against anticipated value of ₹ 16.37 crore.

3.2.16 In 34 cases, the Corporation disposed of primary/collateral security at ₹ 3.99 crore against their accepted value of ₹ 16.37 crore. The assessed value of these securities was ₹ 6.34 crore in 25 cases in which assessment was made and in remaining nine cases, assessment could not be done. Thus, it could recover only 27.27 *per cent* of the accepted value of the securities from disposal of securities. This indicated that the valuation of the accepted securities was not done properly at the time of their acceptance.

♦ M/s B.R. Cement, Ambala and M/s Haryana Transmissions, Bahadurgarh.

In two cases,[∉] a part of security comprising of machinery/equipments/stocks valuing ₹ 6.74 lakh was missing for which complaints were lodged with police. However, neither the assets were recovered nor any follow up was available on record. While in another two cases,[ϒ] equipments were missing at the time of taking possession but the value of missing securities were not ascertained by the Corporation.

In respect of settlement of loss assets, the Management in Exit Conference agreed to the observations of Audit.

OTS Scheme 2011

3.2.17 Under OTS Scheme 2011, NPA[∞] accounts which became doubtful or loss as on 31 March 2008 were covered. The doubtful[∂] and loss[≠] accounts were to be recast by appropriating sale proceeds in the order of miscellaneous expenses, principal and interest. While arriving at the settlement amount, the net realisable value of the properties mortgaged was to be taken into account.

3.2.18 The Corporation disbursed ₹ 1.89 crore to M/s RCC Cements, Gurgaon besides rendered equity assistance of ₹ 15 lakh during December 1992 and May 1996. The Unit was in default since inception (December 1996) and the Corporation took possession of the unit and got ₹ 61.95 lakh from its sale in December 2002.

The Corporation took deemed possession[∑] of collateral security and sold for ₹ 18 lakh. The Unit approached (April 2010) for settlement under OTS, 2005 i.e. principal less sale proceeds from disposal of primary and collateral security. Total upfront fee[∇] deposited by Unit was ₹ 16.62 lakh. The total outstanding principal amount was ₹ 1.73 crore after adjusting the sale proceeds/amount received earlier. As per OTS, 2005, case should have been settled for ₹ 1.73 crore. In the meantime, new OTS policy, 2011 was also introduced by the Corporation. As per this scheme, settlement amount worked out to ₹ 1.39 crore. The case was settled (December 2011) at ₹ 77.16 lakh. The Corporation, thus, incurred a loss of ₹ 61.40 lakh (₹ 138.56 lakh-₹ 77.16 lakh)

The Management in Exit Conference stated that the Board of Directors (BoDs) were empowered to approve necessary relaxation in the OTS. The reply is not

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∉ M/s Vivo Chemicals (India) Private Limited, Jind and M/s Padma Mushrooms Private Limited,Sonepat.

ϒ M/s Jai Maa Industries, Panipat and M/s Padma Mushrooms Private Limited,Sonepat.

∞ Non Performing Assets are those in which interest and/or installment of principal remain overdue for more than 90 days.

∂ Doubtful Assets are those in which interest and/or instalment of principal remain overdue for more than 18 months.

≠ Loss Assets are those in respect of which securities (both primary and collateral securities) pledged with the Corporation have been disposed off and agreement to sell stands executed and 100 *per cent* of sale amount stands received by the Corporation in the process of its recovery.

∑ Paper possession only.

∇ Amount deposited by the borrower alongwith application for settlement of account, adjustable against settlement amount approved.

convincing as by doing so the very purpose of framing such schemes was defeated.

General

3.2.19 No data bank regarding the present status of Units financed had been maintained by the Corporation to assess its contribution in the industrial growth of the State. The Corporation replied that it could not implement its Information Technology plan as envisaged due to precarious financial health. The reply is not tenable as the Corporation had not maintained any data regarding Units financed by it since inception.

The matter was referred to the Government (July 2012); their reply was awaited (December 2012).

Conclusions

The following conclusions are arrived at a result of audit scrutiny:

- **Improper/ inadequate appraisal of loans coupled with acceptance of improper/inadequate securities and lack of follow up action for retrieving missing properties led to settlement of cases under OTS waiving ₹ 35.61 crore.**
- **The Corporation settled loans at ₹ 3.98 crore by waiving ₹ 1.46 crore under OTS in contravention of the provision of OTS.**
- **The Corporation did not have any system to ensure physical possession of the securities.**
- **The level of NPAs was high and the process of recovery of old dues through collectors was ineffective and very slow.**
- **No separate targets for recovery of old dues were fixed to monitor their achievement.**
- **The Corporation had not developed any mechanism to evaluate the impact of financial assistance on industrial growth.**