



FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

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

THIRTY FIFTH REPORT
(Presented on 18th May, 2017)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2017**

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PUBLIC UNDERTAKINGS
(2016-2019)**

THIRTY FIFTH REPORT

On

Kerala State Industrial Development Corporation Limited

**(Based on the Report of the Comptroller and Auditor General
of India for the year ended 31st March, 2008)**

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)
COMPOSITION OF THE COMMITTEE

Chairman :

Shri C. Divakaran.

Members :

Shri T. A. Ahammed Kabeer

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri S. Rajendran

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri Raju Abraham

Shri Sunny Joseph

Shri C. F. Thomas

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 Thirty Fifth Report on Kerala State Industrial Development Corporation Limited, based on the Reports of the Comptroller and Auditor General of India for the year ended 31st March, 2008 relating to the Public Sector Undertakings of the State of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended on 31st March, 2008 was laid on the Table of the House on 23-6-2009. 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 at its meeting held on 6-1-2016.

This Report was considered and approved by the Committee (2016-2019) at its meeting held on 26-4-2017.

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

The Committee wishes to thank the officials of the Industries Department of the Government Secretariat and Kerala State Industrial Development Corporation Limited for placing before them the materials and information they wanted in connection with the examination of the subject. The Committee also wishes to thank in particular the Secretaries to Government-Industries and Finance Departments and the officials of the Kerala State Industrial Development Corporation Limited who appeared for evidence and assisted the Committee by placing their views before the committee .

Thiruvananthapuram,
26th April, 2017.

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

REPORT
ON
KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION
LIMITED

AUDIT PARAGRAPH

4.6 Undue favour

Decision of the Company to waive the upfront fee ignoring the offer of the loanee to make the payment, if insisted, resulted in undue benefit of ₹ 25 lakh to a society for acquisition of land on behalf of a private entity.

The Company sanctioned (February 2006) a term loan of ₹ 50 crore to Infopark, Kochi (society owned by Government of Kerala) for acquiring 136 acres of land to be transferred to Dubai Internet City (DIC) in connection with their Smart City Project in Kochi for Information Technology development in the State. A loan agreement was entered into (May 2006) with Infopark.

The letter of sanction (February 2006) and clause 2.3 of the agreement prescribed payment of an upfront fee equal to 0.5 *per cent* of the loan amount by the loanee to the Company on the date of signing of the loan agreement or by way of adjustment from the initial disbursement of the loan amount. Infopark, however, requested (August 2006) the Company to release the loan amount in full without deducting the upfront fee in view of urgent requirement of funds and requested for waiver of the upfront fee. Infopark further agreed to pay upfront fee by a separate cheque subsequently, if insisted, by the Company.

Audit noticed (April 2007) that at the time of approval of waiver of upfront fee by the Board of directors, the matter regarding waiver of upfront fee of ₹ 25 lakh was placed before the Board (249th meeting dated 22 September 2006) without presenting the fact that Infopark had agreed to pay the fee by a separate cheque if insisted. The Board had not recorded any specific reasons for waiver of upfront fee indicating that the decision for waiver was taken by the Board without

considering an alternate option beneficial to the Company. Thus, decision of the Company to waive the upfront fee ignoring the offer of the loanee to make the payment subsequently resulted in extension of undue benefit to Infopark for acquisition of land on behalf of a private entity.

The matter was reported to Government/ Management in May 2008; their reply was awaited (August 2008).

[Audit Paragraph 4.6 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 2008].

The Notes furnished by Government on Audit Paragraph is given in Appendix II.

1. The Committee noticed the audit observation that the Company waived an upfront fee of ₹ 25 lakh by ignoring the offer of the loanee to pay it by a separate cheque subsequently, if insisted by the Company. The Committee was of the suspicion that the Company deliberately ignored the offer of Infopark, Kochi in order to give undue benefit for the acquisition of land on behalf of a private entity.

Conclusion/Recommendations

2. **The Committee observes that the Company waived the payment of upfront fee of ₹25 lakh by Infopark, Kochi ignoring the offer of the Infopark to pay the upfront fee by a separate cheque if insisted by the Company. The Committee feels that the Company did not look out for alternate options that would have benefited the Company. Weighing all these factors, the Committee suspects that the Company deliberately extended an undue favour to Infopark.**

Thiruvananthapuram,
26th April, 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	2	Industries	The Committee observes that the Company waived the payment of upfront fee of ₹25 lakh by Infopark, Kochi ignoring the offer of the Infopark to pay the upfront fee by a separate cheque if insisted by the Company. The Committee feels that the Company did not look out for alternate options that would have benefited the Company. Weighing all these factors, the Committee suspects that the Company deliberately extended an undue favour to Infopark.

ANNEXURE II
NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Para	Reply
	<p>The loan of Rs 50 crores was given as Short Term Loan to INFOPARK, a state Government controlled society and not to Dubai Internet City (DIC). As per agreement entered in to between Government and Dubai Internet City (DIC), Government of Kerala should acquire 136 acres of land at an agreed price to the SPV formed for the implementation of the Smart City Project at Kochi. KSIDC had given funds to Infopark/Govt to temporarily tide over the problems of mobilisation of funds, required for purchasing 136 acres of land. Irrespective of the actual cost at which the land is being acquired by Infopark/Govt., DIC has to give to Government the cost of land calculated at the earlier agreed price.</p> <p>The rate of interest of 18% charged on Short Term Loan by KSIDC was long back, when the Term Loan interest rate was also high. KSIDC stopped giving ST loan long back. However KSIDC had sanctioned this loan to Infopark repayable within six months time. KSIDC had only charged the prevailing Term Loan Interest Rate as this was a loan to Govt/Infopark towards funds mobilisation to set up a prestigious project.</p> <p>The Board decided to waive the upfront fee on the Short Term <u>Loan to Infopark, as it was given to a Govt. controlled society, as per instruction by Government.</u> Waiving of upfront fee on the loan will in no way benefit to a Private Party as the cost per acre of land to be paid by Dubai Internet City, was already fixed.</p>

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