



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)**

TWENTY SECOND REPORT
(Presented on 9th March, 2017)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM**

2017

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On

**Kerala Financial Corporation
(Based on the Reports of the Comptroller and Auditor General
of India for the year ended 31 March, 2006 and 2012)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

COMPOSITION OF THE COMMITTEE

Chairman :

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Shri C. Krishnan

Shri S. Rajendran

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Shri P. Unni.

Legislature Secretariat :

Shri V. K. Babu Prakash, Secretary

Smt. P. K. Girija, Additional Secretary

Shri P. B. Suresh Kumar, Deputy Secretary

Smt. Deepa. V, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on its behalf, present this Twenty Second Report on Kerala Financial Corporation based on the Report (Commercial) of the Comptroller and Auditor General of India for the years ended 31 March, 2006 and 2012 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Reports of the Comptroller and Auditor General of India were laid on the Table of the House on 28-3-2007, 18-2-2013 respectively. The reports, besides other things in their findings, brought to light some functional irregularities relating to Kerala Financial Corporation. The Committee, in connection with the perusal of reports, took notice of the comparability of the audit paragraphs pertaining to such irregularities and decided to examine them altogether. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2014-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 2-3-2017.

The Committee places on record its appreciation for the assistance rendered to the Accountant General (Audit) Kerala, in the examination of the Audit Paragraphs included in this Report.

The Committee wishes to express thanks to the officials of the Finance Department of the Government Secretariat and the Kerala Financial Corporation for placing the materials and information solicited in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretary to Government, Finance Department, and the Officials of the Kerala Financial Corporation who appeared for evidence and assisted the Committee by placing their views before it.

Thiruvananthapuram,
9th March, 2017.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

REPORT

ON

KERALA FINANCIAL CORPORATION

AUDIT PARAGRAPH : 3.1 - 3.53 (2011-12)

Introduction

3.1 Kerala Financial Corporation (Corporation) was established in December 1953 under the State Financial Corporations Act 1951 (SFC Act). The basic business objective of the Corporation is lending to industries and to support sustained industrial growth of the State with special attention to Micro, Small and Medium Enterprises (MSMEs). Provisions of the SFC Act as amended in the year 2000, control and guide the functions of the Corporation.

Organisational set up

3.2 The Board of Directors (BoD) of the Corporation consists of four members nominated by the Government of Kerala (GoK), two by Small Industries Development Bank of India (SIDBI) and one each by Life Insurance Corporation of India and State Bank of Travancore. Policies approved by the BoD are being implemented through the Chairman and Managing Director (CMD) who is the Chief Executive Officer. The CMD is assisted by a Corporate Secretary, three General Managers and a Financial Controller. The activities of the Corporation are being carried out through three Zonal Offices and sixteen Branch Offices.

Scope of Audit

3.3 The present performance audit on the working of the Corporation conducted during March to July 2012 covers the period of five years from 2007-08 to 2011-12. This involved scrutiny of records at Head Office and eight out of sixteen branch offices, selected based on random sampling. We have taken into account the data for four years ending 2010-11 for the purpose of selecting the sample as the figures for 2011-12 were not available then. We have also covered the sanction and disbursement of loan up to the year 2011- 12. Of the 1590 loans disbursed during the last five years in these eight branches, we scrutinised 138 cases based on materiality.

Audit Objectives

3.4 MSME sector is fast emerging into a major income generating and employment providing sector in our economy. Main objectives of the performance audit were to ascertain whether the Corporation was able to achieve its defined objectives and whether:

- the Corporation achieved its objectives efficiently, effectively and economically;
- there was proper financial planning and management to achieve maximum efficiency in operations;
- adequate policies, procedures and systems were formulated for sanction and disbursement of financial assistance and were complied with;
- an adequate system of internal control with regard to sanction, disbursement and recovery of dues was in place and operative;
- the system of recovery of dues and action taken in case of default was efficient for prompt realisation of over dues; and
- One Time Settlement (OTS) schemes were implemented in accordance with the approved policies.

Audit Criteria

3.5 The audit criteria derived from the following were adopted to assess the performance of the Corporation:

- Annual Budgets including Performance Budget, Annual Accounts of the Corporation, Manuals and Resolutions of the Board;
- Laid down policies, procedures and guidelines of the Corporation related to financial management, sanction of financial assistance, disbursement and loan recovery, relevant provisions of the SFC Act, 1951, guidelines of SIDBI and Reserve Bank of India (RBI);
- Norms fixed for categorisation of loan/asset classification issued by SIDBI and RBI;

- OTS policy, delegation of powers and canons of financial propriety;
- Various orders and circulars issued by the State Government, SIDBI and RBI from time to time; and
- Policies, guidelines and reports prescribed for/by Management Information System/ internal control/internal audit and Corporate Governance.

Audit Methodology

3.6 The following mix of methodology was adopted for attaining audit objectives:

- Review of Board Minutes, Agenda Notes, Minutes of various Committee meetings;
- Review of Business Plan and Resource Forecast (BPRF) including budgets and annual accounts of the Corporation;
- Examination of relevant provisions of SFC Act 1951 and guidelines issued by State Government, SIDBI and RBI from time to time;
- Examination of Economic Review published by State Planning Commission, information from official websites of Government of India (GoI) and GoK and other Government institutions;
- Review of sanction and disbursement procedures, loan ledger/ records;
- Scrutiny of loan sanction and follow up files pertaining to loanees/ MIS;
- Examination of files pertaining to OTS schemes;
- Test check of loan files at selected branch offices and head office.

Financial Position

3.7 Share capital of the Corporation as on 31st March, 2012 was ₹ 211.97 crore held by GoK (₹205.74 crore), SIDBI (₹6.13 crore), Life Insurance Corporation of India (₹0.07 crore), State Bank of Travancore (₹0.02 crore) and other private parties (₹0.01 crore). The financial position for the period from 2007-08 to 2011-12 and important liquidity ratios derived from the financial statements for the corresponding period are given in Annexure 15.

Working Results

3.8 The Corporation had finalised its annual accounts up to 2011-12. Comparative details of working results for the last five years up to 2011-12 and important profitability ratios pertaining to the corresponding period are given in Annexure 16. While the working of the Corporation resulted in loss of ₹28.15 crore in 2007-08 and ₹ 76.36 crore in 2008-09, it showed profit in subsequent years in 2009-10 (₹33.73 crore), 2010-11 (₹36.40 crore) and 2011-12 (₹45.65 crore). The profit during these years was mainly due to financial restructuring/ rescheduling of loans as subsequently explained.

Audit Findings

3.9 The audit objectives, audit criteria and scope of the performance audit were explained to the Management in an Entry Conference (May 2012). Audit findings were reported to the Government/Management (August 2012) and discussed in Exit Conference (September 2012), which was attended by Special Secretary, Finance Department of Government of Kerala and CMD of the Corporation. The Corporation replied (August 2012) to the performance audit report. The replies from the Government are awaited (November 2012). The views of the Management have been considered while finalising the report.

Functioning of the Corporation

3.10 As per Section 28(d) of the SFC Act, financial assistance is given to any industrial concern in respect of which the aggregate of the paid up share capital and free reserves does not exceed ten crores of rupees or such higher amount not exceeding thirty crores of rupees as the State Government, on the recommendation of the SIDBI, may, by notification in the official gazette, specify. Further as per provisions of Section 26(i) and (ii) of the Act, the exposure limit is ₹ 5 crore for private/public limited companies, co-operative societies and ₹ 2 crore for others. This limit is relaxable up to ₹20 crore and ₹8 crore respectively with prior approval of SIDBI. As per loan policy 2007-08, Committees constituted at Branch Offices are competent to sanction loans up to ₹1 crore. Financial assistance above ₹1 crore and upto ₹2 crore is sanctioned by Zonal level Committees, loans above ₹2 crore and upto ₹3 crore by Committees at Head

Office, loans above ₹3 crore and upto ₹5 crore by Managing Director with recommendation of Head Office Committee and loans above ₹5 crore by Executive Committee. The maximum limit was enhanced to ₹2.5 crore, ₹5 crore, ₹7.5 crore, ₹10 crore and above ₹10 crore respectively during the year 2011-12. Sanctioned loans are to be disbursed in instalments considering the agreed debt equity ratio and progress in implementation of projects.

3.11 Recovery of principal is to start after initial moratorium period ranging from six months to two years and recovery of interest from the next month of disbursement of loan. Rules and procedures governing sanction and disbursement of loans (Loan Policy) were formulated in August 2005. Similarly, the Corporation had formulated a recovery policy in 2007-08 and these policies were subject to changes from time to time.

Business Performance

3.12 The details of achievements against targets fixed by the Corporation for the last five years up to 2011-12 were as follows:

(₹ in crore)

Year	Sanction			Disbursement			Percentage of disbursement to sanction	Recovery		
	Target	Achievement	Per cent	Target	Achievement	Per cent		Target	Achievement	Per cent
2007-08	192	245.56	128	180	186.44	104	76	250	221.82	89
2008-09	350	350.21	100	275	293.94	107	84	316	269.25	85
2009-10	1000	615.92	62	800	419.56	52	68	500	299.50	60
2010-11	850	507.39	60	650	443.52	68	87	366	354.22	97
2011-12	1080	539.01	50	815	464.57	57	86	410	467.15	114

(Source: Business Plan and Resource Forecast(BPRF))

3.13 The achievement of the Corporation was more than the target fixed for sanction and disbursement of loan during 2007-08 and 2008-09. During the

subsequent three years, achievements against the targets for sanction and disbursement varied from 50 to 62 per cent and 52 to 68 per cent respectively. We observed that the annual BPRF were unrealistic as the plan documents have been prepared without obtaining data on actual requirement of branch offices.

3.14 As against ₹2930 crore targeted for sanction during last three years, the actual (net) applications received was for ₹1798.59 crore only. This indicated inadequacy of marketing of its products by the Corporation.

Role of the Corporation in financing MSME sector

3.15 As per 4th All India Census Report published in April 2011 by Development Commissioner of MSME, GoI, there were ₹13.18 lakh unregistered and ₹1.50 lakh registered units in Kerala as on 31st March, 2007. New units registered during 2007-2012 were ₹0.43 lakh. During the same period, the Corporation provided financial assistance to 2706 units.

3.16 The State Level Bankers Committee, Kerala also reported (March 2012) that total outstanding against advances provided to the MSME sector as on December 2011 by banks and other financial institutions was ₹26801 crore in 7.62 lakh accounts. Other than the Corporation, major players in the field of financing MSME sector were banks, SIDBI and Kerala State Industries Development Corporation Limited (another State PSU).

Financial Planning

3.17 Financial planning of the Corporation involves estimation of requirement of funds, decision on sources of borrowing and appropriate investment activities. As part of better financial planning, the Corporation has to raise funds in most economic manner and deploy it in the most efficient manner.

Rescheduling of loan accounts and financial restructuring

3.18 As per SIDBI guidelines if interest and/or installment of principal remain due for more than 90 days, loans are classified as Non Performing Asset (NPA). Immediately before or after slippage into NPA category, the Corporation had been rescheduling such loan accounts with revised repayment schedule. As a pre-condition for rescheduling, the Corporation insisted settlement of interest arrears either by remitting or by funding the same.

3.19 As per the accounting policy adopted for income recognition, the interest on loans under standard category was accounted on accrual basis and interest on NPAs, on cash basis. As per RBI guidelines, no account was to be taken up for rescheduling unless alteration/changes in the original loan agreement were made and financial viability was established. This would require reassessment of the feasibility of the project. Without undertaking such an exercise, the loans were rescheduled and classified as standard assets.

3.20 During the last five years up to 2011-12, NPAs of ₹297.19 crore was rescheduled and upgraded to standard category. We observed that 842 borrowers defaulted in repayment of ₹24.78 crore even after rescheduling. But for this rescheduling/grant of OTS, the assets could have been immediately taken over under Section 29 of the SFC Act. The immediate impact of this faulty rescheduling was inflated income/profits being shown in the accounts despite uncertainty of realisation. The Corporation stated (August 2012) that for upgradation of NPAs it followed the guidelines on prudential norms and asset classification issued by the RBI/SIDBI from time to time. We, however, observed that the Corporation had not been following the RBI/SIDBI guidelines for rescheduling of loans as stated above.

3.21 The Corporation had written-off loans amounting to ₹117.58 crore during 2008-09 and the corresponding provision for doubtful debts of ₹84.32 crore was reckoned as income. As part of restructuring, the GoK had permitted (March 2009) the Corporation to write-off accumulated loss against the share capital. Accordingly, in the annual accounts for the year 2008-09, the Corporation had written off accumulated loss of ₹105 crore against share capital. Thus the Government and other share holders had to sacrifice 58.64 per cent of their equity.

3.22 The working results of the Corporation for the last three years ended March 2012, showed a profit of ₹115.78 crore. This was after reckoning ₹76.63 crore being recovery of principal amount of the loans written off up to March 2009 as income. Thus the capital restructuring resulted in vitiating the working results of the Corporation by ₹76.63 crore.

Thus the positive working results were mainly due to rescheduling and restructuring. The Corporation while concurring with the audit observation stated that the financial restructuring enabled them to set off its accumulated loss and reduce its NPA level.

Borrowings

3.23 The Corporation prepares, every year, Business Plan and Resource Forecast, the plan document which indicates resource mobilisation and its utilisation. The summarised position of actual cash flow for the last five years up to 2011-12 is given in Annexure 17.

3.24 We observed that when disbursement of loan increased from ₹ 186.44 crore in 2007-08 to ₹464.57 crore in 2011-12, the corresponding increase in recovery was ₹221.82 crore to ₹430.15 crore only. The shortfall in cash inflow due to insufficient recovery as well as increase in demand for loans was compensated by additional borrowings, which increased from ₹75.95 crore to ₹394 crore during the corresponding period.

3.25 During the period under review, financial assistance from SIDBI had reduced substantially from 54 per cent of loans disbursed (2008-09) to 17 per cent (2011-12). To overcome the financial crunch, the Corporation availed ₹ 401 crore from commercial banks during 2010-2012 at interest rates varying from 9 to 12.75 per cent. As per Section 8 of the SFC Act, the Corporation can accept public deposit with prior approval of RBI. The request of the Corporation to accept public deposit was turned down (November 2009) due to poor working results for the previous three years, higher level of NPA and absence of credit rating from approved rating agencies.

3.26 The Corporation had to resort to expensive borrowings from banks instead of low cost public deposits. The additional expenditure towards interest on account of this worked out to ₹ 8.23 crore¹ for the years 2010-11 and 2011-12.

The Corporation stated that acceptance of public deposit would result in asset liability mismatch and the performance of the Corporation had improved to become eligible to accept public deposit. The Corporation had also approached (August 2012) SIDBI. The contentions of the Corporation contradict each other.

¹The excess of interest paid on bank borrowings over interest (@ 10.25% p.a. annum) Payable on Public deposits.

3.27 Housing and Urban Development Corporation Limited (HUDCO) sanctioned (March 2011) a loan of ₹100 crore to the Corporation.

We observed that:

- A decision was taken to mobilise funds through issue of bonds in April 2010 to meet the target fixed for 2010-11. The bonds, however, were issued only in December 2011, after a lapse of 1½ years. The delay was attributed to get a better credit rating.
- Loan availed from HUDCO carried interest rate of 11.5 to 13 per cent as against 10.74 per cent payable on bonds. The delay in issue of bonds necessitated expensive borrowing from HUDCO.
- Since the Corporation did not provide Government guarantee in the prescribed format, HUDCO charged one per cent additional interest which worked out to ₹0.15 crore.
- The Corporation did not assess the actual requirement before getting the loan sanctioned. The Corporation actually availed loan of only ₹25 crore. This necessitated payment of ₹0.55 crore towards front end fee on sanctioned amount as against ₹0.14 crore payable on the loan of ₹25 crore actually availed.
- The Corporation pre-closed (December 2011) the loan account by utilising funds raised through issue of Non SLR Bonds and as a result had to pay ₹ 0.49 crore towards pre-payment charges.

The Corporation replied that the issue of bond was delayed due to delay in getting credit rating and the pre-payment charges on the closure of loan had not been paid. The reply was not acceptable as the pre-closure, within six months, of a loan availed for a period of ten years indicated poor financial planning. Besides, HUDCO had already appropriated (February 2012) ₹0.49 crore from payment made by the Corporation.

Temporary parking of surplus funds

3.28 Section 34 of the SFC Act, permits the Corporation to invest its surplus funds in accordance with applicable guidelines and prudential norms and in such

securities as the Board may decide from time to time. As per GoK circular (November 1997) all Public Sector Undertakings (PSUs) were directed to deposit the Surplus/Reserve Funds with them in Government Treasuries only. The Guidelines issued (December 1994) by Department of Public Enterprises (DPE), GoI stipulated that there should be no element of speculation on the yield in respect of investment of surplus funds by PSUs. It was clarified that PSUs would not be allowed to invest their surplus funds in Unit Trust of India and other public and private mutual funds as they were inherently risky. It was further clarified (November 1999) that the Non-Banking Financial Companies may be allowed to invest surplus funds in call money deposits after taking individual approval from Reserve Bank of India.

3.29 The Corporation, in the absence of any approval in this regard, parked surplus funds in Mutual Funds. The Corporation commenced transactions in mutual fund in September 2008 and during the period up to March 2012, average holding varied from ₹ 2.70 crore to ₹ 26.05 crore. The decision (July 2008) to invest in liquid Fund/Fixed Maturity Plans by the Board was against the guidelines issued by GoI/GoK. The mutual fund transactions of the Corporation, however, resulted in lesser returns than the cost of borrowings by ₹0.81 crore.

The Corporation stated that the investment in Mutual Funds used to give better return than Fixed Deposits in banks and during the last three years Corporation earned an income of ₹ 38.87 crore. The reply of the Corporation was incorrect as on further verification, we, however, noticed that the actual income earned as per the annual accounts during the above period was ₹ 3.14 crore only as against ₹ 38.87 crore claimed by the Corporation. Further, the Board's decision was contradictory to the guidelines of DPE/RBI and the provisions of the SFC Act.

Sanction and disbursement of loans

3.30 Loan application received along with Detailed Project Report (DPR) and other documents were to be evaluated by Technical/ Legal sections at Branch Offices. Appraisal Notes were to be prepared stating the nature of activity for which financial assistance was requested, project cost and its source of finance,

promoter's contribution to be brought in, marketing and financial viability, managerial ability of the promoters and their expertise in the field etc.

3.31 Since inception in 1953, the Corporation had disbursed ₹ 4169 crore in 40703 loan accounts. During the last five years up to 2011-12, the amount of loan disbursed was ₹1808 crore (in 3458 accounts), which worked out to 43 per cent of total disbursements made so far. Principal outstanding as on 31st March, 2012, was ₹1481 crore. A comparative statement showing applications for loans received and loans sanctioned for the last five years up to 2011-12 is given in Annexure 18.

3.32 An analysis of the actual disbursements in various sectors vis a vis the exposure limits fixed by the Corporation revealed that disbursements to Hotel and Tourism sectors constituted 60 per cent of the total disbursements. Further in 2008-09 it also crossed the exposure limit of 65 per cent (Annexure 19).

3.33 With a view to safeguarding the interest of the Corporation, an effective and efficient system of sanction and disbursement of loans would involve the following:

- The Internal Rate of Return (IRR) of the project proposed to be financed should be significantly higher than the rate of interest chargeable on the loan so as to give a reasonable return to the promoters.
- Professional competence of the promoter to run the business on profitable lines ensures success of the project.
- Sufficient collateral security free of encumbrance ensures safety.
- Willingness on the part of the promoters to part finance the project indicates his commitment to ensure success of the project.
- The release of funds by the Corporation after the initial expenditure is met by the promoter is an additional safeguard.
- Disbursement of funds in a phased manner linked to progress of work addresses the risk of diversion of funds.

The Corporation stated that it had been following various safeguards to ensure quality of the assets. Further, the value of the prime securities as

on date was considerably high as compared to outstanding amount. We, however, observed that the Corporation did not ensure the quality of the asset as evident from the succeeding paragraphs:

3.34 Loan to a charitable trust

The Corporation disbursed (2007-2009) two loans of ₹17.21 crore to a charitable trust viz., Malabar Province OCD. Out of ₹17.21 crore, ₹4.48 crore was for construction of a Spirituality Centre and ₹12.73 crore for a multipurpose commercial complex.

- Loan of ₹4.48 crore was disbursed although the projected IRR of 3.08 per cent for Spirituality Centre was far below the rate of interest of 12.50 per cent of loan. This indicated that the Corporation did not safeguard its financial interest.
- Loan sanctioned and disbursed exceeded the exposure limit of ₹8 crore fixed by the Act and as approved by SIDBI.
- The financing of the total project was in the ratio of 0.99:1 by the promoter and the Corporation. The Corporation disbursed the loan without ensuring that the initial 50 per cent investment was met by the promoter.
- Though the trust defaulted in repayment and arrears amounted to ₹10.82 crore (August 2012), the Corporation did not invoke Section 29 of the SFC Act to recover the dues.

The Corporation replied that the IRR was more than the interest rate and the trust had cleared (August 2012) all the arrears. The reply was not correct as the IRR (3.08 per cent) calculated in respect of Spirituality Centre was far below the interest rate (12.5 per cent). Further the total loan outstanding as on 31 August 2012 as per ledger of the Corporation was ₹21.71 crore including arrears of ₹10.82² crore.

Loan to a glass bottle manufacturing unit

3.35 The Corporation provided (February 2011) a loan of ₹7.25 crore to Excell Glasses Ltd., (a Somania group company).

² ₹ 9.49 crore in respect of multi-purpose commercial complex and ₹ 1.33 crore in respect of spirituality centre.

We observed the following:

- No Detailed Project Report was submitted and the Corporation did not work out IRR.
- The past track record indicated failure of the promoter to run the business profitably.
- As per the Corporation's own assessment, the project was unviable and the promoters were not creditworthy.
- Despite the above, the Corporation did not obtain the personal property of the Managing Director of the loanee company as collateral security.
- Escrow account to facilitate appropriation of a portion of sale proceeds towards repayment of loan was not opened as stipulated while sanctioning the loan.
- The outstanding loan was ₹8.01 crore including arrears of ₹0.77 crore (August 2012).

The Corporation replied that DPR had been submitted and IRR was calculated. After appraisal of the project it was found that the project merited financing and personal guarantee of Managing Director was also obtained. The loan was sanctioned at the instance of Hon'ble Ministers of GoK (Finance and Industries), which was initially denied (August 2009) by the Branch Level Screening Committee of the Corporation on the ground of non-viability of the project. We, however, observed that the reply was not correct as the loanee did not produce DPR and the Corporation did not compute IRR. Personal guarantee of the Managing Director was also not obtained.

Loan to a Hospital run by Co-operative Society

3.36 The Corporation disbursed (December 2007) a loan of ₹1.25 crore to Peravoor Co-operative Hospital at Kannur for construction of a new block. The total project cost was ₹4.27 crore. Time required for commissioning the project was 18 months and repayment was to be made in 96 monthly installments, after a moratorium of 24 months.

We observed the following:

- The rate of interest was 13.5 per cent. For project appraisal the annual income reckoned was ₹2.92 crore as against ₹2.34 crore projected in DPR resulting in inflated IRR of 13.87 per cent. Adjusting the IRR after giving margin for adverse business conditions, the project was not creditworthy.
- Considering the existing assets (₹1.49 crore) the maximum eligible amount of loan was ₹0.75 crore (50 per cent of ₹1.49 crore). The Corporation disbursed ₹1.25 crore and in fact had sanctioned a higher amount of ₹2 crore.
- The loan was to be disbursed in proportion to the progress in implementation. The Corporation, however, disbursed (November/December 2007) the amount even before the party had obtained the building permit. The work had not even commenced (August 2012).
- The borrower started defaulting in repaying the loan after remitting interest of ₹1.33 lakh in January 2008 and the amount outstanding as on August 2012 stood at ₹1.91 crore including arrears of ₹1.09 crore. The Corporation, however, did not invoke Section 29 of the Act to recover the dues.

The Corporation stated that the loanee proposed to settle the loan account under compromise settlement after disposal of the hospital properties. The account is yet to be settled (August 2012).

Loan to a partnership firm

3.37 The Corporation disbursed a loan of ₹1.50 crore to Haritha Investments during January to May 2009 and an additional loan of rupee one crore in December 2009.

We observed the following:

- The promoter did not have experience in running such a business.
- The project report submitted by the promoter showed IRR of 6.83 per cent. The income generated during 2009-10 was only ₹0.04 crore as against the projected income of ₹1.65 crore.
- The promoter failed to establish marketing tie-up with established tour operators and non-consideration of the locational disadvantages resulted in project failure.

- Prior approval of SIDBI as required under Section 26 (ii) of the SFC Act was not obtained.
- The firm defaulted in repayment and as on 31st August, 2012, the outstanding amount was ₹3.04 crore including arrears of ₹0.94 crore.

The Corporation stated that the promoter had prior experience in hotel industry. It was also stated that the total asset value of the unit stood at ₹5.23 crore and it was expected that the account would be closed shortly. We, however, observed that the promoter had no experience in the relevant field as per the bio-data furnished. Further, the above lapses indicated that the appraisal of the project itself was wrong.

Loans to an existing hotel group

3.38 The Corporation disbursed a loan of ₹4 crore to Kanichai Hotels (P) Limited during March 2007 to March 2009 for upgrading Hotel Lucia from the existing four star to five star category.

We observed:

- The borrower's track record in running the business was poor as they had defaulted an earlier loan necessitating giving relief under OTS. So it was a fit case for outright rejection.
- The past track record of another firm of the same management was also poor. Two loans of ₹4.28 crore disbursed (July 2003 and August 2004) were also under default.
- As against the total project cost of ₹8.24 crore financing to the tune of ₹4.24 crore was to be done by the promoter. Initial funding of the 50 per cent cost by the promoter would have been a clear indication of his commitment to the success of the project. However, the funds were released without the promoter doing the initial funding.
- The Corporation assessed the utilisation of the earlier loan of ₹1.20 crore (disbursed during March to May 2003) only in July 2006, after a lapse of three years and prior to disbursement of fresh loan of ₹4 crore.

- The loan was under default and the outstanding amount was ₹3.92 crore including arrears of ₹1.52 crore (August 2012).

The Corporation replied that the loans were disbursed in accordance with the Debt Equity Ratio (DER) (i.e. 1:1) of the project. The reply of the Corporation was not correct. As per the financial statements of the loanee, the DER was at an adverse position of 12.09:1.

Loans to the same group of companies

3.39 The Corporation disbursed (May 2005 to March 2009) a loan of ₹2.08 crore to Southern Hospitalities (P) Limited for construction of a three star hotel. The project was to be completed within ten months from the drawal of first installment i.e., by March 2006. The project was not completed so far (August 2012).

We observed that:

When the Corporation disbursed the above loan, completion of an earlier project (a three star apartment hotel) for which a loan of ₹3.50 crore was disbursed (September 2003 to December 2005) was pending. The second loan of ₹2.08 crore should have been declined considering the failure of the promoter to successfully complete the first project.

The Corporation further disbursed (December 2009 to August 2010) a loan of ₹2.50 crore to Guardian Builders and Realtors (P) Ltd., a company promoted by the same group, though their track record was unreliable.

The Corporation instead of waiting for the successful completion of the earlier two projects and repayment of earlier loans as per the terms and conditions disbursed further loan of ₹2.50 crore.

The borrower had also violated building rules for the first project and deviated from the approved plan resulting in cancellation (May 2011) of the permit.

The Corporation stated that the first project could not be implemented within time frame due to third party litigation and that the loan had since been closed

(August 2012). The fact, however, remained that the two loans were under default and the outstanding amount was ₹4.03 crore including arrears of ₹0.86 crore (August 2012).

LOANS TO TWO HOTELS IN THRISSUR DISTRICT

Kangappadan Residency

3.40 The Corporation disbursed a term loan of ₹3.50 crore (October 2008) to the above unit by taking over an existing bank loan (₹2.07 crore) for completion of construction of three star hotel. The scheduled completion period was seven weeks from the date of drawal of first installment (October 2008). Following lapses were noticed in sanction and disbursement of the loan.

Assessment of viability is a very critical stage before disbursement of loan. There was failure to carry out such an exercise.

Out of the total project cost of ₹5.96 crore, the promoter was to contribute ₹2.46 crore whereas the actual contribution was only ₹0.20 crore.

Without ensuring commitment of the promoter by way of initial investment, the Corporation disbursed the loan. Non-contribution by the promoter indicated lack of his confidence in the profitable operation of the business.

Though the commercial operation of the hotel started in August 2009, the party defaulted (April 2010) in repayment and the outstanding amount was ₹3.58 crore including arrears of ₹1.08 crore (August 2012).

The Corporation replied that it was decided to fund the project after detailed appraisal of the project and disbursements were made in installments after ensuring promoters contribution. Reply is not acceptable as there was failure in assessing expected income in a realistic manner and the promoter had contributed ₹0.20 crore only as equity against the required amount of ₹2.46 crore.

Dale and Carrington Investment (P) Ltd.

3.41 The Corporation sanctioned and disbursed (August 2009 to March 2012) a term loan of ₹4.81 crore for construction of a three star hotel.

We observed that:

- The initial part of expenditure should have been from the promoter for ensuring the successful completion of the project. The Corporation did not ensure investment of promoters contribution of ₹2.65 crore before disbursement.
- First installment of ₹0.15 crore was disbursed in August 2009. The Corporation released subsequent installments without ascertaining the utilisation of earlier installments.
- Out of ₹4.81 crore disbursed, the Corporation adjusted (November 2009 to March 2012) ₹1.48 crore (including ₹0.36 crore of a sister concern) towards arrears of interest. This indicated poor repayment behaviour of the borrower.
- The borrower defaulted and the outstanding amount was ₹5.30 crore including arrears of ₹0.58 crore (August 2012).
- The project scheduled to be completed by September 2010 still remained to be completed (August 2012).
- The Corporation did not invoke Section 29 of the SFC Act.

The Corporation while justifying the delay stated that the project was likely to be commissioned by September 2012. Reply was silent about inadequacy of promoter's contribution and irregular adjustment of disbursement amounting to ₹1.48 crore against arrears of interest.

Loan to a new hotel project

3.42 The Corporation disbursed (December 2006 to March 2010) ₹11.40 crore to Gold Coast Hotels (P) Ltd. in two loan accounts for construction of a four star hotel.

We noticed that:

- As per the Act (Section 26) loans exceeding ₹5 crore required prior approval from SIDBI. The Corporation, however, sanctioned first loan of ₹5.85 crore and an additional loan of ₹5.55 crore without complying with the said provision.

- As against the required contribution of ₹11.40 crore, the actual contribution by the promoter was only ₹6 crore. The promoter not making his part of investment indicated that he did not have confidence in the success of the project. Ignoring this, the Corporation disbursed ₹11.40 crore.
- The Corporation sanctioned the second loan for additional plinth area not envisaged in the original project. The loan should not have been sanctioned. The Corporation should have insisted the borrower to meet the funds required for additional construction from own sources.
- The Project scheduled to be completed by April 2010 remained incomplete (August 2012).
- The outstanding loan amount as on August 2012 stood at ₹ 11.95 crore including arrears of ₹6.16 crore and the unit was taken over (Section 29 of SFC Act) by the Corporation.

The Corporation stated that the value of land was limited to the document value and if the actual cost was considered the investment would be substantial. Reply was not tenable. As per the valuation policy of Corporation, the market value could not be considered for valuation. The project failed mainly because of inadequate cash flow and increase in plinth area.

Loan to EVM group

3.43 The Corporation disbursed (2008-2011) loan of ₹4.12 crore for two projects of same promoters, EVM Fuels Pvt. Ltd. (hotel at Guruvayur- ₹3.08 crore) and EVM Reclamations Pvt. Ltd. (Reclaimed Rubber production unit ₹1.04 crore).

We observed the following:

The Corporation failed to ensure in advance that the investment by the promoter had been made before disbursement of the loan. Thus the Corporation disbursed ₹3.08 crore as against the eligible amount of ₹2.86 crore, being 50 per cent of investment of ₹5.71 crore (June 2011) as agreed upon.

The project scheduled to be completed in February 2010 remained (August 2012) incomplete.

The Corporation without waiting for the completion of the first project and assessment of the promptness in repayment by the borrower, sanctioned (August 2010) another loan of ₹1.50 crore for setting up a rubber reclamation plant with a total cost of ₹2.38 crore.

Considering the past track record of the borrower, the loan application should have been wisely scrutinised to safeguard its financial interest.

The Corporation disbursed ₹0.54 crore. The borrower had utilised only ₹0.18 crore out of the first installment of ₹0.50 crore disbursed in September 2010. This indicated that the disbursement was not linked to the progress in implementation of the project so as to take care of the risk of diversion of funds.

The project to be completed by February 2009 remained incomplete (August 2012) and the outstanding amount of loans stood at ₹3.30 crore (August 2012) including arrears of ₹0.09 crore.

The Corporation stated that the excess disbursements were made relaxing the DER as per the then existing loan policy. The reply ignored the fact that as per loan policy promoter's contribution could be relaxed only on the basis of additional collateral security which was not obtained.

Loan to Apartment Complex

3.44 The Corporation disbursed a term loan of ₹0.68 crore (January to August 2008) to Shri Abi, T. J. of Smart Homes for construction of two storied apartment complex.

We observed that:

- The Corporation did not ascertain the viability of the project before sanctioning the loan.
- The loanee violated the conditions of sanction and constructed third floor without permission of the Corporation.
- Credit rating of the unit was wrongly projected as 72 per cent (very good) as against the actual credit rating of 28.75 per cent (did not merit for financing).
- The Corporation sanctioned 65 per cent of the project cost as loan instead of 50 per cent eligible as per loan policy.

- The Debt Service Coverage Ratio (DSCR) and IRR of the project was not calculated and considered.
- The outstanding balance as on August 2012 was ₹0.47 crore including arrears of principal of ₹0.35 crore. The Corporation did not invoke Section 29 of the SFC Act.

The Corporation replied that the value of mortgaged property was sufficient to cover the dues and recovery action under RR would give the desired result than take over under Section 29 of the Act. The reply, however, was silent about the irregularities occurred in sanction of loan.

Recovery Performance

3.45 Recovery can be good only if the project is viable and the promoter shows his commitment to the project by funding initial part of the investments from own funds and offer security. These basic requirements were missing resulting in high default rate and NPAs. Percentage of NPAs was as high as 52 in 2007-08 as shown in the table below:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
(1)	(2)	(3)	(4)	(5)	(6)
Standard Assets	359.41	624.69	809.72	1036.06	1199.26
Non-performing Assets					
Sub Standard Assets ¹	61.24	75.61	53.18	57.72	46.66
Doubtful -I Assets ²	42.46	41.66	30.67	37.10	48.23
Doubtful-II Assets ³	44.40	35.29	26.77	23.37	44.58
Loss Assets	246.79	194.59	174.81	155.73	141.96

- 1 Assets remained as months NPA for 3 to 21.
- 2 Assets remained NPA for 21 to 57 months.
- 3 Assets remained doubtful for 1 more than 57 months.

(1)	(2)	(3)	(4)	(5)	(6)
Total NPA	394.89	347.15	285.43	273.92	281.43
Total Loans and Advances	754.30	971.84	1095.15	1309.98	1480.69
Percentage of NPA to Total Loans	52	36	26	21	19

3.46 During the period from 2007-08 to 2011-12, the loans and advances had increased by ₹726 crore whereas the standard assets had increased by ₹840 crore. Basically the increase in standard assets should not be more than that of total loans and advances. The increase in standard asset compared to loans and advances were attributable to rescheduling of loans. Rescheduling of loans resulted in conversion of NPAs to standard assets. The large scale loan write off (₹ 191.03 crore during April 2008 to March 2012) had also attributed to substantial reduction in NPA.

Extension of OTS

3.47 All doubtful loans and loss assets continuing in the same category as on the date of approaching for OTS/Compromise Settlement (CS) are eligible for settlement under the scheme. The other conditions are that the default should not be willful and the borrower did not involve in any fraudulent practice. Thus the benefit of OTS is meant for bonafide borrowers only. The fact that the borrowers took loans despite the projects being not viable and/or without making the initial funding indicated that they were not bonafide borrowers. Extension of OTS to such category of borrowers was therefore objectionable. But the benefit of OTS/reschedulement of loans was extended to all defaulting borrowers.

During the review period, in respect of 1179 loan accounts with a total outstanding amount of ₹416.67 crore (March 2012), the Corporation gave a massive benefit of ₹297.73 crore to the defaulters.

In respect of 431 loan accounts with a total outstanding amount of ₹202.45 crore agreed to be settled under the scheme for ₹105.90 crore, recovery of ₹61.20 crore (March 2012) was pending which worked out to 58 per cent of ₹105.90 crore.

While granting OTS only interest is to be waived and not principal. But we noticed that in respect of 120 loan accounts undue benefit of waiver of ₹12.26 crore was given in principal.

OTS is a mechanism to be resorted to as a last measure before RR action is initiated. In 339 loan accounts securities to the tune of ₹141.03 crore were available. Takeover of these assets under Section 29 of the Act would have been appropriate. Instead the defaulters were given benefits under OTS by reducing their obligation to ₹56.16 crore as against the outstanding amount of ₹130.50 crore.

Reply of the Corporation that willful defaulters were excluded from OTS scheme was not acceptable as a test check revealed that in three cases the Corporation had allowed OTS to willful defaulters also.

Recovery from taken over units

3.48 As on 31 March 2012, the number of units taken over by the Corporation and pending disposal was 57 and amount outstanding against them as on that date was ₹92.14 crore (principal ₹9.81 crore and interest ₹82.33 crore). The performance with regard to recovery under Section 29 of the SFC Act was very poor as detailed below:

- During the period under review, the Corporation disposed of only 24 units out of 81 units taken over. This leads to two inferences. Firstly, the Corporation had financed assets which had poor marketability. Secondly, delayed action under Section 29 of SFC Act reduced the value of assets to prospective buyers.
- Out of total 57 units pending disposal, settlement in respect of 26 units (46 per cent) was pending for more than ten years and the amount outstanding against such cases was ₹49.02 crore (principal ₹3.46 crore and interest ₹45.56 crore).
- As per details furnished by three branches (Alapuzha, Pathanamthitta and Kasargod) in seven cases, the value of assets in hand (₹0.48 crore) was even less than the principal amount outstanding (₹0.88 crore) whereas the total amount outstanding was ₹6.36 crore.

- The pending cases in Thiruvananthapuram, Alapuzha and Kattapana alone constituted 51 per cent of total units taken over by the Corporation.

The Corporation replied that invoking Section 29 was done only as a last resort and the number of units pending disposal after takeover had reduced from 300 to 57. We, however, observed that the delay in invoking Section 29 reduces the realisability of the assets to be taken over and majority of units taken over were yet to be disposed of, which included cases pending disposal for more than ten years.

Recovery under RR Act

3.49 The Corporation had been initiating action under Kerala Revenue Recovery Act, 1968 to recover arrears in repayments. The amount recovered was ₹74.71 crore during the years 2010-11 and 2011-12. As on 31 March 2012, an amount of ₹104.21 crore towards principal and ₹1495.54 crore towards interest was pending in respect of 1142 cases. As per the details furnished by eleven branches (out of sixteen) the age-wise pendency of RR cases as on 31 March 2012 were as follows:

(₹ in crore)

Period of Pendency	Cases having security			Cases having no Security	
	Nos.	Asset Value	Principal Outstanding	Nos.	Principal Outstanding
Up to five years	53	46.43	18.06	7	0.58
Five to ten years	125	85.57	20.71	52	7.50
More than ten years	76	18.19	6.68	252	18.62

The Corporation replied that the reduction in recovery under RR Act was due to settlement of more D3 (loss assets) cases under CS scheme. The reply did not reflect our observation about huge volume of RR cases pending, which includes 329 cases involving ₹135.06 crore stayed by the State Government and the Corporation itself.

Case study

3.50 We observed that the defaulting borrowers were favoured by the Corporation (306 cases of ₹114.55 crore) and Hon'ble Ministers/Government (23 cases of ₹20.51 crore) halting recovery of dues. The details are given in the table below:

Sl. No.	Name of the borrower	Amount Disbursed	Dues as on 31st August, 2012	Deficiencies in recovery	Further Observations
(1)	(2)	(3)	(4)	(5)	(6)
1	Jayalakshmi Builders Pvt. Ltd.	1.50	13.26	Release of property on two occasions without collecting dues even after invoking Section 29 of SFC Act.	Personal guarantee of promoter/directors was not obtained. No action was taken to maintain the quality of asset taken over in October 2006. Hence the quality deteriorated heavily due to passage of time. Disposal of the taken over asset was stayed by the then Finance Minister in 2007.
2	Supreme Milk Ltd.	2.15	10.90	Though Section 29 of the SFC Act was invoked, the property was not sold. On two	The promoter was absconding and the property was leased out without the knowledge of the

(1)	(2)	(3)	(4)	(5)	(6)
				occasions, the then Revenue Minister imposed stay.	<p>Corporation. The Corporation did not file criminal case against the promoter</p> <p>The Corporation sanctioned (March 2008) OTS which was extended four times up to June 2010. No amount had been remitted till date (March 2012).</p>
3	Chaithram Cares Pvt. Ltd.	1.86	5.09	Section 29 of the SFC Act was not invoked. RR action initiated (November 2009) was stayed (February 2012) by the then Chief Minister. Personal property of the promoters was not attached.	The original schedule of repayment was up to March 2009 and it was rescheduled in February 2005 extending the repayment period up to August 2011. However, the loanee did not make any payment
4	Fathima Foods and Proteins Pvt. Ltd.	0.93	1.33	Section 29 of the SFC Act was not invoked. Revenue recovery initiated (January 2010) was set aside due to	The loanee had submitted 42 postdated cheques of closed bank account indicating that the loanee had

				Government intervention.	no intention to repay. Despite this, the Corporation did not file criminal case against the loanee.
5	Bentek Cables Pvt. Ltd.	0.39	1.29	Section 29 of the SFC Act was not invoked. RR action was stayed by the then Finance Minister.	OTS was offered for ₹ 0.60 crore against which the loanee remitted only ₹0.17 crore.
6	Salih Industrial Enterprise Pvt. Ltd.	0.60	9.05	Though Section 29 of the SFC Act was invoked, the property was not disposed of	The property taken over (February 1997) was not disposed of even after twelve years (October 2009). The property was returned (October 2009) to the loanee due to Government intervention. Though the Corporation agreed for the OTS amount of ₹0.63 crore offered by the loanee, the loanee paid only ₹10 lakh. The Corporation failed to recover the dues even after twenty five years

The Corporation replied that action under RR was more desirable than takeover of the defaulted unit under Section 29 of the Act and agreed that intervention of the State Government had delayed the recovery under RR Act. The Corporation did not contest the other observations and the fact remained that in the above cases the Corporation failed to recover the dues by initiating coercive action.

3.51 Deficiencies in recovery process resulted in the borrowers being able to thwart recovery through courts (124 cases of ₹32.48 crore). We also noticed serious deficiencies in other cases as detailed below:

Sl. No.	Name of the borrower	Amount Disbursed	Dues as on 31 August 2012	Deficiencies in recovery	Further Observations
		(in Crore)			
1	Rukmoni Memorial Devi Hospital	6.64	9.54	Section 29 of the SFC Act was not invoked	No collateral security was obtained. Additional loan of ₹2.08 crore was disbursed when previous loan of ₹4.57 crore was under default. Utilisation of funds was not ensured, thereby funds were diverted. No mechanism was evolved to ensure recovery through remittance of daily collection from the hospital

2	Palanattil Construction Company Ltd.	1.80	5.48	Unable to take action under Section 29 of the Act	<p>The loan was towards working capital assistance for completion of over bridge for Public Works Department.</p> <p>The collateral security accepted was not disposable. The land accepted was located in a highly elevated rocky place which was not even accessible.</p> <p>Though land was valued (2000) at ₹2.71 crore, the upset value fixed (2007) was only ₹ 1.62 crore indicating inflated valuation.</p> <p>The Corporation did not file criminal case against borrower though one of the post dated cheque was dishonoured.</p> <p>Remaining two cheques were not presented on due date, thus favouring the borrower.</p>
3	Moolan Modern Rice Mill	0.99	4.39	Section 29 of the SFC Act invoked was not fruitful.	The property was taken over (2003) by Revenue Authorities and sold (2007) to

					recover sales tax dues. The Collateral security remained in the possession of the Revenue Authorities despite lapse of eight years.
4	Panchami Exporters Pvt. Ltd.	1.45	9.70	Section 29 of the SFC Act invoked was not fruitful.	Though the unit was taken over (March 2001) it was not sold. The Revenue Authorities attached (January 2004) and sold (July 2007) the industrial land to recover the sales tax dues. The collateral security was under the custody of official liquidator. Despite this the Corporation sanctioned two loans (₹1.40 crore and ₹1.20 crore) to the sister concern (Panchami Pack Kerala Pvt. Ltd.).
5	St. Mary's Properties	1.50	18.96	Section 29 of the SFC Act invoked was not fruitful.	Hon'ble High Court of Kerala ordered (October 2002) for winding up and the official liquidator sold

					<p>(March 2008) properties of sister concerns for ₹ 17.10 crore. The claims of all creditors were settled except that of the Corporation.</p> <p>The Corporation filed claim petition for ₹15.05 crore only in December 2010.</p> <p>The loan account has not been settled so far.</p>
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The Corporation stated that it was difficult to take over hospitals under Section 29 of the Act and in other cases the Corporation had initiated action to take over the units, wherever it became possible. The fact, however, remained that the Corporation failed to recover the dues.

Internal/Concurrent Audit

3.52 The Internal Audit team consisting of officers from general, legal and technical sections was reporting to the Deputy General Manager (IA&IW), who in turn reported directly to the Chairman and Managing Director. The periodicity of internal audit was generally six months and days allotted ranged from two to five days. The system of internal audit was replaced with concurrent audit from December 2011 onwards. The Chartered Accountants appointed as Concurrent Auditors do the audit of branch offices as per directions given by the Board of Directors. Manager Accounts and Head of Department (Internal Audit) co-ordinate the concurrent audit and initiate follow up action on the recommendations of the Concurrent Auditors.

3.53 As discussed above, we noticed significant deviations from the approved loan policies, loan recovery policies, OTS/CS guidelines and provisions of the SFC Act (in 48 loan cases in 8 branch offices). The major lapses noticed

were sanction of loans to ineligible units, exceeding the exposure limit in loan sanctions, disbursements without matching contribution by promoter, sanction of loan based on wrong credit rating, wrong IRR, DER, DSCR, inadequate security and unauthorised constructions etc. None of the above lapses were reported in the internal/concurrent audit reports, except some minor observations such as missing of Field Officer report, monitoring cards, preliminary screening report etc., and statistical information regarding RR cases, undisbursed credit cases etc. This indicated that either the Internal Auditors lacked professional competence or they did not have freedom to comment on serious deficiencies in decisions taken at higher levels of management.

[Audit Paragraph 3.1 - 3.53 contained in the Report of the Comptroller and Auditor General of India for the year ended on 31 March, 2012.]

The notes furnished by the Government is given in Appendix-II

Audit Paragraph : 3.3.1-3.3.37 (2005-06)

3.3.1 Kerala Financial Corporation was established in December 1953 under the State Financial Corporations Act, 1951 to encourage, promote and aid industrialisation in the State by providing financial assistance in the form of loans and advances to small and medium scale manufacturing units both for starting new industries and for expansion and diversification of the existing industries.

The Corporation also provides loans for service sectors like tourism activities, hotels, hospitals, nursing homes etc. The Corporation provides need based working capital assistance to small scale and medium scale industrial units and The National Equity Fund for small entrepreneurs for equity base support for setting up new industrial units and also for rehabilitation of existing units.

The management of the Corporation is vested in a Board of 10 Directors (as on 31 March 2006). The Managing Director is the Chief Executive and is assisted by a General manager, a Financial Controller, four Deputy General Managers, Seven Assistant General Managers and thirteen managers to look after administration, accounts, appraisal, recovery, rehabilitation, entrepreneur development programme, legal matter and internal audit. The corporation has 16 branch offices each headed by a Manager/Chief Manager who reports to General manager through functionaries in the Head Office.

A review on efficiency in recovery of loans by the Corporation was included in the Report of the Comptroller and Auditor General of India No.3 (Commercial) for the year ended 31 March 1989. The Report has not been discussed by the Committee on Public Enterprises (September 2006). Some of the major deficiencies like inadequate and unrealistic pre-sanction appraisals, sanction of loan for unviable projects, utilisation of substantial portion of funds by the Corporation for repayment of obligations etc., which were pointed out in the earlier review still persist as noticed in the present study.

Scope of Audit

3.3.2 The present performance review covers the performance of the Corporation with regard to appraisal, sanction and disbursement of loans during 2001-02 to 2005-06 through a critical examination of the working of seven branches (out of 16 branches) and the head office of the Corporation. Out of 968 cases of loan sanction and disbursement, 198 cases were also reviewed in audit.

Audit Objectives

3.3.3 *The objective of the performance review was to examine whether:*

- resources mobilization for loan disbursement was cost efficient;
- loan applications received were documented, preliminary scrutiny conducted and further guidance given to the applicants;
- proper criteria was formulated for selection of beneficiaries;
- the appraisal of projects and sanctioning of loan were as per guidelines/the terms and conditions formulated;
- the loan disbursement and monitoring was proper; and
- an effective internal control mechanism exists.

Audit Criteria

3.3.4 *The criteria used for evaluation of Audit objectives were as follows:*

- timeliness in preparation of Business Plan and Resources Forecast, cost of resource mobilisation and their deployment/utilisation;

- eligibility criteria for selection of beneficiaries and other conditions prescribed for sanction of loans;
- procedures prescribed for scrutiny and documentation of loan applications and guidance given to the applicants;
- guidelines/procedures and targets for loan sanction, disbursement and recovery and achievement there against; and
- effectiveness of internal control.

Audit Methodology

3.3.5 Audit adopted the following methodology:

- Review of Business Plan and Resources Forecast prepared by the Corporation for mobilizing resources for disbursement of loans
- Review of sanction and disbursement procedures
- Scrutiny of Board minutes, loan sanction and follow-up files pertaining to loanees, etc.
- Examination of documents, files and registers pertaining to loanees at Head Office and seven branches of the Corporation.

Audit findings

3.3.6 Audit findings as a result of test check were reported to the Corporation/ Government in August 2006 and discussed in the meeting of the Audit Review Committee on Public Sector Enterprises (ARCPSE) held on 25 August 2006 which was attended by the Secretary (Expenditure) to the Government of Kerala, Finance Department and the Managing Director of the Corporation. The views expressed in the meeting have been taken into consideration while finalising the Performance review.

Audit findings are discussed in the succeeding paragraphs:

Resource mobilisation and application

Business plan and Resource forecast

3.3.7 The Corporation prepares every year a Business Plan and Resource Forecast (BPRF) which brings out the various sources from which the resources required for loan disbursement were to be met and also the expected utilization pattern of the funds generated. The BPRF for the years 2001-02 to 2005-06 were prepared with delays ranging up to three months from the beginning of the financial year. Due to the delay in preparation of the budget the Corporation could not plan its activities well in advance. The details of resources planned, mobilised and utilised during the five years ended 31st March, 2006 were as given in Annexure 17.

The Corporation failed to analyse the reasons for the wide variation between budgeted figures and actuals. The abnormal variation indicated that neither were the business forecasts prepared realistically nor was the Corporation able to meet the targets of resource mobilisation and disbursement, which affected the overall business operations of the Corporation.

It would be seen from the Annexure that:

- as against resources aggregating between ₹ 184.70 crore and ₹ 244.38 crore mobilised during each of the five years up to 2005-06, utilisation for disbursement of loans aggregated between ₹ 79.98 crore and ₹ 172.89 crore only, and substantial portion of the resources were utilised for repayment of borrowings.
- while the overdues against principal during the five years up to 2005-06 ranged between ₹ 232.79 crore and ₹ 261.34 crore, the loan recovery ranged between ₹120.95 crore and ₹ 156.77 crore only.
- as against the total overdue (Principal and interest) ranging between ₹ 534.22 crore and ₹ 695.61 crore, the total annual resource mobilisation during the five years up to 2005-06 ranged between ₹ 184.70 crore and ₹ 244.38 crore only indicating that the external resource mobilisation ranging between ₹ 36 crore and ₹ 123.43 crore could have been avoided. The borrowings at high cost every year without proper mobilisation of resources by way of recovery of over dues from loanees indicated that there was no re-cycling of funds and external borrowings were being invested in irrecoverable loans.

The deficiencies noticed in resource mobilisation from various sources are discussed in the succeeding paragraphs:

Share Capital contribution

3.3.8 The Government of Kerala contributed ₹ 31.31 crore over the five year period against a targeted contribution of ₹ 43 crore. The share capital contributions were being released to the Corporation through treasury and the Corporation was forced to retain on an average ₹ 30.23 crore per year in Treasury Accounts for want of ways and means clearance. Since the funds were not released in time as per requirement, the Corporation could neither utilize the huge balance funds for disbursement of loans so as to reduce the interest burden on external resources mobilised nor deploy it in loans and advances to generate interest income.

Refinance from SIDBI/IDBI

3.3.9 During the five year ended 31st March, 2006, the Corporation had drawn ₹214.69 crore (74.16 per cent) against the targeted drawal of ₹ 289.50 crore. The Corporation repaid ₹ 276.97 crore (102.42 per cent) against the targeted repayment of ₹ 270.43 crore to SIDBI/IDBI during the same period. The repayment to SIDBI/IDBI was the lowest during the year 2004-05 (42.80 per cent) as against the repayment ranging between 95.77 and 127.47 per cent during the remaining four years period. The Management in reply (August 2006) attributed the low performance during 2004-05 to lower availing of refinance. The reply is not tenable since the targets for repayment were known in advance and the shortfall was due to non-availability of funds in time.

Statutory Liquidity Ratio (SLR) Bonds

Failure to incorporate put/call option

3.3.10 The Corporation had been mobilising long term funds by floating SLR bonds in accordance with the guidelines of Reserve Bank of India (RBI). When such bonds were floated, the Corporation, from the point of view of financial prudence should have incorporated put/call option in the prospectus for facilitating redemption of bonds after a minimum period of three years from the date of issue so as to take advantage of the declining trend in the rate of interest in the money market since June 2001. The prospectus of bonds submitted to RBI for approval, however, did not incorporate put/call option.

The Corporation subsequently allotted bonds to commercial/urban co-operative banks and Provident Fund trust almost every year at coupon rates ranging between 14 and 6.75 per cent up to March 2003 and the outstanding liability as on 31 March 2006 was ₹ 186.93 crore. The average cost of borrowings worked out to 11.60 per cent.

Audit scrutiny revealed that during 2004-05 and 2005-06 the Corporation had surplus funds [monthly balance ranging between ₹ 78.14 crore (September 2004) and ₹ 36.37 crore (February 2005)] in their cash/current account/short term deposits. As such the Corporation could have repaid these high cost borrowings if put/call option was incorporated in the prospectus for availing of the advantage of the falling interest rate.

The Management stated (August 2006) that they had no control over the terms of issue of SLR bonds and everything was decided by RBI and intimated through SIDBI. The contention of the Corporation is not acceptable as the prospectus of Bonds submitted to the RBI for approval did not incorporate the put/call option despite the falling trend of interest rates and RBI used to approve prospectus if it was finalized in conformity with money market conditions. Since the surplus funds were fetching interest rates of 3 per cent only, the loss due to non-inclusion of put/call option and early redemption of bonds worked out to ₹ 3.83 crore [Series No. 2010 (V) and 2011 (III)].

Non-transfer of excess funds from the branches to head office

3.3.11 As per the Head Office directions, the branches need to transfer funds in excess of ₹ 10,000 to the Head Office account on daily basis. The Ernakulam branch did not follow the directions and kept huge balances up to ₹ 2.35 crore. Keeping huge balances in current accounts at the branches resulted in blocking of funds which otherwise would have been utilised effectively for granting loans, etc.

The Management stated (August 2006) that standing instructions had been issued to all branches to transfer funds in excess of ₹ 10,000 to Head Office and the huge balances noticed in some branches on some days were mainly funds retained for issuing cheques towards disbursement on succeeding days. The reply is not tenable since huge balances reported by Audit were being maintained in

collection account (Account No.I) on daily basis. No cheque could be issued from such collection account and the amounts were intended for transfer only. For disbursement, separate accounts (Account No.II) with balances were maintained at branches.

Reconciliation of control accounts with personal ledger balances

3.3.12 The Corporation had not reconciled the difference of ₹ 2.39 crore (as on 31 March 2005) between the general ledger control accounts and subsidiary loan ledger accounts. The Statutory auditors had also commented on non-reconciliation as well as non-adjustment of balances under the suspense account and non-regularisation of credit balance of ₹ 89.97 lakh (2004-05) in the individual customer account. The delay in reconciliation/adjustment of various accounts indicated weakness in the internal control mechanism.

The Management stated (August 2006) that reconciliation work has recently been entrusted to an outside agency with instructions to complete the work by December 2006.

Loan Sanction and Disbursement

3.3.13 Till July 2003 there was no codified procedure giving detailed guidelines for the appraisal, sanction and disbursement of loans. Procedure/guidelines were issued in piece-meal in various circulars for guidance. A quality system procedure (ISO 9001-2000) for approval and monitoring of loans was devised by the Corporation during July 2003 only giving guidelines for appraisal, sanction and monitoring of various loans. A loan policy was formulated during August 2005 giving a general idea of various schemes operated, maximum amount of loan granted, promoters contribution required, rate of interest, repayment period, collateral security norms, delegation of powers for sanctioning of loan, etc.

The position of target and achievement in respect of loan sanction and disbursement by the Corporation for the five years up to 2005-06 was as indicated below:

(₹ in crore)

Year	Sanction			Disbursement			Percentage of disbursement to actual sanction
	Target*	Achievement	Percentage to target	Target	Achievement	Percentage to target	
2001-02	350	163.82	46.81	280	172.89	61.75	105.54
2002-03	305	155.73	51.06	254	112.31	44.22	72.12
2003-04	216	169.58	78.51	205	119.02	58.06	70.19
2004-05	230	109.81	47.74	220	85.48	38.85	77.84
2005-06	180	121.13	67.29	160	79.98	49.99	66.03

The loan sanction and disbursement targets of the Corporation were reduced from ₹ 350 crore and ₹ 280 crore in 2001-02 to ₹ 180 crore and ₹ 160 crore respectively during 2005-06. The Corporation could not achieve the targets fixed (sanction as well as disbursements) in any of the five years up to 2005-06. The achievement against sanction ranged between 46.81 per cent and 78.51 per cent whereas with reference to the disbursement it was between 38.85 per cent and 61.75 per cent. The shortfall as compared to targets in sanction and disbursement of loans ranged between 21.49 to 53.19 per cent and 38.25 to 61.15 per cent respectively during this period. Even with reference to the reduced level of actual sanction of loans the actual disbursement came down from 105.54 per cent in 2001-02 to 66.03 per cent in 2005-06.

3.3.14 The details of loan applications received and sanctioned and disbursed by the Corporation during the five years up to 2005-06 are given in the Annexure 18. It can be seen from the Annexure that over the years there was significant reduction in loan applications considered, sanctioned and disbursed.

The Management stated (August 2006) that SSI units becoming non-viable, absence of new units in the manufacturing sector, entertaining only good and viable projects and proposals were the reasons for decline in loan applications

*No physical targets were fixed.

received. It further stated that competition from banks, high interest rates charged by the Corporation, delay and lengthy procedure, poor publicity on various schemes and strength of the Corporation and lack of awareness among entrepreneurs were the other reasons for decline in the loan business. The Management's reply was silent as to why these issues were not suitably addressed by the Corporation.

In order to evaluate the performance and to assess the exposure, the Corporation carried out a sector-wise analysis at the end of each financial year. It was, however, noticed that no forecast allocating funds in accordance with the sector-wise performance was being done before the beginning of the financial year. The defects in appraisal, sanction and loan disbursements as discussed in succeeding paragraphs contributed to the high percentage of default by the loanees.

Loan sanction

3.3.15 While the Corporation prescribed elaborate procedure for sanction of loans, it was observed that these procedures were not being strictly followed resulting in sanction of loans without proper appraisal of projects, ensuring managerial efficiency of entrepreneurs, ensuring adequate collateral security. Further, loans in some cases were sanctioned even to loanees who were chronic defaulters, etc., as discussed in the succeeding paragraphs:

Sanction of loan without proper/sufficient security

3.3.16 As per the norms prescribed, the loanees were to furnish collateral security equivalent to 150 per cent of the sanctioned amount for term loans, where the unit is functioning in rented/leased premises, 100 per cent in case of units located in industrial estates, 50 per cent in the case of units in own premises. In respect of working capital loan, the requirement was 100 per cent in own premises and 150 per cent in rented premises, and for short term loans the collateral coverage should be 150 per cent of the loan amount. The intention behind accepting higher security was to safeguard the financial interests of the Corporation in the event of default of principal and interest amount.

The Corporation was, however, sanctioning loans without ensuring adequacy of security as prescribed and without conducting effective site inspection to ensure reliability of securities. Due to this the Corporation could not often recover the overdue amounts arising from default. The details of amount sanctioned/disbursed, security required as per norms and value of security obtained, amount outstanding as on 31st March, 2006 in respect of nine such cases involving overdue amount of ₹ 5.53 crore are given in Annexure 19.

In respect of these cases the following important deficiencies were noticed in audit:

- In the case of Cannannore Roller Flour Mills (P) Limited (Sl.No.1 of Annexure 19) the loanee had to furnish collateral security worth ₹2.63 crore for obtaining the working capital term loan of ₹ 1.60 crore. Against this, the loan of ₹ 1.75 crore was sanctioned and ₹ 1.60 crore was disbursed on the collateral security worth ₹ 1.58 crore only. Though the security was assessed at ₹ 1.58 crore before releasing the loan, it was revalued at ₹ 1.36 crore (July 2005). This showed over valuation of the security property at the time of loan sanction/release.
- The Management stated (August 2006) that the loan was secured by both industrial and collateral securities valued at ₹ 2.70 crore and a slight decrease in the upset valuation of land did not mean that the first valuation was on the higher side. The reply is not correct because the loan was secured on the basis of both collateral and industrial security valued at ₹ 1.58 crore only and the subsequent valuation was ₹ 1.36 crore showing a variation of 14 per cent which was material.
- Out of 75 cents of land accepted as security from Pat Gardens (Sl.No.5 of Annexure 19) 50 cents was earmarked for industrial land (₹27.50 lakh) and 25 cents as collateral security (₹ 13.75 lakh). Subsequent valuation (May 2003) revealed that the value of collateral security came down to ₹ 5 lakh. Based on the valuation in August 2005 the collateral security would fetch only ₹ 8 lakh which was not sufficient for the loan of ₹ 28.65 lakh. Thus the collateral security was over-valued at the time of sanction. It was also noticed that the loanee had also availed a loan of ₹ 10.50 lakh from the Co-operative bank for construction of Auditorium on the security of this 75 cents of land.

- At the time of loan appraisal it was reported that the collateral security offered (25 cents) was not sufficient for the loan amount recommended. As such, the loanee was required to produce additional security worth 75 per cent of the loan before drawing any portion of the loan. Though a special condition to this effect was included in the sanction order, this was not adhered to.
- The Management stated (August 2006) that the assets available would be sufficient to recover loan dues. It was, however, noticed in audit that even after advertising twice (August 2005 and February 2006), the sale did not materialise in the absence of sufficient bidders.
- In respect of all the three properties offered as security (collateral) by JJ Exports (Sl.No.6 of Annexure 19) the legal section at Kottayam branch was required to verify the genuineness of documents with reference to the records kept at various State offices. The verification was, however, not done before sanction and disbursement of loan and the documents offered as security were subsequently found to be forged.
- The Management stated (August 2006) that it had accepted the documents in good faith. The reply is not acceptable since the legal personnel of the Corporation failed in their duty of ensuring genuineness of documents.
- It was further observed that the unit was set up for exporting gold ornaments. The party, however, did not have any experience in the export business. At the time of enquiry (May 2001) before sanction, it was noticed that the party had started export business about six months back only and the machinery installed were not operational. Considering the facts that there was no proper collateral security and the firm was not in existence, the chances of recovery of outstanding amount of ₹ 31 lakh were remote.

As per the prescribed norms, the additional loan could be granted to a concern when its past record was favourable. Afsal Cashew Packers (Sl.No.7 of Annexure 19) was a known defaulter. The party defaulted in making payment despite the business being in profit indicating that the party was a willful defaulter. Ignoring this, additional loan for working capital was sanctioned by the District Manager. The entire property (including the primary assets) offered as

security for the original term loan was revalued at ₹ 8.05 lakh only against which working capital loan of ₹18 lakh was sanctioned in August 2001. The Management stated (August 2006) that the loan was sanctioned on the basis of total security including collateral security. The reply is not acceptable since the primary assets were already pledged against the original loan and cannot be considered as collateral security for the subsequent loan.

Sanctioning of loan to chronic defaulters

3.3.17 In the appraisal memorandum, the Corporation had prescribed questionnaires regarding the status of previous loans, if any, to avoid release of fresh loan to existing defaulted loanees. It was, however, noticed that loanees who were chronic defaulters were granted fresh loans by the Corporation as discussed below:

Mannarkkad Wines

3.3.18 The Corporation sanctioned (January 2001) a short term loan of ₹ 92 lakh to Mannarkkad Wines, Mannarkkad (MWM) on the collateral security of one acre 21 cents of land at Mannarkkad along with the hotel building situated thereon valued at ₹ 1.38 crore. The purpose of the loan was to meet the expenditure on repair and modifications of the existing hotel building, for acquiring furniture and equipments, for paying bar licence fee and to meet the working capital requirements. The loan of ₹ 92 lakh was disbursed (February 2001) after adjusting interest arrears aggregating to ₹13.60 lakh due from their associate concerns which were financed by the Corporation. The loanee defaulted in repayment of installments and as per his request the principal outstanding as on 31st March, 2002 (₹ 78.31 lakh) was allowed

(April 2002) to be repaid in installments.

Meanwhile another short term loan of ₹ 23.33 lakh was sanctioned (March 2002) to the same firm for renewing the bar license and also for minor repairs of the hotel building against the same security given for the first loan, which was not adequate. The shortfall in security was covered against the excess security given by an associate company for availing loan. The entire loan of ₹ 23.33 lakh was adjusted (March 2002) towards the arrears outstanding in their previous loan account and the accounts of the associate firms. MWM defaulted

repayments and the total amount outstanding as on 31st March, 2006 amounted to ₹ 86.40 lakh with overdue of ₹ 38.39 lakh.

Audit scrutiny revealed the following:

- at the time of appraisal of loan of ₹ 92 lakh, the Corporation had already sanctioned four loans to three associate concerns of MWM and disbursed ₹ 2.77 crore and the outstanding (January 2001) balance against these accounts amounted to ₹ 3.33 crore. The party's dealings with the Corporation were, therefore, not satisfactory. The value of fixed assets of the firm was ₹ 24.96 lakh only, whereas the cost estimated for its renovation and repair worked out to ₹ 1.50 crore and the firm had sought a short term loan of ₹ 1 crore against which ₹ 92 lakh was sanctioned and disbursed.
- at the time of appraisal of the second loan, the firm was a chronic defaulter and Revenue Recovery proceedings were underway. While considering the loan application the Corporation in its own appraisal, reported that the net worth of the firm was not showing favourable trend and the unit did not satisfy the eligibility criteria fixed for sanction of short term loan. In spite of this, the District Level Screening Committee* sanctioned the second short-term loan of ₹ 23.33 lakh, without any justification.
- one of the conditions at the time of loan sanction was that up to date arrears in other loan accounts (including the accounts of associate concerns) should be cleared before the disbursement of loan. It was, however, noticed that ₹ 13.06 lakh (towards the arrears in other loan accounts) was adjusted from the disbursements of the first short term loan of ₹ 92 lakh. Similarly, the entire second term loan was adjusted against the arrears in other loan accounts. These facilities extended to the loanee amounted to sanctioning of fresh loans for adjusting the arrears in other loan accounts so as to change the status of the loan from sub-standard/doubtful category to standard category. This made the loanee eligible for fresh loans.

* District level screening committee comprises Chief/Branch Manager, Officers from Technical, Legal, Appraisal and Disbursement Sections.

The Management stated (August 2006) that the loans of the sister concerns have been closed and the loan of MWM alone was outstanding and the dues were being remitted at the rate of ₹ 25000 per week with post dated cheques. The reply does not explain the reasons for granting loans to a chronic defaulter and adjusting the amount against the dues of their sister concerns.

Holycross Hospital

3.3.19 The Corporation extended (1998-99) a term loan of ₹ 50 lakh to Holycross Hospital, Pudukkad and the unit started functioning (November 1999). An Additional loan of ₹ 56 lakh was sanctioned (March 2001) for completion and expansion of the hospital on the security of primary assets already pledged for availing the original loan of ₹ 50 lakh. Out of ₹ 56 lakh sanctioned and ₹ 21.58 lakh disbursed, the Corporation adjusted the interest dues of ₹ 19.78 lakh outstanding against the original loan of ₹ 50 lakh and the loanee was paid only net amount of ₹ 1.80 lakh (March 2002). Both the loan accounts had been in default. The Corporation proposed (November 2005) to take over the hospital under Section 29 of SFC Act. The promoter's offer for a One Time Settlement (OTS) for ₹ 29 lakh was rejected by the Corporation. The balance outstanding in both the loan accounts together amounted to ₹1.07 crore with overdue principal of ₹ 26.50 lakh and interest of ₹ 35.07 lakh (March 2006).

It was observed in audit that at the time of disbursement of additional loan, the Corporation was aware of the fact that the loanee was not in a position to repay the loan already taken due to poor performance of the hospital. In order to help the unit, the loan repayment was rescheduled and the interest arrears were adjusted from the disbursed amount. By adjusting the interest arrears against the fresh loan and rescheduling of loan repayment, the loan status was converted from the sub-standard/doubtful to standard category. By regularising the default, the assisted unit was made eligible for fresh loan.

Audit scrutiny further revealed that in the absence of post sanction inspection there was major deviation in the civil work executed by the loanee resulting in increase in constructed area of the project by 355.20 square metre. The solvency of the promoters was also assessed on the basis of statements made in the affidavits filed by them without verifying the facts.

The Management stated (August 2006) that they were aware of the major deviation in civil works at the time of sanction of additional loan and the loan was sanctioned for improving viability of the hospital but the project was not implemented. The reply is not acceptable since the Corporation granted additional loan even after knowing about the poor performance of the hospital and capacity of the loanee to repay, which ultimately resulted in heavy over-dues.

Sanction of loan to entrepreneurs not having sufficient expertise

3.3.20 In the appraisal memorandum, the Corporation had prescribed questionnaires regarding qualification, experience in the line of activity, technical expertise of promoters to ensure the effective and efficient implementation and functioning of the project. If the promoter has no experience in the proposed line of activity or has no idea about the proposed venture, the key personnel behind the venture/experienced personnel to be appointed are to be interviewed. It was, however, noticed that in the following cases the prescribed procedure was not followed.

Erumapetty Medical Centre (P) Limited

3.3.21 A term loan of ₹ 50 lakh was sanctioned (March 2000 to January 2001) to Erumapetty Medical Centre (P) Limited for a hospital project in Thrissur district. An additional term loan of ₹ 15 lakh was also sanctioned (June to July 2001) for completing the project. The loanee defaulted (June 2001) the repayments of loan and the dues accumulated to ₹ 1.18 crore (March 2006). Revenue Recovery action was initiated to recover the dues. As against the Corporation's offer (January 2003) of one time settlement for ₹ 75 lakh the party expressed willingness to settle the case for ₹72.50 lakh which was not accepted by the Corporation.

The following points were noticed during audit:

- The promoters and directors were matriculates and did not have any exposure in the hospital business. No technical/professional consultant was even engaged by the promoters. Thumb impression of the Managing Director in the agreement executed with the Corporation was not witnessed.

- The original project cost of ₹ 1.56 crore was revised to ₹ 1.02 crore and while proposing the additional loan (November 2000) the estimated cost was increased to ₹ 1.57 crore. This showed lack of proper professional expertise in conceiving the project and its implementation.
- The condition for inclusion of a qualified doctor (prescribed while granting the additional loan) in the Board of Directors was not insisted upon for compliance.
- Interest arrears amounting to ₹ 4.99 lakh were adjusted against the loan disbursements, thereby, converting NPA into a standard asset. Due to such adjustment, the loanee did not get the benefit of full loan. The default was, thus, got regularised and the loanee became eligible for further loan. The Corporation was also accounting for interest income in such cases, in violation of RBI guidelines.

Thus, lack of proper expertise on the part of promoters/directors of the company and proper appraisal of the project coupled with non-adherence to the conditions stipulated by the Corporation resulted in default of repayments amounting to ₹ 1.18 crore.

The Management stated (August 2006) that scheme for financing hospital projects framed by the Corporation does not envisage that the promoters should be technically/professionally qualified and in this case qualified doctors were appointed before commencement of operation and sanction of additional loan. The reply is not tenable since qualified doctors were not appointed to the Board of Directors so as to ensure the viability and better performance of the hospital and the loanee ultimately turned out to be a defaulter.

Manjakalavilayil Hospital

3.3.22 An amount of ₹ 28 lakh was sanctioned (March 2002) and disbursed (April to December 2002) to Smt. M.Marykutty Baby, the chief promoter for constructing a hospital. The total cost of the project was ₹ 44.55 lakh. Repayment period was to commence at the end of 12 months of drawal of first instalment of term loan and thereafter in 84 monthly instalments. The loanee defaulted 37 instalments of repayments and the loan outstanding was ₹ 45.46 lakh (March 2006) with overdue principal and interest amounting to ₹ 29.81 lakh.

The unit was taken over (April 2005) under section 29 of The SFC Act and it was found that the entire plant and machinery, hospital equipment/furniture had already been removed from the unit. A case was lodged with the police (July 2005). The taken over assets were advertised for sale (August 2005 and January 2006) but no response was received (June 2006).

Audit scrutiny revealed as follows :

- the promoter and co-obligant were not professionally qualified for running a hospital and were having the qualification of SSLC and Pre Degree Course respectively. Though the willingness of two specialist doctors to assist in the project was produced, the Corporation did not ascertain the guarantee of their services. When the public protested (August 2004) regarding fake doctors, the promoter abandoned the hospital after removing all the equipments, furniture, etc., and the hospital has been closed since then. Thus, granting of loan to promoters without adequate knowledge/skill in the business resulted in the closure of the unit and default in repayment of loan.
- The upset valuation done (December 2005) revealed that value of security was ₹ 45.83 lakh (both primary and collateral). As against the loan outstanding of ₹45.46 lakh the value of security excluding the assets removed by the promoter (₹ 11.64 lakh) amounted to ₹ 34.19 lakh only.

The Management stated (August 2006) that since the promoter had managerial experience and there was enough back up service of qualified doctors they accepted the project and financed it and that, as per norms, professional qualification was not essential for the promoter. It was also stated that when the arrears mounted up the Corporation took possession (April 2005) of the collateral security and filed a criminal complaint against the promoter for removal of machinery. The reply is not tenable since adequate back up service of qualified doctors was not available in view of the fact that the doctors subsequently turned out to be fake and the promoter absconded after removing machinery.

Pranavam Modern Rice Mill

3.3.23 The Corporation financed Pranavam Modern Rice Mill, (a proprietary firm) by granting a term loan of ₹ 30 lakh (January to September

1999) and working capital loan of ₹ 45 lakh (January 1999 to September 2000). The borrower defaulted in repayments and arrears amounted to ₹ 1.67 crore as on March 2006.

It was noticed in audit that;

- the credit-worthiness of the borrower and co-obligant was not ascertained by the Corporation prior to sanctioning of loan;
- the borrower and the co-obligant were not in a position to raise funds (Working capital) other than the loan availed from the Corporation;
- the promoters neither had any experience nor any required skill in running such a business; and
- there were default in repayment of loan instalment since January 2000.

The Management stated (August 2006) that the loan was granted considering the vast experience of the promoters i.e., father and family in similar field and that the promoter and co-obligant had raised required capital for implementation and also for working capital. The reply is not acceptable as the promoter could not ultimately manage the business and the unit remained closed due to non-availability of working capital.

K.R.P Enterprises

3.3.24 A short term loan of ₹ 30 lakh was sanctioned (May 2000) to Shri K. R. Prasad, the proprietor of K.R.P. Enterprises, Trivandrum (KRP) engaged in the export of sized granite. The loan was intended for starting export of mango pulp for which an agreement was stated to have been entered into with one firm in Tamil Nadu for preparation and supply of required pulp on commission basis. The loan was disbursed (July 2000) on the personal guarantee of two co-obligants and collateral security of land with a building valued at ₹ 46.57 lakh and owned by one of the obligants. The loan amount was to be repaid in twenty monthly installments of ₹ 1.50 lakh each commencing from 10th October, 2000. Of the repayment made by KRP by way of 20 cheques of ₹ 1.50 lakh each, only two cheques were honoured. Thereafter the loanee did not make any payment and had been absconding. The dues outstanding were to the tune of ₹ 84.63 lakh (March 2006). The land with residential building offered as collateral security was taken

over (December 2003) but the Corporation could not dispose of the same in spite of repeated advertisements.

Audit scrutiny revealed the following :

- Though the Screening Committee deferred the proposal (May 2000) on the ground that the applicant had no experience in manufacturing of mango pulp and the activity proposed was mainly trading in nature with a firm in Tamil Nadu, the loan was sanctioned by the Managing Director.
- Originally, the collateral property was valued at ₹ 46.57 lakh but on revaluation (July 2004), the value of security was assessed at ₹ 31.61 lakh.

Thus, sanction of loan to a firm having no previous experience in the intended business and without proper appraisal of loan application led to non-recovery of dues amounting to ₹ 53.02 lakh (after taking into account the securities held worth ₹ 31.61 lakh).

The Management stated (August 2006) that the short term loan was sanctioned by the Managing Director exercising the powers conferred, based on clarifications obtained from the applicant. It further stated that instead of filing criminal complaint against dishonour of cheques of the loanee, security offered was taken over since it was more effective. The reply is not acceptable as the dishonour of cheques given by the loanee, his subsequent absconding, etc., indicated that the Managing Director's decision, over-riding the recommendations of the screening committee, lacked justification.

Non- insistence on special conditions

Pomsy Food Products (P) Limited

3.3.25 The Corporation sanctioned (November 2001) a term loan of ₹ 3 crore to Pomsy Food Products (P) Limited (PFP) for setting up a biscuit manufacturing unit at Karunagapalli. The loan was secured by personal guarantee, pari pasu charge over fixed assets and first charge over collateral securities. The project was jointly financed by the Corporation and State Bank of Travancore (SBT), Ernakulam. The cost of the project was estimated at ₹ 9.85 crore out of which ₹ 3 crore was the loan component of the Corporation which was disbursed during the period November 2001 to March 2004.

Subsequently, based on the request of PFP, the Corporation sanctioned (April 2002) and disbursed (April to July 2002) a bridge loan of ₹ 24 lakh to support the promoter's contribution. PFP started (May 2002) commercial production, but defaulted repayment of principal and interest from the beginning itself. At the end of March 2006 an amount of ₹ 3.66 crore was recoverable from PFP with ₹ 1.47 crore as overdue. Action for attachment of property under Section 29 of the SFC Act, 1951 for realisation of above dues was yet (May 2006) to be initiated.

It was noticed by Audit that the loan sanction stipulated raising of promoters' contribution by PFP to the extent of ₹ 4.85 crore from ₹ 3.39 crore and an escrow account to be opened with SBT where in a particular percentage of turnover was to be credited for purpose of distribution to financial institutions in proportion to the term loan liability. These conditions, however, were not insisted upon for compliance and this resulted in conversion of dues amounting to ₹ 1.47 crore into non-performing assets.

The Management stated (August 2006) that action was underway for opening escrow account at the earliest.

DISBURSEMENTS

Disbursement of loans without ensuring sufficiency of promoter's contribution

3.3.26 The Corporation assesses loan eligibility based on the promoters' contribution and other criteria. Promoters' contribution ranges from 10 per cent to 50 per cent on the various schemes. Financing under 50 per cent promoters' contribution is applicable to only those units situated on own land (private land) for certain schemes. It was, however, noticed that in the following cases these conditions were not followed.

Cannanore County Club and Resorts (P) Limited

3.3.27 A term loan of ₹ 1.50 crore was sanctioned (November 2002) to Cannanore County Club and Resorts (P) Limited for setting up a hotel project at Cannanore. The project cost was ₹ 3.11 crore with promoters' contribution of

₹ 1.61 crore (51.71 per cent). The disbursement was made during the period from February 2003 to March 2004. In response to the loanees request (April 2004) for an additional term loan of ₹50 lakh to meet the increased cost of project due to major changes in civil construction and increased area, the Corporation sanctioned (June 2004) loan of ₹45 lakh. At that time the project cost was assessed at ₹3.90 crore with promoter's contribution at ₹1.95 crore (50 per cent). The disbursement was made during August 2004 and February 2005.

The resort was inaugurated on 4 October 2004 and the loan position as on 31 March 2006 showed an overdue principal of ₹24.72 lakh and interest of ₹12.88 lakh.

It was observed in audit that at the time of sanction of the original term loan (₹1.50 crore) it was stipulated that 50 per cent of promoter's contribution should be brought in before disbursement. One of the special conditions prescribed was that the paid up capital be raised to ₹ 1.61 crore (promoter's contribution at 51.71 per cent). As per the certified accounts (31 March 2001 and 31 March 2002) of the loanee company, the paid up capital was only ₹1 crore and promoter's contribution (₹ 1.61 crore) was worked out considering the unsecured loans brought in by the directors as well. At the time of sanction and disbursement of additional loan of ₹ 45 lakh also the promoter's contribution worked out to 25.64 per cent only. Thus, the loans were sanctioned and disbursed without ensuring the promoter's contribution at 51.71 per cent and the contribution was not maintained even at the required minimum level of 33.33 per cent.

Mas Motels

3.3.28 Smt. Nazeema Beevi, proprietor, Mas Motels (MM) approached (July 1998) Corporation for a Term Loan of ₹ 45 lakh for construction of hotel building and equipping the same. Total cost of the project was ₹ 1.45 crore out of which ₹ 84.06 lakh was stated to have been spent by MM towards cost of land (₹ 73 lakh) and development/building (₹ 11.06.lakh).

Without verifying the correctness of the amount claimed to have been spent by MM, the Corporation assessed the adequacy of promoter's contribution and sanctioned (September 1998) a loan of ₹ 33 lakh. At the time of accepting the land

of 53.5 cents offered by MM as security, the Corporation itself valued the same land at ₹19 lakh (47.5 cents on measurement) as against the original value of ₹73 lakh accepted for purpose of promoters contribution to make MM qualify for the loan. The loan of ₹33 lakh disbursed (February 1999 to January 2001) was defaulted. Despite the sick status of MM a further loan of ₹73 lakh was disbursed (December, 2002 to March 2003) and out of which, funding of interest amounting to ₹ 12.71 lakh was allowed.

The Corporation took over the asset (January 2002) and released (December 2002) it as a part of revival programme. The Corporation subsequently took over the asset (February 2004) for the second time and offered one time settlement at ₹ 56 lakh (October 2004) which did not materialise. In January 2005 the Corporation released the charge over 10 cents of the securitized property on accepting ₹ 13.50 lakh. An amount of ₹ 42.78 lakh was overdue (March 2006) from MM with total amount recoverable at ₹ 69.09 lakh.

Audit scrutiny revealed as follows:

- the Corporation accepted the over valuation of land by ₹ 54 lakh to make MM eligible for the loan by making up the promoters' contribution.
- solvency of the party was not assessed properly and the hotel project was lying idle for two years for want of additional funds/working capital.
- additional loan was sanctioned irrespective of the fact that the project was a failure and at that stage rehabilitation as a hotel was not feasible.

107. The Management stated (August 2006) that as per financing norms and guidelines the land cost had been limited to 15 per cent of project cost and that the solvency of the proprietors and co-obligant was assessed as per affidavits filed by them. The reply is not acceptable since the valuation of land was not limited to 15 per cent at the time of appraisal of the loan there by inflating promoters' contribution, other wise the application would have been rejected. Later at the time of acceptance of security the land cost was assessed at ₹ 19 lakh only much below the original projection given by the promoter. Acceptance of affidavit without verification was also not correct.

Plaza International

3.3.29 The Corporation sanctioned (March 1998) and disbursed a term loan of ₹ 60 lakh to Plaza International for the construction of a hotel project. When the project building was nearing completion, the loanee submitted (February 2000) an application for an additional term loan of ₹ 30 lakh for starting three star hotel with bar facility. The revised cost of the project was assessed at ₹ 1.50 crore with the promoter's contribution at ₹ 60 lakh (40 per cent). The additional loan was sanctioned (March 2000) and ₹ 21 lakh was disbursed (August 2000 and March 2001).

At the time of disbursement of second instalment of additional loan the eligibility as per promoter's contribution was only ₹ 7.10 lakh against which ₹ 16 lakh was disbursed. Thus, the Corporation relaxed the conditions of loan and disbursed the amount even though the promoters had not invested as per the requirement.

Though the hotel started functioning with effect from November 2003, the total repayment made towards the two loan accounts was ₹ 37.50 lakh only. The party had defaulted the repayment and the amount to be realised amounted to ₹ 1.53 crore (March 2006) with overdue of ₹ 1.37 crore (both principal and interest) falling under doubtful - II category of NPA. The unit was taken over (April 2005) under section 29 of the SFC Act and advertised for sale thrice (August 2005, March 2006 and July 2006). The sale had not materialised (September 2006).

Thus, the failure in ensuring investment to be made by the promoters resulted in accumulation of dues of the Corporation.

The Management stated (August 2006) that the condition regarding promoters' contribution was relaxed even though the promoter had not invested the required contribution for the speedy implementation of the projects and since they had already released substantial amount by way of loan. The attempt to sell the taken over unit did not materialise in the absence of sufficient bidders. The fact, however, remains that the undue favour of relaxation of promoters' contribution for the second loan in the name of speedy implementation did not serve the purpose and only increased the arrears.

DIVERSION OF LOANS

Indiana Panels

3.3.30 Indiana Panels applied for a term loan (working capital) of ₹ 1.50 crore (December 2000) for procuring raw materials in bulk quantity. The unit was in existence since 1994 and engaged in the manufacture of veneers from imported timber. After considering the loan proposal, the standing committee sanctioned (March 2001) ₹ 1.50 crore for procurement of raw materials and disbursed (April 2001/March 2003) ₹ 1.35 crore in two instalments.

The party was not regular in paying instalments and the loan account had fallen under doubtful- II category of NPA. An amount of ₹ 2.71 crore was outstanding (March 2006) with ₹ 2.47 crore as overdue towards principal and interest. The unit was not in operation and Revenue Recovery action was in progress (June 2006).

It was noticed in audit that though the loan of ₹ 1.50 crore was sanctioned for procurement of raw material, major portion of the same was utilised by the loanee for clearing the cash credit/arrears of an earlier loan taken by the loanee from the bank. This resulted in the firm utilising only 33 per cent of the amount released, for intended purposes. Thus, sanctioning of a loan for a particular purpose and utilisation of the same for other purposes resulted in failure of the project, rendering an amount of ₹2.47 crore as NPA.

The Management stated (August 2006) that the borrower requested the Corporation to release ₹ 91 lakh direct to the bankers for clearing the loan availed for working capital and getting documents released. It was also stated that an amount of ₹25.04 lakh was realised from sale of plant and machinery of the loanee. The reply is not tenable since the loan from bank was already availed by the loanee at the time of submission of application to the Corporation in December 2000 and by disbursing the loan sanctioned for import of raw materials, for liquidating the then existing liabilities of the loanee defeated the purpose of sanction.

ADJUSTMENT OF LOANS AGAINST OVER DUES

Krishna Gardens Regency (P) Limited

3.3.31 The Corporation sanctioned (June 2000) a term loan of ₹ 1.25 crore to Krishna Gardens Regency (P) Limited for construction of a hotel. The loan was sanctioned on the security of assets of the company and collateral security of property valued at ₹ 1.12 crore which was already accepted as collateral security for a loan of ₹74.58 lakh availed by Anugraha Complex (AC) a sister concern of the promoters. One of the conditions for sanction and disbursement of the term loan was that the outstanding dues of AC would be adjusted from the disbursement of the term loan. Banking on the same security, another term loan of ₹ 50 lakh was sanctioned (February 2001) and disbursed (May 2001) for completion of the hotel building and equipping the same. A Short Term Loan of ₹ 22 lakh was also sanctioned (September 2002) and disbursed (October 2002). Thus, against a collateral security of ₹ 1.12 crore the Corporation disbursed an aggregate Term Loan of ₹ 1.75 crore and short term loan of ₹22 lakh during the period from June 2000 to October 2002.

The aggregate amount outstanding against the above term loans and short term loans as on 31 March 2006 was ₹ 2.68 crore (Principal ₹ 1.83 crore and interest ₹ 85 lakh). The overdue principal and interest amounted to ₹ 1.80 crore.

Audit scrutiny revealed the following:

- Out of the term loan of ₹ 1.75 crore sanctioned and disbursed for constructing and equipping the hotel ₹ 67.89 lakh was adjusted against the dues of the sister concern of the company.
- at the time of appraisal of the short term loan of ₹ 22 lakh it was recorded that the loan account of the party was in heavy arrears and that the unit did not fully satisfy any of the five eligibility criteria for sanction of short term loan. In spite of this, the loan was sanctioned by the Managing Director. The loanee did not settle the short term loan account even after a delay of 18 months (March 2006).

- though the purpose of the loan (short term loan ₹ 22 lakh) was to meet the bar license fee of ₹ 15 lakh and working capital requirements, the Company had already availed ₹ 14 lakh from Federal Bank for meeting bar license fee which indicated the fact that the loanee was availing loans from different financial institutions for the same purpose and also not meeting the commitments.

118. The Management stated (August 2006) that the amount sanctioned for constructing and equipping the hotel was released as re-imbusement against value of assets created by the principal firm and adjusted against the dues of sister concerns and this had not affected implementation of the project. The reply is not acceptable since the amount sanctioned as loan for implementation of the project was adjusted directly against dues of the sister concerns and the Corporation did not have any mechanism to verify whether the principal firm was implementing the project against funds borrowed from other sources.

PNM Hospitals, Kattakada

3.3.32 The Corporation sanctioned (January 2001) a term loan of ₹ 1.80 crore to PNM Hospitals, Kattakada (PNM). The disbursements started with effect from February 2001. An additional loan of ₹ 1.47 crore was also sanctioned (September 2002). It was noticed in audit that an amount of ₹ 68.78 lakh was adjusted towards principal and interest dues outstanding against various earlier loans out of ₹ 3.27 crore disbursed to the loanee up to June 2004. In February 2005 another loan of ₹ 3 crore was sanctioned for expansion works. The disbursements commenced from April 2005 and an amount of ₹ 1.56 crore was disbursed (up to March 2006). From these disbursements also, the Corporation adjusted ₹ 30.45 lakh against the arrears in earlier loans.

Thus, out of the total loan disbursement of ₹ 4.83 crore made (up to March 2006) to PNM, ₹ 99.24 lakh (20.56 per cent) was adjusted towards principal and interest dues outstanding against five other loan accounts. The over dues as on March 2006 amounted to ₹ 2.81 lakh (₹ 1.52 lakh plus ₹ 1.29 lakh).

But for the adjustment of ₹ 99.24 lakh out of disbursement of earlier loans the over dues would have been ₹ 1.02 crore.

Thus, the loanee received ₹ 3.83 crore only in cash out of the total requirement of ₹ 4.83 crore. Since the loans sanction and disbursements were made for specific purposes based on requests supported by progress in work and/or acquisition of assets, adjustment of releases against arrears deprived the loanee of sufficient funds and affected the implementation of projects and defeated the purpose of financial assistance made.

The release of assistance and adjustment of dues also resulted in increased recovery of principal, accounting of interest income out of own funds and categorisation of the sub-standard/doubtful NPAs into standard category making loanees eligible for fresh loans.

It was also noticed in audit that the Corporation allowed interest rebate of one per cent for prompt payment of interest/principal. Based on Corporation's own money re-channeled as interest/principal remittances in the above case, ₹ 0.28 lakh (January 2004) and ₹ 0.38 lakh (March 2005) were granted as interest rebate by adjusting the interest dues (₹ 3.45 lakh and ₹ 4.53 lakh) against the disbursements.

The Management stated (August 2006) that pre-operative expenses of the loanee in their project cost included interest element on loans and adjustment of such interest at the time of release of instalments had not deprived the loanee of sufficient funds and affected implementation of the project. The reply is not tenable since the adjustment against release included both principal and interest amount and such adjustments were being made regularly from the disbursement of loans from February 2001 onwards to wipe off the over dues of the loanee and make it eligible for further loans.

INTERNAL CONTROL

Corporate Governance

3.3.33 Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for governance in the Companies.

The following deficiencies were noticed in this regard:

Board Meetings

3.3.34 The attendance of the Government nominee directors at the Board Meetings was quite inadequate during 2002-03 to 2005-06. During 2002-03 Government directors did not attend any of the meetings and during 2003-04 only two meetings were attended. During the remaining two years up to 31 March 2006 the attendance was about 40 per cent only.

The absence of active participation by the Government nominees indicated that Government involvement in the affairs of the Corporation was insignificant despite 90.51 per cent (31 March 2006) share holding in the Corporation.

The minutes of the meetings of the Board of Directors of the Corporation held (15 January 2001, 15 February 2001 and 26 March 2001) were not authenticated by the Chairman.

Audit Committee

3.3.35 The Audit Committee is an important tool for the Board of Directors to discharge their functions effectively for proper management of the Company. As per paragraph 9A of Non Banking Financial Corporation's prudential Norm (Reserve Bank Directions 1998) the Corporation had to constitute an Audit Committee. The Corporation, decided (May 2002) to constitute an Audit Committee for discussing Internal Audit Reports, scope and coverage of Internal Audit system, examining the financial statements, reviewing risks and uncertainties in the business operation and discussing all significant issues raised during the Audit, etc. The Audit Committee comprising of three directors (a Government nominee director, a nominee director from SIDBI and one from SBI/LIC) was formed only in September 2005 for want of co-opted directors on the Board of Directors of the Corporation. Thereafter no meeting of the Committee was held (January 2006). Due to non-holding of meetings of the Audit Committee, the very purpose of setting up the Audit Committee could not be achieved.

The Management stated (August 2006) that they were aware that the Audit Committee constituted in the Corporation was not very effective and would take steps to improve the effectiveness of such committees.

Internal Audit

3.3.36 The Corporation had an Internal Audit and Inspection Wing (IA&IW) which was headed (July 2006) by an Assistant General Manager (AGM) instead of a Deputy General Manager as provided in the Manual of Procedure of Internal Audit and Inspection Wing.

The Internal Audit was supplemented by concurrent audit of 16 branch offices and the head office of the Corporation by Chartered Accountants appointed annually. Quarterly Audit Reports were submitted to IA&IW, which in turn was forwarded along with remarks to the concerned branch offices for compliance/rectification of mistakes. Even though verification of loan sanction and disbursement was entrusted to the concurrent auditors their report did not contain any significant observation in this regard. It was noticed in audit that similar lapses/mistakes/omissions repeatedly occurred indicating that the corrective steps taken were inadequate. Concurrent Audit of all branches for the quarter ending 31 March 2006 had been completed (July 2006), but compliance for the earlier quarter (September/December) was awaited from five branches.

The Management stated (August 2006) that there was constraint of not having persons in the requisite cadre and the Deputy General Managers of the Corporation were posted in the areas which were more critical for the functioning and at present persons having sufficient experience were being posted. Review of status of Concurrent Audit/rectification of mistakes, etc., on a periodical basis by the Audit Committee was also stated to be taken up to improve effectiveness of concurrent audit.

Vigilance Set up

3.3.37 The Corporation had a Vigilance Cell headed by a Deputy Superintendent of Police appointed (June 2005) on deputation with no supporting staff. The duties and functions of the wing were to conduct enquiry/investigation on areas specifically referred by the Managing Director and provide all assistance to branch office/head office personnel for taking over a unit. Verification of antecedents of promoters and submission of report to the MD in respect of specific cases referred to it was also entrusted to the Vigilance Cell. The Corporation did

not entrust the verification of credit-worthiness/technical expertise as mentioned in the appraisal memoranda and the genuineness of the documents pledged for loan on selective basis, to the Vigilance Wing with a view to sanctioning loans only to genuine entrepreneurs.

The Vigilance Officer was required to submit confidential reports to the MD about the overall functioning of the branch offices, discipline, public grievances, etc. It was, however, noticed that no such reports were being submitted. Documentation giving the year-wise details of cases referred to, disposed of and pending were also not maintained.

These matters were reported to Government in August 2006; their reply is awaited (August 2006).

[Audit Paragraph 3.3.1—3.3.37 contained in the Report of the Comptroller and Auditor General of India for the year ended on 31st March, 2006]

The notes furnished by the Government is given in Appendix II.

1. The Committee enquired in its meeting held on 14-10-2015 the present functioning of the Corporation and also sought an overall view regarding the audit objections. The Managing Director, Kerala Financial Corporation replied that they had taken a lot of remedial measures to improve the overall performance of the Corporation and at present the condition was much improved and for the last four years, they had been consistently paying dividend and also making reasonably good profit. But in the last year, they had faced a slight financial set back, partly due to some changes in RBI norms and policies of State Government.

2. When the Committee enquired about the steps taken by the Corporation to come out of the financial setback, the witness replied that previously, the moratorium period fixed by the Corporation was very short as compared to other commercial firms, which was not sufficient for the completion of the project. In larger projects that needs clearances from many agencies, the completion of the projects itself took 2 to 3 years. Hence, at present a more realistic moratorium period was fixed for the projects.

3.13

3. The Committee was aggrieved to note the audit observation that plan documents had been prepared without obtaining data on actual requirement of branch offices and the annual BPRF became unrealistic. The Committee criticized the Corporation for submitting an unrealistic Business Plan and Resource Forecast (BPRF) to SIDBI. The witness admitted that the Corporation once submitted highest level ratio by making some projections to get funds proportionate to it. He also added that since the Corporation was not in a position to get funds from other sources due to bad debts in the balance sheets, the Corporation had been solely depending on SIDBI at that time even though SIDBI gave them only much less loan amount which was not sufficient to meet its requirements. So in order to get reasonable funds from SIDBI, they had made some projections which were probably unrealistic.

4. When the Committee enquired the reason for substantial reduction in SIDBI's contribution, the witness disclosed that the rate of interest charged by SIDBI was very high than the interest rates charged by other banks. So they had almost stopped the practice of availing loans from SIDBI as the financial condition and business of the Corporation was being improved gradually.

3.14

5. The Committee sought an explanation on the audit objection regarding the inadequacy in marketing that disabled the Corporation to sanction targeted amount of ₹2930 crore. The witness informed that the said problem had already been resolved. Sanctioning and disbursement of loans during 2007-08 and 2013-14 had raised from ₹ 245 crore to ₹ 1000 crore and from ₹ 186 crore to ₹ 740 crore respectively.

6. The witness also added that Government had given NOC for taking funds only from commercial banks without guarantee. To a query of the Committee regarding the legality in taking funds from commercial banks, the witness clarified that since commercial banks had been lending money to other financial institutions also, NOC given by the Government always have legal sanctity.

3.16

7. The Committee remarked that the Corporation should take keen interest to encourage MSME sector also.

3.17, 3.18, 3.19 - Financial Planning

8. The Committee wanted to get the details of the action taken by the Corporation for its better financial planning. The witness informed that every year the Corporation entrusted a credit rating agency for getting their rating done. Since the Corporation had been consistently making profit and also paying dividend, their rating had been reasonably high for the last 2 years. Owing to that improved performance they were able to get loans at lower interest rate from the commercial banks. Further, to prevent the idling of funds, excess or surplus funds was invested in short term FDs or in mutual funds. Also, for the last 3 years, they had been borrowing bonds from the market and every time the bond rates were lower than the interest rates of banks. Now, the Corporation got permission from RBI to cop up public deposits also.

3.20- Rescheduling of loan account and financial restructuring

9. The Committee sought clarification on the audit objection regarding the rescheduling of loan accounts in NPA status to standard category without making alternations in the original loan amount and without reassessing the financial viability. The witness replied that the Corporation was very vigilant in retaining its loan accounts in standard category. In order to avoid slippage into NPA category, the Corporation used to keep the loan accounts rescheduled and before rescheduling they were insisting the loanees to pay the defaulted interest amount and made the accounts regular.

10. The Committee further enquired why the Corporation overlooked the guidelines of RBI regarding rescheduling of loans. The Managing Director replied that, they have followed the guidelines on prudential norms and assets classification issued by the RBI/SIDBI from time to time. He further explained that the present value of most of the assets had grown up considerably higher due to hike in land value. Hence, the security which they had taken earlier at the time of disbursement of loan was much enough to make the accounts regular, there would be no apprehension in case of irregular account balance.

11. The Committee was not satisfied with the details conveyed by the witness. The Committee noticed the audit observation with concern that even after rescheduling, 842 borrowings amounting ₹ 24.78 crore was defaulted in repayment.

3.21

12. Regarding the writing off of loan amounting to ₹ 117.18 crores during 2008-09, the witness informed that in order to get loans from other financial institutions the Corporation was forced to clear the bad debts from balance sheets. As part of financial restructuring, the Corporation had got approval from Government for technical write-off of loans under D3 category.

13. The witness added that as it was only a technical write off, the Corporation tried to recover the loans in all possible ways and when the amounts were recovered, it would reckoned as income in the year of actual recovery.

14. When the Committee expressed doubt whether the take over of units by the Corporation resulted in depreciation of assets in the long run, the witness informed that the corporation had to incur huge amounts for maintaining the property and in order to avoid payment of security wages the decision to take over of the units would be resorted only as a last course of action. He also added that with the initiation of revenue recovery procedures, the Corporation compelled the borrower to repay the defaulted amount and in that way the Corporation could recover ₹ 76 crore so far.

3.22

15. The Committee on reviewing the working results, was of the opinion that if there was no financial restructuring/ rescheduling, the Corporation could in no way achieve the positive working results.

3.23 & 3.24 - Borrowings

16. When the Committee enquired the reason for short fall in cashflow due to insufficient recovery even though there was hike in the disbursement of loans, the witness replied that the moratorium period for most of the loans was permissible upto 2 years from the date of disbursement of loans and during the

moratorium period, the interest amount alone was recovered and the repayment of principal amount was commenced only after two years. So the recovery was not exactly in line with the disbursement figure. The Committee was not fully satisfied with the explanation of the witness and opined that hence the AG had evaluated the performance for a period of 5 years the arguments put forward by the witness would never stand.

17. The witness disclosed that in the previous years, the disbursement figures were much lower than the recovery figures. Since 2007, the recovery figures of the Corporation had been increasing proportionally with respect to the disbursement figures. The Committee was not convinced with the above explanation and criticized that instead of stating the exact reasons for insufficient recovery during the audit period, they were merely explaining the current situations.

18. The witness clarified that as the repayment of principal amount would start only after the moratorium period of two years, the recovery of the loan already disbursed in 2010 could be initiated only after 2012.

3.25 & 3.26

19. The Committee expressed its discontent on observing the audit finding that poor working results of the previous three years, higher level of NPA and absence of credit rating from approved rating agencies etc., prevented the Corporation to accept public deposit and forced the Corporation to avail expensive borrowings from commercial banks to overcome the financial crunch. The Committee opined that had the Corporation paid a little attention, an amount of ₹ 8.23 crore, could have been gained towards higher interest paid.

3.27

20. The Committee was surprised to note that the Corporation had pre-closed the loan availed from HUDCO within six months even though it was availed for a period of ten years which resulted in the payment of ₹ 0.49 crore towards pre-payment charges. The Committee remarked this as the best example of lack of financial planning.

3.28 & 3.29 - Temporary parking of surplus funds

21. The Committee was aggrieved to note that the Corporation earned only ₹ 3.14 crore instead of ₹ 38.87 crore as claimed by the Corporation towards the investment in mutual funds. The Committee seriously viewed the action of the Corporation which was against the guidelines issued by GOI/GOK through investing the surplus funds in mutual funds instead of investing it as fixed deposits in banks.

3.30 -Sanction and disbursement of loans

22. The Committee wanted to know how the Corporation could practically incorporate promoter's contribution for the disbursement of loans. The witness replied that the promoters had the opportunity to contribute their share of initial expenditure in various ways either in the form of land or as a share to buy new machinery in addition to the share deposited in Treasury by the Corporation. If the promoters had already started the construction of building and had funds in the bank, then it could be shown as their contribution. He also added that there was an internal team functioning in KFC for evaluating the promoters contribution and strict action including rejection of loan application was taken against those promoters who submits bogus details.

3.31

23. When the Committee enquired whether there was any decrease in the number of loan accounts, the witness replied that the number of loan accounts had been consistently growing year by year.

3.32

24. The Committee wanted to know the reason for exceeding the exposure limit from 60 per cent as fixed by the Corporation to 65% in 2008-09 with regard to the disbursement in Hotel and Tourism sectors. The witness stated that the investment level in the case of Hotel and Tourism sector was much higher as compared to small and micro industries and most of the loan application received by them were for the Hotels in 3 star or 4 star category. Hence they had already placed a proposal to raise the exposure limit for Hotels which was yet to be put

into practice. However, they were able to reduce the exposure limit for Hotel and Tourism sector in the subsequent years and for the year 2014-15, it was fixed at 40%.

3.34 - Loan to a charitable trust

25. The Committee was much displeased to note that the Corporation disbursed loan to a charitable trust by exceeding the exposure limit which was against the Act and IRR was calculated far below the interest rate.

3.35 Loan to a glass bottle manufacturing unit

26. The Committee expressed its dissatisfaction over the Corporation's inefficiency in realising the dues amounting to ₹ 8.01 crore from the promoters of M/s Excel Glasses Ltd., Alappuzha. The witness informed that the Corporation and KSIDC together gave them almost 15 crores. Eventhough, the Corporation had already initiated Revenue Recovery measures against the Company, the Company had filed a case before the Hon. BIFR and the hearing was in progress. So they were not able to proceed with any of the revenue recovery measures against the promoters.

27. The Committee remarked that despite knowing the fact that the project was enviable and promoters were not creditworthy, the Corporation had sanctioned loan without calculating IRR. Further, non-obtaining of DPR and personal guarantee of the Managing Directors of Company as collateral security reveals the irresponsibility of the Corporation to safeguard its interest while sanctioning loans.

3.36 - Loan to a Hospital run by Co-operative Society

28. The Committee also noticed that the Corporation disbursed the loan of ₹ 1.25 crore to Peravoor Co-operative Hospital at Kannur for the construction of a new block before obtaining the building permit to the party. The Committee also suspected that why the Corporation did not invoke S29 of the Act to recover the dues.

3.37 - Loan to a partnership firm

29. The Committee was amazed to note that the Corporation disbursed loan to Haritha investments which did not have any experience in running the business.

3.38 - Loan to an existing hotel group

30. The Committee was astounded to note that the Corporation disbursed the loan to an earlier defaulter who got the benefit under OTS, without obtaining initial funding from the promoter. The Committee wanted to get the details of the action taken by the Corporation to recover the dues amounting to ₹ 5.09 crore from Kanichai Hotels (P) Limited. The witness informed that eventhough the Corporation had already initiated RR proceedings against the defaulters, the Corporation withdrew the same when the defaulter started to repay the amount. But the party again defaulted in repayment and the outstanding amount was ₹ 3.92 crore including arrears of ₹ 1.52 crore. The Committee insisted the Corporation to reinstitute the RR proceedings in such institutions and the witness assured to do so.

3.39 Loan to the same group of companies

31. When the Committee enquired about the present status of the loan disbursed to Southern Hospitalities (P) limited, the witness informed that it had already been closed. The Committee was aggrieved to note that the Corporation disbursed further installments of the loans neither ensuring the progress of the project nor ensuring the re-payment of earlier loans.

3.40 - Loan to two hotels in Thrissur District

Kangappadan Residency

32. To a query of the Committee regarding the disbursement of loan of ₹ 3.50 crore to Kangappadan Residencies, it was informed that eventhough the said unit had defaulted initially in their repayment they had been making regular remittance since 2010. The Committee was not at all satisfied to note that the Corporation disbursed the loan without ensuring the promoters investment or contribution.

3.41 Dale and Carrington Investment (P) Ltd.

33. The Committee sought explanation for not invoking section 29 of the SFC act against Dale and Garrington Investment(P) limited eventhough the firm had defaulted in repayment and the outstanding amount was ₹ 5.30 crore including arrears. The witness informed that eventhough the loanee had been

making regular repayment of loan for certain period after the loan disbursement they had defaulted in repayment with the occurrence of Bar Licence issue. However, the party had already submitted a proposal for settling of dues with in the current financial year and in that scenario invoking of section 29 of the SFC act was unjustifiable. The Committee expressed its concern that the Corporation disbursed the loan without ensuring the investment of promoters contribution.

3.42 - Loan to a new hotel project

34. The Committee wanted to get the details of action undertaken by the Corporation to recover the defaulted loan amount from Gold Coast Hotels (P) Ltd. The witness replied that owing to the defaults in repayment of loan, the said unit was taken over by KFC under section 29 of the SFC Act. But when the promoter had informed that he was planning to renovate the project and to make it functional again the unit was returned back to the promoter on payment of ₹20 lakhs.

3.43 - Loan to EVM Group

35. The Committee enquired why the Corporation sanctioned a loan of ₹1.04 crore to a promoter for his second project without waiting for the completion of first project for which the disbursed loan was under default. The witness explained that EVM group was one of the trustworthy clients of the Corporation and considering their good past track record, the second loan had been sanctioned and now the repayment of loans were prompt.

3.45 Recovery Performance

36. The Committee observed that the percentage of NPAs was as high as 52 in 2007-08. When enquired about the restructuring of NPA account, the witness replied that SIDBI's guidelines were followed by the Corporation which were similar to that of the guidelines issued by RBI to the banks. He also added that if the interest had not been received within 90 days, it was considered as NPA.

37. To a query of the Committee regarding the increase in standard assets of the Corporation, the witness stated that through vigilant monitoring and regular follow-ups, they made the loanees to repay the defaulted amount within 3 months and hence they were able to maintain their accounts in standard category.

3.47 - Extension of OTS

38. The Committee enquired why the Corporation waived the principal amount along with the interest while granting OTS. The witness replied that as per the procedure followed by the Corporation all repayments were credited towards the interest first and the balance available only if credited in the principal. So even after repaying more than twice the disbursed amount, balance would be outstanding against the principal amount in some of the accounts. As a result many complaints had arisen against the Corporation that it was only a profit motive Government Undertaking working without any social obligations. So at present, while settling the pending loan cases the total amount already recovered from the loanees was first evaluated and if it satisfies with twice the principal amount or principal amount plus other expenses incurred by the Corporation, then those accounts were considered as recovered. He added that in most cases, they were able to regain an amount equal to twice the principal amount.

3.48 - Recovery from taken over units

39. The Committee wanted to get clarification on the audit objection regarding the belated action under section 29 of SFC Act which resulted in the non disposal of 57 taken over units. The witness replied that in most cases with the issue of RR notices itself, the loanees would repay a part of the defaulted amount and in some cases, the Corporation gave them the opportunity to settle their dues in installments when the default had happened due to the reasons beyond the control of the promoters. He added that the take over of units under S.29 of the SFC Act would be done only as a last resort and it could not be followed in all default cases.

3.51

40. The Committee wanted to know about the current status of the loan given to Jayalekshmi Builders. The witness informed that even though S.29 of the SFC Act was invoked, sale could not be materialized due to various reasons. Also, a writ petition filed by the flat owner is now pending before the Hon'ble High Court and Court had directed the Corporation to maintain status quo in respect of auction sale and the case was still going on.

41. Regarding the loan given to Supreme Milk Ltd., the witness informed that Supreme Milk Ltd. had already been closed their loan.

42. Then the Committee examined the cases of disbursement of loan to the following borrowers:

1. Chaithram Cares Pvt. Ltd.
2. Fathima Foods & Proteins Pvt. Ltd.
3. Bentek Cable Pvt. Ltd.
4. Salih Industrial Enterprises Pvt. Ltd.
5. Rukmoni Memorial Devi Hospital
6. Palanattil Construction Company Ltd.
7. Moolan Modern Rice Mill
8. Panchami Exporters Pvt. Ltd.
9. St. Mary's Properties

43. The Committee observed that though the RR action and invoking of S.29 of SFC act was initiated in every case the defaulting borrowers were favoured by the Corporation and Hon'ble Ministers or Government imposed stay orders against the action. The Committee opined that the recovery under RR Act became worthless due to the intervention of Government. Deficiencies in recovery process also resulted in vain because the borrower being able to prevent the recovery through court orders.

3.52 - Internal/Concurrent Audit

44. The Committee was surprised to note that none of the major deficiencies in disbursement and recovery were noticed or raised by the internal auditors in the Corporation until those were reported by the Accountant General. The Committee pointed out that the Internal Audit lacked professional approach and failed to point out the major deficiencies in disbursement and recovery stages. The witness explained that due to the constraints in staff strength, they were forced to employ outside auditors as concurrent auditors in almost all branches. He added that now the Corporation have regular Chartered Accountants as concurrent Auditors and very comprehensive audit reports were made available by them. He further

elaborated that in the case of huge loan amounts, special audit are conducted by the Internal Auditors of the Corporation either at the time of pre-disbursement or at the time of recovery.

45. The Committee criticized the Corporation for its failure in preparing Business Plan and Resource Forecast (BPRF) in time. The Committee opined that if the Corporation had prepared the BPRF in time, then it could have been utilized by the Corporation as a benchmark for activities of the ensuing years.

46. The Committee found that loans were sanctioned by the Corporation without proper appraisal of projects and without ensuring adequate collateral security even to loanees who were chronic defaulters. The Committee was of the view that non-adherence to prescribed norms and procedures for sanction and disbursements of loans led to heavy default and non-recovery of loans.

47. The Committee expressed its discontent over the impetuous action of the Corporation in disbursing loans to units before ensuring adequacy of promoter's contribution and opined that effective procedures for verification and acceptance of securities and valuation of assets should be introduced, besides verifying the accuracy of genuineness of documents accepted. The Committee pointed out that due to the adjustment of disbursement against dues, the actual purpose of providing assistance to industrial units was defeated and the NPA status of loanees often changed rendering them eligible for further assistance. The Committee was perturbed to note that the Corporation neither had a sound system of Corporate Governance nor a Vigilance Cell.

Conclusions/Recommendations

48. The Committee finds that the Corporation had made unrealistic projections in order to get funds from SIDBI. The Committee strongly disapproves the practice of submitting unrealistic Business Plan and Resource Forecast (BPRF) by the Corporation and emphasizes that the annual BPRF should be prepared only after obtaining the data on actual requirements from the Branch Managers.

49. The Committee observes the failure of the Corporation in following the guidelines of RBI regarding the rescheduling of loans. The Committee also learns

that even after rescheduling, defaults had occurred in respect of 842 borrowings amounting ₹ 24.78 crore. Hence the Committee recommends that steps should be taken by the Corporation to take over the assets under Section 29 of the State Financial Corporations Act in respect of defaulters.

50. The Committee realizes that the poor working results prevented the Corporation from accepting public deposits as a result of which the Corporation had to avail funds from Commercial banks to overcome financial crunch. The Committee points out that the pre-closure of loan availed from HUDCO and the temporary parking of surplus funds in mutual funds are the best examples of the Corporation's poor financial planning. Therefore the Committee strongly recommends that the Corporation should follow the guidelines issued by GOUGOK while investing surplus funds.

51. The Committee expresses its concern about the sanctioning of loan without calculating IRR (Internal Rate of Return), disbursement of loan at a very low interest rate in contravention of the Act, disbursement of loan to partnership firms having no professional competence etc. Hence the Committee recommends that the Corporation should ensure that the sanctioning and disbursing of loans are being done in accordance with the provisions of the Act. It is also observed that though RR Act was initiated, the defaulting borrowers were able to prevent the recovery through court orders. The Committee also learns that the Internal Audit lacked professional approach and failed to point out the major deficiencies in disbursement and recovery. Hence the Committee recommends that the Corporation should follow strict recovery mechanism under RR Act as well as Professional Internal Audit system.

52. The Committee further finds that the Corporation sanctioned loan to chronic defaulters without proper assessment of the projects and without ensuring collateral security. The Committee learns that the non-adherence of prescribed norms and procedures for sanction and disbursement of loans led to heavy default and non recovery of loans. Therefore the Committee directs the Corporation to ensure that all the norms are strictly adhered to at the time of disbursement of loans.

53. The Committee criticises the Corporation's adhoc action of disbursement of loans before ensuring the sufficiency of promoters' contribution. The Committee recommends that effective procedure should be introduced to ensure the genuineness of documents accepted and to avoid over valuation. The Committee finds that due to adjustment of disbursement against dues the actual purpose of providing assistance to industrial units was defeated. Such adjustment of loan amounts released against overdue arrears should be avoided.

54. The Committee further learns that the Corporation had failed to achieve its constitutional objectives due to the lack of sound system of Corporate Governance and absence of a Vigilance cell. Hence it is suggested that necessary steps be taken to strengthen the Corporate Governance and Vigilance setup.

Thiruvananthapuram,
9th March, 2017.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSION/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations
(1)	(2)	(3)	(4)
1	48	Finance Department	The Committee finds that the Corporation had made unrealistic projections in order to get funds from SIDBI. The Committee strongly disapproves the practice of submitting unrealistic Business Plan and Resource Forecast (BPRF) by the Corporation and emphasizes that the annual BPRF should be prepared only after obtaining the data on actual requirements from the Branch Managers.
2	49	Finance Department	The Committee observes the failure of the Corporation in following the guidelines of RBI regarding the rescheduling of loans. The Committee also learns that even after rescheduling, defaults had occurred in respect of 842 borrowings amounting ₹ 24.78 crore. Hence the Committee recommends that steps should be taken by the Corporation to take over the assets under Section 29 of the State Financial Corporation's Act in respect of defaulters.
3	50	Finance Department	The Committee realizes that the poor working results prevented the Corporation from accepting public deposits as a result of which the Corporation had to avail funds from Commercial banks to overcome financial crunch. The Committee points out that the pre-closure of loan availed from HUDCO and the temporary parking

(1)	(2)	(3)	(4)
			of surplus funds in mutual funds are, glaring examples of the Corporation's poor financial planning. Therefore the Committee strongly recommends that the Corporation should follow the guidelines issued by GOI/GOK while investing surplus funds.
4	51	Finance Department	The Committee expresses its concern about the sanctioning of loan without calculating IRR (Internal Rate of Return), disbursement of loan at a very low interest rate in contravention of the Act, disbursement of loan to partnership firms having no professional competence etc. Hence the Committee recommends that the Corporation should ensure that the sanctioning and disbursing of loans are being done in accordance with the provisions of the Act. It is also observed that though RR Act was initiated, the defaulting borrowers were able to prevent the recovery through court orders. The Committee also learns that the Internal Audit lacked professional approach and failed to point out the major deficiencies in disbursement and recovery. Hence the Committee recommends that the Corporation should follow strict recovery mechanism under RR Act as well as Professional Internal Audit system.
5	52	Finance Department	The Committee further finds that the Corporation sanctioned loan to chronic defaulters without proper assessment of the projects and without ensuring collateral security. The Committee learns that the non-adherence of prescribed norms

(1)	(2)	(3)	(4)
			and procedures for sanction and disbursement of loans led to heavy default and non recovery of loans. Therefore the Committee directs the Corporation to ensure that all the norms are strictly adhered to at the time of disbursement of loans.
6	53	Finance Department	The Committee criticises the Corporation's adhoc action of disbursement of loans before ensuring the sufficiency of promoters contribution. The Committee recommends that effective procedure should be introduced to ensure the genuineness of documents accepted and to avoid over valuation. The Committee finds that due to adjustment of disbursement against dues the actual purpose of providing assistance to industrial units was defeated. Such adjustment of loan amounts released against overdue arrears should be avoided.
7	54	Finance Department	The Committee further learns that the Corporation had failed to achieve its constitutional objectives due to the lack of sound system of Corporate Governance and absence of a Vigilance cell. Hence it is suggested that necessary steps be taken to strengthen the Corporate Governance and Vigilance setup.

APPENDIX II

GOVERNMENT OF KERALA

FINANCE (PU-A) DEPARTMENT

**REPLY ON PARA III RELATING TO KFC BASED ON THE REPORT OF THE COMPTROLLER
& AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED MARCH 2012**

Sl.No	Para No.	Department	Audit Para	Reply to Audit para given by Government
1	3	Kerala Financial Corporation	Disbursements were made without ensuring that the IRR of the project to be financed was significantly higher than the interest chargeable on the loan.	➤ A loan is sanctioned after taking a realistic view of various ratios like Asset Coverage Ratio (ACR), DER, DSCR, Break Even Point, IRR, Projected profitability statement etc. For all appraisal these ratios are calculated and considered by the sanctioning authority.
			The professional competence/ commitment to success, of the promoters to run the business was not properly assessed before sanctioning loans.	➤ New appraisal format has been introduced which has detailed provisions for analyzing the present activities of the promoters and their credit worthiness. Corporation has also introduced an objective rating scale continuum for rating the promoters and project during appraisal of projects
			Disbursement of funds was not synchronized with the progress of projects being financed.	➤ At the time of appraisal itself KFC has obtained the disbursement schedule from the promoters and the loan is disbursed proportionate to the promoters contribution brought in.

		<p>White re-scheduling the loans, the viability of the projects under revised payment obligation was not assessed. Consequently, the immediate impact of faulty re-scheduling was inflated income/profit shown in accounts.</p>	<p>➤ Repaying capacity under the revised repayment schedule is ascertained before reschedulement. Reschedulement does not result in inflated income.</p>
		<p>The Corporation had to forgo amounts to the tune of Rs. 297.73 crore due to faulty disbursement Government and financial institutions also had to suffer financial loss of Rs. 105 crore towards write off of accumulated losses against their equity contribution.</p> <p>Government and financial institutions also had to suffer financial loss of Rs.105 crore towards write off of accumulated losses against their equity contribution.</p>	<p>➤ The sanction process has been tightened with the introduction of new appraisal format and Loan Policy. Further, the Corporation has introduced benchmark Financial Norms.</p> <p>➤ Introduced rigorous internal Credit Rating System.</p> <p>➤ Audit System has also been strengthened.</p> <p>➤ Govt of Kerala had released Rs.150 crores as equity to the Corporation which was used for financial restructuring of the Corporation This has enabled the Corporation to find out alternate source of funds as at that time SIDBI was the only source of refinance.</p> <p>➤ The financial restructuring enabled the Corporation to set off the accumulated loss of Rs.105 crores and to reduce its net NPA level</p> <p>➤ Total amount paid to Government of Kerala as dividend during last 4 FYs was Rs. 41.78 crores. The total net profit achieved by the Corporation during the last 5 FYs after the restructuring is Rs. 194.30 crores.</p>

			<p>Delayed action under section 29 of SFC Act led to disposal of only one asset. There were no takers for the other assets indicating that the assets financed did not have business potential.</p>	<ul style="list-style-type: none"> ➤ Take over of the unit under Section 29 of the SFCs Act is done only as a last resort. Main objective of the Corporation is to encourage entrepreneurship, through financing new and existing industries/service enterprises. So maximum opportunity is given to the entrepreneurs before taking possession of the unit. Instances of taking over a unit at the time of its implementation or just at the time of starting the unit under Section 29 will only tarnish the image of the Corporation. ➤ Earlier more than 300 units were in possession of the Corporation under section 29 and in lot of cases Corporation had to incur huge amounts for maintaining the property and paying security wages. ➤ The assets may get dilapidated with the passage of time. ➤ Number of units taken over under Section 29 now is only 57. Thus takeover under Section 29 cannot be uniformly followed in all default cases. It will be done after analyzing the reason on a case to case basis and where the promoters have made willfully default against the Corporation and in cases where other methods of recovery have failed.
			<p>Recovery under RR Act suffered due to intervention of Corporation/ Government/ Hon'ble Ministers.</p>	<ul style="list-style-type: none"> ➤ Recovery figures of the Corporation has been increasing every year and NPA has come down substantially. ➤ The direction to keep RR in abeyance or stayed for some period are allowed only a

				<p>case to case basis, so as to allow the loanees to settle the account within a required time frame. Chairman & Managing Director, Kerala Financial Corporation has reported that from their experience it is always better if the account is settled by the promoters than by recovery through coercive action.</p>
			<p>Non-conformity with legal requirements resulted in the borrowers exploiting the situation to thwart recovery proceedings by seeking legal redressal.</p>	<p>➤ Instructed branch offices and legal officers to comply with legal requirements at the stage of documentation of loan agreements, site scrutiny and such other legal requirements as per norms to prevent borrowers exploiting non-conformity with legal requirements</p>
			<p>Internal audit was ineffective. It failed to point out serious lapses in the disbursement and recovery stages.</p>	<p>➤ Audit System has been strengthened from FY 2011-12. ➤ Post sanction Scrutiny, Pre-disbursement audit were introduced. ➤ Disbursement above Rs.100.00 lakhs is subject to pre-disbursement audit.</p>

3.20 Rescheduling on loan accounts and financial restructuring

			<p>During the last five years up to 2011-12, the Corporation had rescheduled and upgraded NPAs of Rs. 297.19 crore to standard category. Due to the rescheduling/grant of OTS, the assets could not be taken over immediately under Sec.29 of the SFCs Act.</p>	<p>➤ Upgradation of NPAs Corporation follows the guidelines on prudential norms and assets classification issued by the RBI/SIDBI from time to time. NPAs not subjected to restructuring will be upgraded immediately on clearance of defaults, if the account does not otherwise show any inherent deficiencies. The restructured NPA accounts are upgraded only after satisfactory debt servicing performance for the specified period in terms of the extant RBI/SIDBI guidelines. ➤ Take over of the unit under Section 29 of the SFCs Act is done only as a last resort. Main objective of the Corporation is to encourage entrepreneurship, through financing new</p>
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				<p>and existing industries/service enterprises. So maximum opportunity is given to the entrepreneurs before taking possession of the unit. Instances of taking over a unit at the time of its implementation or just at the time of starting the unit under Section 29 will only tarnish the image of the Corporation.</p> <p>➤ Earlier more than 300 units were in possession of the Corporation under section 29 and in lot of cases Corporation had to incur huge amounts for maintaining the property and paying security wages. The assets may get dilapidated with the passage of time</p> <p>➤ Takeover under Section 29 cannot be uniformly followed in all default cases. It will be done after analyzing the reason on a case to case basis and where the promoters have made willfully default against the Corporation and in cases where other methods of recovery have failed.</p>
<p>3.26 Borrowings Borrowing from Commercial Banks</p>				
			<p>The Corporation had to resort to expensive borrowings from banks instead of low cost public deposits. The additional expenditure towards interest on account of this worked out to Rs.8.23 crore for the years 2010-11 and 2011-12.</p> <p>The Corporation stated that acceptance of public deposit would result in asset liability mismatch and the performance of the Corporation had improved to become eligible to accept public deposit. The Corporation had also approached (August 2012) SIDBI. The contentions of the Corporation contradict each</p>	<p>➤ RBI has laid down certain conditions for getting approval for accepting deposits which includes conditions like SFC should not have NPA more than 10% of loans and advances and SFC should have declared Net profits in working results for the immediate past three years as per last audited Balance sheet . During 2010-11 and 2011-12 the Corporation had not complied with all these conditions and hence could not go for acceptance of deposits. So the only other sources of funds were refinance from SIDBI / Banks. Earlier Corporation was depending on SIDBI for its sole source of funds. SIDBI had substantially reduced their financial assistance from 54% of loans disbursed (in 2008-09) to 17% (in 2011-12) and hence as</p>

			<p>other.</p>	<p>Corporation started growing, it could not depend on SIDBI alone for its resources and had to diversify its source of borrowings and had to resort to borrowings from banks. Steps for issuing Non SLR bonds also were taken up during this period, but the bond issue could be completed only by December 2011, for completion of formalities. Since Corporation was issuing the bonds after a long gap it was essential that the credit rating given by the rating agencies was acceptable in the market so that the issue was successful and fully subscribed in time. The cost of funds, tenure of funds, ease of availability of funds etc are different for public deposits, LOC from SIDBI, LOC from Commercial banks, Non SLR bonds etc. Hence in the best interest of the Corporation a judicious mix for borrowing is resorted to depending on factors like market conditions, asset liability mismatch, interest rate etc.</p> <p>> Now all the lending banks have sanctioned LOCs to the Corporation at their base rate as a result of the better performance of the Corporation.</p> <p>> Corporation has got in principle approval from RBI for accepting public deposits. The deposits have to be rated by a credit rating agency approved by RBI. Corporation will start mobilizing public deposits once the credit rating exercise is completed.</p>
<p>3.27 Borrowings - Loan from HUDCO</p>				<p>> Mobilizing the funds through bonds was delayed to get a better credit rating. Pay the time Corporation was able to mobilise funds at a lesser rate with improved financials.</p>
			<p>A decision was taken to mobilise funds through issue of bonds prior to June 2010. The bonds were issued only in December 2011 after a period</p>	

		or 1½ years resulting in more expensive loans from HUDCO	
		The Corporation did not assess the actual requirement before getting the loan sanctioned. This necessitated payment of Rs. 0.55 crore as front end fee on Rs. 100 crore sanctioned as against Rs. 0.14 crore on the loan of Rs. 25 crore actually availed. The Corporation pre-closed (December 2011) the loan account by utilizing funds raised through issue of Non SLR Bonds and as a result had to pay Rs. 0.49 crore towards pre-payment charges	<ul style="list-style-type: none"> ➤ HUDCO promised to sanction Rs.200 crore @ 8.75% with Government guarantee, they sanctioned Rs.100 crore @10.5%. Out of this HUDCO released only Rs.25 crore as the guarantee deed was not as per their format and charged 1% additional interest ➤ This rate was subsequently raised 4 times in a span of 5 months and as on 01.11.2011, HUDCO was charging 13%. Hence KFC was forced to pre-close the loan. ➤ The Corporation has not paid the pre-closure charges and the matter is under correspondence by pre-closing the loan and taking loans from banks at lower rate, KFC saved Rs.5.96 crore.
3.28 & 3.29 Temporary parking of surplus funds			
		The Guidelines issued (December 1994) by Department of Public Enterprises, Government of India stipulates that there should be no element of speculation on the yield in respect of investment surplus funds by Public Sector Undertaking (PSUs)	<ul style="list-style-type: none"> ➤ Sec 34 of SFC Act permits the Corporation to invest in surplus funds in accordance with applicable guidelines and prudential norms and in such securities as the Board may decide from time to time and Corporation has always complied to this in its best interest. Investment in MFs are done by other SFCs also with approval from their respective Board.
		Corporation was prohibited from investing surplus funds in Mutual Funds. The investment policy of the	<ul style="list-style-type: none"> ➤ RBI has phased out NBFCs from the call money market as there is no underlying security and only commercial banks are allowed the lend or borrow in call money. The call money rates have been in the range

		Corporation was against the guidelines issued by Government of India	of 6 to 8% in the period under review. > Corporation has implemented one of the best fund management system in the industry followed by all commercial bank treasuries and not allowing the funds to lie idle even for a day which is also reflected in the huge income earned by the Corporation. From 2008 to 2011 an income of Rs. 361 lakhs was earned from such an operation
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Sanction and Disbursement of Loans
PERFORMANCE AUDIT QUERIES

It may kindly be noted that due to constant efforts and follow up, the following loan accounts mentioned in the audit are already closed by the promoters by clearing all the amounts due.

(Rs. in lakhs)

Para No	Name of the Unit	Amount Sanctioned	Amount disbursed	Total remittance	Date of closure
3.34	Carmel Towers Malabar Province (OCD)	1500	1273	2053	31-12-12
3.34	Bishop Bensiger Memorial	500	448	747	31-12-12
3.36	Peravoor Co-op. Hospital -Society, Kannur	200	125	209	18-02-13
3.37	Haritha Investments.	250	250	420	16-08-13
3.44	Smart Homes, Eranakulam	70	68	114	02-11-12

Hence the above cases may be treated as settled.

Replies to the other queries are given below:-

3.35 Loan to a Glass manufacturing unit- Excel Glass Ltd., Alappuzha.

	No DPR was submitted and the Corporation did not work out IRR	> Detailed Revival Project Report was submitted by the Party at the time of submission of the loan application. Based on that detailed appraisal was done by the Corporation and financial ratio including IRR was computed. IRR so assessed was 27.16 before Tax and after Tax was 21.15
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	Past track record indicated failure of the promoter to run the business profitably	<ul style="list-style-type: none"> > Management of the Company was taken over by Parijat Group (Somanis) in August 1985. The capacity of the company had been increased by the new promoters from 12000 tpa to 73000 tones. Professionals were also appointed by the Company to run the Company efficiently. Performance of the Company improved substantially during this period, but the plant was shut down on 20th July 2008 due to sudden collapse of Regenerator/Furnace and not due to the fault of the promoters.
	As per the Corporation's own assessment, the project was unviable an the promoters were not creditworthy	<ul style="list-style-type: none"> > The revival of the Company was jointly done by the Corporation and KSIDC as per the directions of the Govt. of Kerala considering the socio-economic aspects, and the financial viability of the unit. The Company provided direct employment to 600 persons and hundreds others indirectly. After appraising the project, it was found that with the revival programme envisaged, the unit will be viable and can repay the loans.
	Despite the above, the Corporation did not obtain personal property of the MD of the loanee company as collateral security.	<ul style="list-style-type: none"> > KFC and KSIDC hold First charge over all the assets of the Company including 20.30 acres of land in Pathirappally and Pallippuram. Moreover, corporate guarantee of another company viz. M/s Pantheon Securities (P) Ltd and personal guarantee of the MD Sri. Prasant Soman are obtained.
	Escrow account to facilitate appropriation of a portion of sale proceeds towards repayment of loan was not opened as stipulated while sanctioning the loan	<ul style="list-style-type: none"> > The Company had closed all existing its Working Capital loan accounts with commercial banks. They assured that escrow mechanism will be opened after they get fresh working capital assistance from banks.
	The outstanding loan was Rs.8.01 crores including arrears of Rs.0.77 crores	<ul style="list-style-type: none"> > Revival of the Company as envisaged was almost completed. But due to the steep hike in the raw material price made by KSIDC and non receipt of dues from their

	(August 2012)	<p>major client, M/s UB Group, shortage of working capital etc. had adversely affected the profitability of the Unit. The Corporation has initiated RR against the Company and the Managing Director in December 2012. In the meantime, the Company filed a case before the Hon. BIFR to get it registered as Sick Unit. Position of the loan account is in arrears of Rs.259.79 lakhs and balance outstanding Rs. 909.08 lakhs (01-07-13).</p>
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3.38. Loans to an existing hotel group- Kanichal Hotels, Thiruvananthapuram

	<p>The borrower's track record in running the business was poor as they had defaulted an earlier loan necessitating giving relief under OTS. So it was a fit case for outright rejection.</p>	<p>> The facility granted earlier to the M/s. Kanichai Hotels (P) Ltd. was not under OTS. There was a dispute regarding the interest rates charged and the issue was sorted out amicably before sanction of loan of Rs. 120 lakhs by Executive Committee of the Board in 2002. rates charged and the issue was sorted out amicably before sanction of loan of Rs. 120 lakhs by Executive Committee of the Board in 2002.</p>
	<p>The past track record of another firm of the same management was also poor. Two loans of Rs. 4.28 crores disbursed (July 2003 and August 2004) were also under default.</p>	<p>The default in repayment of another firm M/s. Saj Flight Services of the same management is due to the fact that the AIR INDIA, one of its clients owes a huge sum to the unit.</p>
	<p>Against the total project cost of Rs. 8.24 crores, financing to the tune of Rs. 4.24 crores was to be done by the promoter. Initial funding of 50% cost by the promoter would have been a clear indication of his commitment to the success of the project. However, the funds were released without the promoter doing the initial funding</p>	<p>> As per the financing pattern followed by the Corporation, the loan amounts are disbursed in accordance with the DER of the project. Hence it does not mean that the promoter should bring 50% of the project cost in advance. Normally in all case the amounts are disbursed in proportion to the investment made</p>

			<p>by the promoter as envisaged in the Appraisal Memorandum.</p> <p>➤ The unit maintained P.C at 51.46% as per the scheme envisaged at the time of final disbursement.</p>
		<p>The Corporation assessed the utilization of the earlier loan of Rs.120 crores (disbursed during March to May 2003) only in July 2006, after a lapse of three years and prior to disbursement of fresh loan of 4 crores</p>	<p>➤ The Corporation has sanctioned term loan of Rs 120.00 lakhs for the upgradation and modernization of M/s. Kanichai Hotels in 2002. The Corporation valued the upgradation and modernization works in August 2006 for Rs. 129.22 lakhs and ensured the utilization of the first loan of Rs. 120 lakhs prior to release of second loan.</p>
		<p>The loan was under default and outstanding amount was Rs.3.92 crores including arrears of Rs.1.52 crores (August 2012)</p>	<p>To recover the dues, Corporation initiated RR proceedings against the companies M/s. Kanichai Hotels (P) Ltd., Trivandrum and M/s. Sa Flight Service (P) Ltd., Ernakulam and Kumily and demand notices were issued. Against the recovery proceedings, Sri. Sajjan K.Varghese, MD of the company had obtained stay order from the government till 23.10.2013. We have taken up the matter with government to cancel the stay order for initiating RR action against the promoters/companies. The Balance outstanding in the loan account as on 01.09.13 is Rs. 5.09 crore.</p>
		<p>3.39 Loan to the same group of Companies- Southern Hospitalities, Thiruvananthapuram</p>	

	<p>➤ When the corporation disbursed the above loan, completion of an earlier project (a three star apartment hotel) for which a loan of Rs. 3.50 crores was disbursed (Sept. 2003 to Dec 2005) was pending. The second loan of Rs. 2.08 crores should have been declined considering the failure of the promoter to successfully complete the first project.</p> <p>➤ The borrower had also violated building rules for the first project and deviated from the approved plan resulting in cancellation (May 2011) of the permit.</p>	<p>➤ The first loan of Rs.3.50 crores was sanctioned in 2003 for their project at Thanpanoor, Thiruvananthapuram. But the project could not be implemented within time frame due to third party litigation. The permit given to the project was cancelled based on a complaint and it was regularized only after a long period. The party remitted Rs. 3.57 crores in March 2012 and the loan account stands closed. The second loan was not declined since there were no arrears in the first loan account while sanctioning the second loan in March 2005.</p>
	<p>➤ The Corporation further disbursed (December 2009 to August 2010) a loan of Rs.2.50 crores to Guardian Builders and Realtors (P) Ltd, a company promoted by the same group, though their track record was unreliable.</p>	<p>The party has made repayments of Rs.50.00 lakhs after April 2013 and has promised to remit Rs.25 lakhs every month till the entire liability is cleared. The loan to M/s. Guardian Builders and Realtors Ltd. was for an apartment project at Pattom. Rs. 250 lakhs to them was sanctioned in December 2009. The project was financed as it was convinced that the project was viable.</p>
	<p>➤ The Corporation, instead of waiting for the successful completion of the earlier two projects and repayment of earlier loans as per the terms and conditions, disbursed further loan of Rs. 2.50 crores.</p>	

3.40 Loans to two Hotels in Trissur District- Kangappadan Residency.			
		Assessment of viability is a very critical stage before disbursement of loan. There was failure to carry out such an exercise.	Branch Office has conducted a detailed appraisal including financial viability, technical and commercial feasibility and after assessing all these factors, it was decided to fund the project
		Out of the total cost of Rs. 5.96 crores, the promoter was to contribute Rs. 2.46 crores whereas the actual contribution was only Rs 0.20 crores	> As on 09-09-2009, when the final disbursement was made, the total investment made in the project was assessed as Rs. 599.92 lakhs. Out of which the Corporation's contribution was only Rs. 350 lakhs and that of the promoter was Rs. 249.92 lakhs with a PC of 41.66%.
		Without ensuring commitment of the promoter by way of initial investment, the Corporation disbursed the loan. Non-contribution by the promoter indicated lack of his confidence in the profitable operation of the business.	> The loan proposal was to take over the liability to a Bank and to complete the construction of the building. At the time of releasing the first installment of Rs. 213.57 lakhs to the bank on 14-10-2008, the investment in the project was Rs.414.27 lakhs, i.e. PC of Rs.201.15 lakhs (48.50%)
		Though the commercial operation of the Hotel started in August 2009, the party defaulted (April 2010) in repayment and the outstanding amount was Rs.3.58 crores including arrears of Rs.1.08 crores (August 2012)	The unit was to set up a Three Star Bar Hotel. About 40% of the income was anticipated from Bar. There was undue delay in getting Bar License and hence the unit defaulted repayment in the initial stage. They got Bar License only on 18-10-2010 and the party is making regular remittance since

			then. Balance outstanding in the loan account as on 01-07-2013 is Rs. 364.28 lakhs including arrears of Rs.15.05 lakhs.
		3.41 Dale and Carrington Investment (P) Ltd, Trissur.	
		The initial part of expenditure should have been from the promoter for ensuring the successful completion of the project. The Corporation did not ensure investment of promoters' contribution of Rs. 2.65 crores before disbursement.	>The loan was sanctioned with a DER of 1.83:1. Loan installments are usually released as reimbursement of amount expended by the loanee keeping the approved DER and the security available for the project. It is not practical to insist the promoters to spend their entire contribution before Corporation releasing any amount.
		First installment of Rs.0.15 crore was disbursed in August 2009. The Corporation released subsequent installments without ascertaining the utilization of earlier installments.	> The Corporation usually releases the subsequent installments of loan amount only after valuation of the work done and keeping the approved DER and ACR. Relaxation in these may be given on merit basis only with the approval competent authorities.
		Out of Rs.4.81 crores disbursed, the Corporation adjusted (November 2009 to March 2012) Rs.1.48 crores (including Rs 0.36 crores of a sister concern) towards arrears of interest. This indicated poor repayment behavior of the borrower.	The adjustment of arrears from the disbursement was made on the basis of request of the party and there is nothing unusual in it.
		The borrower defaulted and the outstanding amount was Rs 5.30 crores including arrears of Rs.0.58 crores. (August 2012)	>The loanee has so far repaid Rs.208.45 lakhs and the Balance outstanding in the loan account as on 01-07-13 is only Rs.481.33 lakhs and the account is in standard category.

	The Corporation did not invoke Sec.29 of the SFC's Act.		>Invoking Sec.29 of the SFC's Act is a last resort. The unit is in Standard Category at present.
3.42 Loan to a new Hotel project- Gold Coast Hotels, Thiruvananthapuram			
	As per the Act (Section 26) loans exceeding Rs.5 crore required prior approval from SIDBI. The Corporation, however, sanctioned first loan of Rs.5.85 crore and an additional loan of Rs.5.55 crore without complying with the said provision.		>Approval of SIDBI for proposals exceeding the limit of accommodation was sought subsequently after sanction of the second loan.
	As against the required contribution of Rs.11.40 crore, the actual contribution by the promoter was only Rs.6 crore. The promoter not making his part of investment indicated that he did not have confidence in the success of the project. Ignoring this, the Corporation disbursed Rs.11.40 crore.		>The land value taken in the project cost is limited to the document value even though the promoter invested substantial amount in the project land. Also the promoters advanced substantial amount towards advances for the supply of plant & equipments and to other contractors directly involved in the implementation of the project. If these investments are taken into account then the total promoter's contribution will be in accordance with the PC, DER fixed at the time of sanction.
	The Corporation sanctioned the second loan for additional plinth area not envisaged in the original project. The loan should not have been sanctioned. The Corporation should have insisted the borrower to meet the funds required for additional construction from own sources.		> After sanctioning the first loan, certain changes were made by the promoters in the original plan by modifying the internal partitions and increasing the numbers of rooms which increased the total build up area. Further there was cost escalation in the construction field which also increased the project cost. The second loan of Rs. 5.55 lakhs was sanctioned in considering the above facts and in order to help the promoter for the

			smooth completion of the project.
		The Project scheduled to be completed by April 2010 remained incomplete (August 2012).	➤ The project was not fully completed due to paucity of funds. About 90% of the work is completed.
		The outstanding loan amount as on August 2012 stood at Rs.11.95 crore including arrears of Rs.6.16 crore and the unit was taken over (Section 29 of SFC Act) by the Corporation.	➤ The unit was taken over by the Corporation under Section 29 on 11.05.2012. Though it was advertised for sale twice in May 2012 and June 2013 there were no bidders. Now the unit is returned back to the Promoter on 04.10.2013 on payment of Rs.20.00 lakhs. The promoter has now informed that he is planning to complete the project by end of 2013 and to make repayments to the Corporation from Jan 2014 onwards.
3.43 Loan to EVM group, M/s. EVM Fuels (P) Ltd and M/s. EVM Reclamations (P) Ltd, Perumbavoor			
		The Corporation failed to ensure in advance that the investment by the promoter had been made before disbursement of the loan. Thus the Corporation disbursed Rs.3.08 crore as against the eligible amount of Rs.2.86 crore, being 50 per cent of investment of Rs.5.71 crore (June 2011) as agreed upon.	The Branch Office has disbursed Rs. 307.72 lakhs to the unit till date. Out of this, an amount of Rs. 60.00 Lakhs was disbursed relaxing the DER as per loan Policy for the time bound completion of the project.
		The project scheduled to be completed in February 2010 remained (August 2012) incomplete	➤ Project implementation was delayed, as in between the promoters had a plan to sell the proposed project to an NRI group. This did not materialize. Chairman & Managing Director, Kerala Financial Corporation has requested the promoter to complete the project. Though the

			implementation is a little delayed, the promoters are very prompt in repayment and the loan account is in Standard category. Against disbursement of Rs.307.73 lakhs, the party has repaid Rs.263.73 lakhs.(As on 01.09.2013).
		The Corporation without waiting for the completion of the first project and assessment of the promptness in repayment by the borrower, sanctioned (August 2010) another loan of Rs.1.50 crore for setting up a rubber reclamation plant with a total cost of Rs.2.38 crore.	> The 2 nd project M/s. EVM Reclamations (P) Ltd, is for setting up a unit in the SIDCO Industrial Estate, Ettumanoor, Kottayam for the manufacture of Reclaimed Rubber from waste Rubber Powder. The Branch Office sanctioned a Term loan of Rs. 150.00 lakhs on 13.08.2010.
		Considering the past track record of the borrower, the loan application should have been wisely scrutinized to safeguard its financial interest.	> The EVM group is one of the good clients of the Corporation. The loan application was properly scrutinized and viability for the project and viability of the project and trust worth of the promoters were considered before sanctioning the loan.
		The Corporation disbursed Rs.0.55 crore. The borrower had utilised only Rs..0.18 crore out of the first installment of Rs..0.50 crore disbursed in September 2010. This indicated that the disbursement was not linked to the progress in implementation of the project so as to take care of the risk of diversion of funds.	While the implementation of the project is fast progressing, the Branch Office disbursed Rs. 104.80 Lakhs relaxing the financing parameters within the limits provided under the Loan Policy. The relaxations made was restored subsequently.

	<p>The project to be completed by February 2009 remained incomplete (August 2012) and the outstanding amount of loans stood at Rs.3.30crore (August 2012) including arrears of 0.09 crore</p>	<p>The implementation of the project was delayed due to delay in getting machineries from the different suppliers. The implementation of the project is now almost complete. The repayment of the loan is prompt and the account is in standard category. Against disbursement of Rs.130.81 lakhs, the party has repaid Rs.109.64 lakhs (as on 01.09.2013).</p>
	<p>Recovery Performance</p> <p>3.50 Case Study</p> <p>1. Jayalekshmi Builders, Thiruvananthapuram</p> <p>Release of property on two occasions without collecting dues even after invoking section 29 of SFC Act. Disposal of taken of asset was stayed by the then Finance Minister in 2007</p>	<p>The property taken over U/s.29 was released to the party on 18.10.1999 to comply with the orders of Hon'ble High Court on remittance of Rs.10.00 lakhs. Again takeover under Section 29 was done on 05-03-2001 and property released on 08.03.2001 on remittance of Rs.8.00 lakhs towards the clearance of partial dues. The property was taken over third time under Section 29 on 26-10-2006 and subsequently posted for sale 5 times. In the 5th auction, the offer was for Rs.433.00 lakhs. But the sales did not materialize due to various reasons. A writ petition was filed by flat owners (WP(C) 10213/2010) is now pending before the Hon'ble High Court. Hon'ble High Court has directed Corporation to maintain status quo in respect of auction sale. Board held on 09.04.2013 decided to approve the sale of assets to the highest bidder for an amount of Rs.433.00 lakhs, subject to the decision of the Hon'ble High Court.</p>

		<p>➤ Personal guarantee promoter/ directors was obtained</p>	<p>➤ One of the conditions of sanction of Short Term Loan to the Company was that the Directors of the Company should offer personal guarantee. This condition was complied and personal Guarantee Deeds were executed by Sri.Prasad Chakrapani and Smt. Jayalekshmi Prasad, the promoters</p>
	<p>➤</p>	<p>No action was taken maintain the quality asset taken over October 2006. Hence quality deterioration heavily due to passage of time.</p>	<p>Right from the takeover of the unit, the Corporation has posted security for maintaining the property. However some deterioration of the building has occurred whereas the land value has appreciated with the passage of time. Had there not been a stay on sale, the assets would have been sold long ago and this deterioration of the building could have been avoided which is beyond the control of the Corporation</p>
		<p>2. <u>Supreme Milk Ltd, Ernakulam</u></p> <p>Though section 29 of the SFC Act was invoked, the property was not sold.</p>	<p>The mortgaged assets include collateral property. The Corporation, therefore, felt that R.R. Action was more effective to sell both primary as well as collateral property.</p>
		<p>On two occasions, the then Revenue Minister imposed stay.</p>	<p>Government has stayed the RR sale for one months from 30-06-2007 based on the request of one of the directors of the Company. The RR authorities posted sale 10 times during 2007 to 2012. But the sale was not materialised due to low offers. Now RR Authorities posted the sale again during the month of September - October 2012</p>

	<p>The promoter absconding and property was leased without the knowledge of the Corporation Corporation did not criminal case against promoter.</p> <p>The Corporation sanctioned (March 2012) OTS which was extended four times up to June 2007. No amount had been remitted till date (March 2012).</p>	<p>The main promoter is absconding and is reported to be in Gulf. On knowing that the property was leased out Corporation initiated RR action in 2006.</p> <p>The extension was done as a general policy of the Corporation to reduce NPA. The OTS was sanctioned for Rs.350.00 lakhs and the promoters remitted Rs.60.00 lakhs after sanction of OTS. The total remittance as on date is Rs. 83.11 lakhs (including OTS). Party has now offered to pay Rs.350.00 lakhs(Rs.290.00 lakhs balance OTS amount + Rs.60.00 lakhs belated interest) for settling the account by selling the industrial land. The revised proposal was accepted and time has been given till 11.12 2013 for settling the account</p>
	<p>➤ M/s. Chaithram Cares Private Limited, Ernakulam</p>	
	<p>Section 29 of the SFC Act was not invoked</p>	<p>It was decided to pursue RF Action for two reasons. Firstly mortgaged property include not only Company property but also properties of the directors. Secondly there are two public sector financial institutions involved and R.R. action was found more appropriate to recover the dues.</p>
	<p>RR action initiated (November 2009) was stayed (February 2012) by the Chief Minister</p>	<p>The sale was stayed by Hon'ble Chief Minister for three months from 22/02/2012. Again it was stayed by the Hon'ble Chief Minister for three months from 22/05/2012. The RR Authorities posted the sale 2 times on</p>

				25/05/11 and 22/02/12. But there were no valid offers. The RR Authorities are again posting property for sale during September / October 2012.
		Personal property of the promoters was not attached.		Since it is an RR case Corporation has directed the Revenue Authorities to identify the personal assets and once they are identified RR officials will take steps to attach the property.
		The original schedule repayment was up to March 2009 and it was scheduled in February 2005 extending to repayment period up August 2011. However the loanee did not make any payment.		<p>∨ The party could not implement the project and due to delay in implementation the repayment schedule was revised as a measure of help to overcome the problems faced by the promoters. Since the project was not implemented the promoters could not generate income. The OTS was sanctioned for Rs.245.00 lakhs in 2008 and the promoters remitted Rs.35.00 lakhs after sanctioning the OTS and the total remittance including OTS is Rs. 72.84 lakhs.</p>
		M/s. Fathima Foods & Proteins (P) Ltd., Alappuzha		
		Section 29 of the SPC Act was not invoked		Since the collateral property was the personal asset of one of the directors and not company asset, RR action was initiated against the above item property in the light of verdict of Hon'ble Supreme Court of India. Also considering the fact that the Company was a running and giving employment to hundreds of people, it was felt that extension of RR action against the Industrial assets was a better option instead

		Revenue recovery initiated (January 2010) was set aside due to Government intervention	<p>of takeover under Section 29.</p> <p>Government allowed stay for the sale on condition that the defaulter shall remit Rs.10.00 lakhs before 10/3/2012 and balance amount is 10 equal monthly instalments. Accordingly the defaulter remitted Rs.10.00 lakhs on 08/2/2012 and further Rs.1.00 lakhs on 24.2.2012 and hence the sale postponed. It may be kindly noted that the Government had only allowed instalment facility and did not set aside the RR action. Due to Government intervention, the defaulter remitted Rs.11.00 lakhs immediately. As defaulter did not remit the further amount etc. the stay was over the collateral properties at Kanayannur Taluk, Ernakulam was put for sale on 12.03.2013. However the sale did not materialized as the offer received was low. After initiation of RR, the promoter is remitting Rs.2 lakhs per month from October 2012 onwards and Corporation has realized Rs.19.67 lakhs after adjusting RR charge till 30.09.2013. (October 2012 to September 2013)</p>
		The loanee had submitted 42 postdated cheques closed bank account indicating that the loan had no intention to repay. Despite this, the Corporation did not criminal case against the loanee.	<p>At the initial stages, the defaulter remitted the value of Cheque amount against post dated Cheques submitted. Due to continued default, the Corporation initiated coercive recovery action against the mortgaged as well as personal assets of the promoters under RR. Since the RR action initiated was found to be sufficient</p>

				to realise the dues of the Corporation, the Corporation did not proceed further under negotiable Instruments Act against the defaulter.
		M/s. Beatek Cables (P) Ltd., Thrissur		
		<ul style="list-style-type: none"> ➤ Section 29 of the SFC Act was not invoked. 		Considering the facts that the unit was not working and the promoter has got outside liabilities to KSEB and Co-operative Bank, Corporation sanctioned OTS to the unit for Rs. 60 lakhs as takeover under Section 29 would not have yielded the desired result. The party has subsequently remitted Rs.13.33 lakhs towards OTS till January 2012.
		<ul style="list-style-type: none"> ➤ RR action was stayed by the then Finance Minister 		The party had approached Revenue Department and Dy.T (RR) Ernakulam got a direction from Revenue Department in which it was stated to keep the RR action in abeyance and allow the party to settle the dues under already sanctioned OTS subject to the remittance of Rs.4.00 lakhs. Subsequently the party had remitted Rs.1.85 lakhs on 25.2.2012 and another Rs.1.85 lakhs on 27.2.2012 at our Ernakulam office through Dy. Tahsildar (RR).
				<ul style="list-style-type: none"> ➤ The total remittance as on date is Rs. 17.03 lakhs. The party was called for discussion but did not turn up and hence we have again requested Dy. Tahsildar (RR) to intensify RR action.
		<ul style="list-style-type: none"> ➤ M/s. Sath Industrial Enterprises (P) Ltd., Thiruvananthapuram 		

	Though Section 29 of the SFC Act was invoked, the property was not disposed of. The property taken over (February 1997) was not disposed of even after twelve years (October 2009). The property was returned (October 2007) to the loanee to Govt. intervention.		<ul style="list-style-type: none"> ➤ Though the unit was taken over in 1997, the property could not be sold by KSIDC, the custodian of the property as the company filed a case before the Hon'ble High Court. Subsequently in October 2009 the promoter made a Compromise Settlement offer with the KSIDC and the unit was released to the promoter by KSIDC accepting 25% of the OTS amount agreed upon by the promoter and KSIDC.
	Though the Corporation agreed for the amount of Rs.0.63 crore offered by the loanee. The loanee did not remit the amount.		<ul style="list-style-type: none"> ➤ Corporation sanctioned OTS to the party in March 2008 for Rs.62.50 lakhs and they could remit the agreed amount in instalments by 23.08.2013 only.
	The Corporation did not recover the dues even twenty five years		<ul style="list-style-type: none"> ➤ The Chief promoter passed away in 2006 and his son came for Compromise Settlement. After sanctioning of CS, Rs.10 lakhs was remitted in February 2010. Since no further remittance was made Corporation has informed the party of cancelling the OTS and also informed them that Corporation will be proceeding with coercive action if the dues are not settled immediately. On continuous persuasion by Corporation, the balance CS amount was remitted by instalments by the legal heirs in 2013.
	3.51 Deficiencies in Recovery		
	<ul style="list-style-type: none"> ➤ M/s. Ruckmani Memorial Devi Hospital, Thiruvananthapuram 		
	<ul style="list-style-type: none"> ➤ Section 29 of the SFC Act was not invoked. 		<ul style="list-style-type: none"> ➤ Since it is a running hospital it is difficult to take over the hospital under Section 29. As a recovery measure Corporation has already initiated RR.

		<p>➤ No collateral security was obtained</p>		<p>➤ As per the latest valuation, done on 05.09.2013, the loan is secured by assets worth Rs. 16.86 crores. The collateral security was not insisted since the project was financed under 1:1DER.</p>
		<p>➤ Personal guarantee of promoters/ directors not obtained.</p>		<p>➤ The personal guarantee of the promoter as well as the co-obligant were obtained vide the execution of Guarantee Deed in July 2007.</p>
		<p>➤ Additional loan of Rs. 2.08 crore was disbursed when previous loan of Rs. 4.68 crore was default.</p>		<p>➤ The hospital has been availing loan from the Corporation since 1993. Already they have closed 8 loan accounts. At the time of disbursement of first instalment of additional loan there was no arrears in the previous loan account.</p>
		<p>➤ Utilisation of funds was not ensured, the funds were diverted.</p>		<p>The funds was disbursed based on the valuation at each time. Arrears occurred as the hospital utilized the income from hospital for its expansion and buying new medical equipments.</p>
		<p>➤ No mechanism was evolved to ensure recovery through remittance of daily collection from hospital.</p>		<p>➤ There is no such condition as per sanction/loan agreement. However we have advised them to furnish the cheques on daily basis setting apart a portion of collection for repayment to KFC.</p> <p>➤ It is informed by the party, nearly Rs. 136 lakhs is due to the hospital under RSEY scheme of Government of Kerala. An early release of the dues is expected. During FY 2012-13, they have remitted Rs.89.05 lakhs and closed 2 loan accounts. Now there are 2 loan accounts(Rs.400 +</p>

				Rs.208.05 lakhs) and the party has requested for rescheduling the same with extension of 5 years from the terminal period with funding of interest of Rs.507.45 lakhs for 90 months with waiver of penal interest. The request of the party is under consideration.
		Palanattil Construction Company Ltd., Thiruvananthapuram		
		<ul style="list-style-type: none"> ➤ Section 29 of the SFC Act was not invoked. 		<ul style="list-style-type: none"> ➤ The action under Section 29 of SFCs Act was not initiated against the properties as the same was not in the name of the Company or in the promoter's name. In instant case, all the collateral properties belong to third parties and hence Revenue Recovery Proceedings was initiated.
		<ul style="list-style-type: none"> ➤ The collateral security accepted was not disposable. The land accepted was located highly elevated rocky place which was not accessible.. 		<ul style="list-style-type: none"> ➤ The collaterals are disposable. The land has been used for the cultivation of different kinds of cash crops like Rubber, Tea etc. The collateral stretches over three districts and the properties situated at Kottayam and Trivandrum has roads access. The property at Idukki is accessible by jeep. Corporation has initiated RR action against the promoters in October 2009.
		<ul style="list-style-type: none"> ➤ Though land was valued (2000) at Rs. 2.71 the upset value fixed (2007) was only Rs. 1.62 indicating inflated valuation. 		<ul style="list-style-type: none"> ➤ The value fixed at that time was limited to Rs.4000/- per cent in Idukki, Rs.3000/- per cent in Kottayam. The value was depreciated by 1.09 crores from that of the value fixed during 2000 due to the fact that the plantation Crops were not maintained property and replantation has not been made in time.

		<p>➤ The Corporation did not file criminal case against borrower though one of the post dated was dishonoured. Remaining two cheques not presented on due date, thus favourable borrower.</p>		<p>➤ Chairman & Managing Director, KFC have filed a case against the borrower under Negotiable Instruments Act after the first post dated cheque for Ra. 20 lakhs was bounced and the other 2 cheques were not presented as it would also have bounced.</p>
M/s. Moolan Modern Rice Mill, Perumbavoor				
		<p>➤ Section 29 of the SPC Act was not invoked</p>		<p>➤ The funds was disbursed based on the valuation at each time. Arrears occurred as the hospital utilized the income from hospital for its expansion and buying new medical equipments.</p>
		<p>➤ The property was taken over (2003) by Authorities and sold (2007) to recover the dues.</p>		<p>The Deputy Tahsildar (RR) put both the industrial and collateral property for auction on 30.04.2004, 03-06-2004 and 17-07-2004. But all the attempts were in vain. Since the sale was not materialized, the Corporation decided to take back the property u/s 29 in the year 2005 and put the property for auction on 07.04.2005. But we could not again sell the property. the Deputy Tahsildar of Kunnathunadu Taluk also initiated RR action against the industrial assets of M/s. Moolan Modern Rice Mill to recover the sales tax dues of another unit of the promoters viz, M/s. Moolan Food Products (P) Ltd alleging that the promoters of both the unit are same persons. Deputy Tahsildar (RR), Kunnathunadu Taluk sold the industrial assets on</p>

				<p>10.04.2007 for Rs. 11.65 lakhs to realize the sales tax dues against the upset valuation of Rs. 42.45 lakhs. The Corporation approached the District Collector against the sale and District Collector rejected the claim of the Corporation and the Corporation again represented the matter before High Power Committee of Government on 17.06.2007 to give clearance to proceed with litigation. The matter is pending before the High Power Committee and a final decision is yet to come.</p>
		<p>The Collateral security remained in possession of the Revenue Authorities despite lapse of eight years.</p>		<p>Dy.Tahsildar (RR) has put the collateral properties for sale on 30.04.2004, 30.06.2004, 17.07.2004, 17.06.2005, 21.08.2008, 28.11.2012 and 13.03.2013. However the sale has not materialized due to want of sufficient bidders.</p>
		Panchami Exporters (P) Ltd., Kollam		
		<p>➤ Section 29 of the SFC Act invoked was not fruitful.</p>		<p>➤ Due to accumulation of arrears the unit was taken over under Section 29 of SFCs Act in 2000. At that time the party had made a payment of Rs.4.00 lakhs with a commitment to remit Rs.6 lakhs every month starting from April 2000. The</p>

				<p>Corporation did not go ahead with sale and gave an opportunity to the promoters to regularize the account. Hence the unit was released to them.</p>
		<p>➤ Though the unit was taken over (March 2000) was not sold. The Revenue Authorities (January 2004) and sold (July 2007) the land to recover the sales tax dues.</p>		<p>➤ The property was attached by Tahsildar (RR), Kollam for realizing the sale tax dues and an extent of 60.93 Ares of land was sold on 24-07-2007. As the Crown Debt have precedence over other debts, the sale tax authorities sold the property to realize their dues. Corporation has taken up the matter before the Hon'ble High Power Committee constituted by Government of Kerala and a final decision is awaited.</p>
		<p>➤ The collateral security is under the custodian of official liquidator.</p>		<p>➤ Subsequently Corporation had filed liquidation petition and the Official Liquidator (O.L) took over possession of the remaining land with other industrial assets in September 2009. The O.L has posted the available assets for sale in September 2013 and received only 2 offers.</p>
		<p>➤ Despite this the Corporation sanctioned (Rs. 1.40 crore and Rs. 1.20 crore) to the concern [Panchami Packs Pvt. Ltd.]</p>		<p>➤ Two loans of Rs. 140 lakhs and Rs. 120 lakhs to M/s. Panchami Packs (P) Ltd. were sanctioned from Branch Office, Pathanamthitta which was repaid fully during 2002 and 2003 and accounts stand closed.</p>
		<p>M/s. St. Mary's Properties Ltd., Ernakulam</p>		

		<p>➤ Honourable High Court of Kerala (October 2002) for winding up and the liquidator sold properties of sister concerned 17.10 crore. The claims of all creditors settled except that of Corporation.</p>		<p>➤ The Official Liquidator awarded Rs.154.87 lakhs but KFC did not accept the award since the award amount was low and hence filed appeal before the Hon'ble High Court. Now the Hon'ble High Court has disposed the appeal in favour of Official Liquidator and we have received the claim on 13-09-2012. The Hon'ble High Court has ordered that KFC can proceed with statutory remedies that are available for realising the balance dues. KFC has already attached personal properties of the promoters under FR.</p>
		<p>➤ This was due to delayed filing (December 2007) of claim petition for Rs. 15.05 crore.</p>		<p>➤ The Corporation initially tried to stand outside the winding up proceedings as the value of mortgaged properties was very high and KFC had the first charge on the assets. But the Hon'ble High Court directed KFC to stand inside the winding up proceedings. Hence KFC filed claim only in December 2007 based on the direction of the Hon'ble High Court.</p>
<u>REPLY ON RECOMMENDATIONS</u>				
			<p>The Corporation should adhere to the prescribed while sanctioning and disbursing the loans</p>	<p>The Corporation has formulated policy for loan' sanction and disbursement. Bench mark norms are fixed for both sanction and disbursement of loan. In all cases if there is any deviation/relaxation in</p>

				the norms, they have to be approved by the next higher sanctioning authority.
			No disbursement should be made unless the IRR is significantly higher than the rate of interest charged, the promoters have professional competence to run business on profitable lines, sufficient collateral security free of encumbrance is obtained and promoter indicated his commitment to ensure success of the project by financing the initial investment of the project	For disbursing a loan IRR is not the sole criteria. A loan is sanctioned and disbursed after taking a realistic view of various ratios like Asset Coverage Ratio (ACR), DER, DSCR, Break Even Point, IRR projected profitability statement promoters contribution etc. For all appraisal these ratios are calculated and considered by the sanctioning authority and before disbursement it is ensured that sanction conditions are complied. Corporation has also introduced an objective rating scale continuum for rating the promoters and project during appraisal of projects.
			The disbursement of funds should be done in a phased manner linked to progress of work to address the risk of diversion of funds.	Presently at the time of appraisal itself Chairman & Managing Director, Kerala Financial Corporation has obtain the disbursement schedule from the promoters and the loan is disbursed proportionate to the promoters contribution brought in.
			Despite taking all safeguarding measures as mentioned above, if the borrower defaults in payment, there should be immediate recovery by invoking section 29 of the SFC Act as any delay reduces the prospects of finding takers for purchase of the asset.	The suggestion to takeover of unit under section 29 immediately after default is made by a borrower is not practical and will be resorted only as a last course of action and cannot be uniformly followed in all default cases. It was done after analyzing the reason for arrears on a case to case basis and where the promoters have made willful default against the Corporation and in cases where other methods of recovery have failed to generate the desired result. In all other cases out aim is to help the

				promoters to come out of their genuine business problem.
			Recovery mechanism needs to be effective to general resources for funding new projects without having to depend on expensive external borrowings	Recovery figures of the Corporation has been increasing every year and NPA has come down substantially. NPA percentage of the Corporation is the lowest among all SFCs. The very fact that the Corporation has earned a record profit of Rs.66.83 crores during 2012-13 and has also reduced the net NPA to 0.36%, speaks volumes about its efficient functioning.
			There should be no lack of commitment in prompt recovery under RR Act. The procedures adopted should be in consonance with legal requirements to deny the opportunity to the borrowers to shield themselves from recovery proceeding by taking legal recourse.	Kerala Financial Corporation has instructed branch offices and legal officers to comply with legal requirements at the stage of documentation of loan agreements, title scrutiny and such other legal requirements as per norms to prevent borrowers exploiting non-conformity with legal requirements.
			Sanctions and disbursements involving serious irregularities may be investigated	If serious irregularities are found in any sanction/disbursement cases it is investigated by the Vigilance Officer of the Corporation (appointed by Government of Kerala)
			Internal Audit should be professional in their approach and should not hesitate to point out deficiencies in the working	Audit system has been strengthened from Financial Year 2011-12. Post Sanction Scrutiny, Pre-disbursement audit and post sanction scrutiny of Compromise settlement were introduced.

				<p>Periodicity of concurrent audit reports have been changed from quarterly to monthly and new audit formats have been introduced. By introducing this audit system almost all mistakes at the level of sanction, disbursement and compromise settlement could be rectified.</p>
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Annexure 15

Statement showing financial position and liquidity ratios in respect of
Kerala Financial Corporation from 2007-08 to 2011-12
(Referred to in paragraph 3.7)

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Sources of fund					
Share Capital	159.06	74.06	204.06	204.06	211.97
Share Capital advance	...	130.00	...	7.91	...
Reserves and Surplus	33.56	33.56	44.76	52.95	64.58
Secured loans	308.94	406.34	479.02	708.62	721.84
Bonds	123.18	107.26	97.49	61.08	224.53
Deferred tax liability	...	...	...	5.00	3.69
Other liabilities	31.87	12.16	13.35	20.65	38.48
Provisions	5.17	0.07	21.65	102.57	59.67
P&L account	...	11.70	21.14	33.34	49.30
TOTAL	661.78	775.15	881.47	1195.28	1374.06
Application of funds					
Cash & Bank	23.32	141.31	10.42	7.68	33.67
Loans and advances	508.27	589.81	828.30	1124.81	1239.84
Investments	1.89	1.68	1.99	1.85	46.35
Fixed assets	2.86	2.58	2.46	2.76	2.75
Other assets	20.44	39.77	38.30	58.18	51.45
P&L account	105.00	...	...	...	...
TOTAL	661.78	775.15	881.47	1195.28	1374.06
Liquidity ratios					
Capital to Risk (weighted) Asset Ratio (%)	15.95	36.35	27.88	22.20	20.51
Current ratio	1:1	18:1	0.54:1	0.53:1	0.87:1
Debt- Equity ratio	4.93:1	2.06:1	2.14:1	2.59:1	2.90:1

Annexure 16
Statement showing working results and profitability ratios in respect of
Kerala Financial Corporation from 2007-08 to 2011-12
(Referred to in paragraph 3.8)

Particulars	(₹ in lakh)				
	2007-08	2008-09	2009-10	2010-11	2011-12
INCOME					
Income from operations	87.95	101.92	147.37	164.59	178.09
Other income	5.10	7.54	21.94	1.39	16.16
Total	88.33	109.26	162.36	165.98	214.25
EXPENDITURE					
Operating expenses	37.83	40.47	49.12	60.44	84.53
Employees cost	23.62	24.98	19.78	24.64	17.92
Administrative cost	1.20	1.20	4.31	4.10	4.02
Interest rebate on loans	---	---	4.47	9.51	13.78
Depreciation	0.38	0.33	0.36	0.64	0.29
Bad debts	12.91	117.58	37.72	4.95	30.78
Others	2.68	1.96	--	--	--
Total	98.62	185.56	115.71	104.28	151.62
Operating profit/loss(-)	(-) 10.29	(-) 76.30	46.65	61.70	62.63
Less Provisions	17.86	0.06	12.92	25.30	16.98
Net profit / loss (-) for the year	(-) 28.15	(-) 76.36	33.73	36.40	45.65
<i>(As percentage)</i>					
Interest income to Average Working Funds	13.76	15.10	11.72	12.69	15.44
Non-interest income to Average Working Funds	0.46	0.78	5.32	4.66	5.40
Operating profit/Loss to Average Working Funds	-1.66	-11.09	5.92	6.45	6.09
Return on Average assets	-1.75	-11.51	5.69	5.83	4.92

Annexure 17

Statement showing summarised position of cash flow in respect of
Kerala Financial Corporation for the five years up to 2011-12
(Referred to in paragraph 3.23)

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
A. Opening Cash & Bank	33.62	23.32	141.30	10.42	7.68
B. Cash inflow					
(i) Share Capital	...	150.00	...	7.91	...
(ii) Borrowings from:	75.95	160.00	209.88	160.00	79.00
Banks	...	...	...	261.00	115.00
Bonds	...	...	...	...	200.00
	75.95	160.00	209.88	425.91	394.00
(iii) Recovery:					
Principal	137.15	178.21	163.86	196.45	272.10
Interest	84.67	91.04	94.12	117.29	158.05
Sub total	221.82	269.25	257.98	313.74	430.15
(iv) Recovery from written off accounts	...	...	41.52	40.48	37.00
(v) Other receipts	9.63	8.66	8.76	14.42	29.01
Total (A+B (i) to (v))	341.02	611.23	659.44	807.97	897.84
C. Cash outflow					
(i) Loan disbursement	186.44	293.94	419.56	443.52	464.57
(ii) Repayment of borrowings	68.16	78.61	149.66	227.82	217.33
(iii) Revenue payment	61.54	66.97	73.96	95.23	135.25
(iv) Other payments (including investment)	1.76	30.41	5.84	33.72	46.74
D. Closing Cash and Bank	23.32	141.30	10.42	7.68	33.66
Total (C (i) to (iv) + D)	341.02	611.23	659.44	807.97	897.84

Annexure 18

Statement showing applications received and loans sanctioned in respect of
Kerala Financial Corporation for the five years up to 2011-12
(Referred to in paragraph 3.31)

(₹ in crore)

Particulars	2007-08		2008-09		2009-10		2010-11		2011-12	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
Loan application pending at the beginning	44	37.96	18	36.57	11	76.30	67	93.51	12	20.14
Add: Applications received	523	282.45	601	433.42	855	799.47	702	503.47	682	622.80
Less: Applications rejected or withdrawn	23	38.27	19	23.48	40	116.32	10	69.45	41	81.33
Net Balance	544	282.14	600	376.51	826	709.45	739	527.53	653	561.61
Loans Sanctioned	526	245.56	589	350.21	759	615.92	747	507.39	639	540.13
Loan applications pending at the end	18	36.57	11	26.30	67	93.51	12	20.14	14	21.48
Assistance requested (but) per application		0.52		0.63		0.86		0.70		0.86
Assistance sanctioned per application		0.47		0.59		0.81		0.68		0.82

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