

**Chapter-4**  
**Audit of Transactions**

## CHAPTER – 4

### AUDIT OF TRANSACTIONS

#### INDUSTRIES AND COMMERCE DEPARTMENT

#### 4.1 Lease of land for industrial purposes by Jammu & Kashmir State Industrial Development Corporation Limited

##### 4.1.1 Introduction

The Jammu & Kashmir State Industrial Development Corporation is the nodal agency for promotion of medium and large scale industries in the State and is responsible for development of land for establishment of industrial complexes/ estates and creation of necessary infrastructure therein for development of industries in the State.

Audit of Industries and Commerce Department was included in the Report of the Comptroller and Auditor General of India on Social, General, Economic (Non-PSUs) and Revenue Sectors for the year ended 31 March 2012 - Government of Jammu and Kashmir (Report No. 1 of the year 2013). The audit inter-alia had focused on status of industrialization in the State with focus on status of various Industrial estates/ complexes and extent to which the creation of these estates/ complexes had led to creation of employment opportunities and contribution to States Gross Domestic Product (GDP). The present audit was taken up to assess whether the objective of establishment of industrial complexes/ estates through proper allotment of land and creation of necessary infrastructure therein to attain sustainable industrial development in the State was achieved by the Company during the period 2008-09 to 2012-13. The audit was undertaken between March 2013 and June 2013 covering the examination of records of the Head office, Regional office Jammu and five<sup>1</sup> Industrial estates of the Company involving 238 plots of land with an area of 1946 *kanals* (22 *per cent*) out of 13 Industrial estates involving 1133 plots of land with an area of 8938 *kanals*, which were selected based on simple random without replacement sampling technique. The details of audit findings are discussed below:

##### 4.1.2 Status of land in Industrial estates

The consolidated position of plots of land allotted and their status was not available with the Company.

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<sup>1</sup> Industrial complex Bari Brahmana Jammu; EPIP Kartholi Bari Brahmana Jammu, Industrial Growth Centre Samba Jammu; Industrial Ceramic Complex Kathua, Jammu and Industrial Complex Rangreth Srinagar Kashmir

In five test checked Industrial estates, Audit observed that out of 1133 plots of land allotted for establishment of industrial units, only 643 industrial units (57 per cent) were functional as on 31 March 2013 and the remaining 495 units (43 per cent) had either not been set up or reported by the Company to be under implementation or had been closed down.

The status of implementation for setting up industrial units based on test-check of 238 out of 495 incomplete units is detailed in **Table 4.1.1**.

**Table-4.1.1**

S. No.	Particulars	No. of plots	Area (Kanals)
1.	Number of industrial units closed (with area)	27	637
2.	Number of plots where no action taken (with area)	49	130
3.	Number of plots under implementation for setting up industrial unit (with area)	162	1129

- 27 industrial units had been closed (non-functional) for the period ranging between two and 25 years.
- The entrepreneur/ promoters had not set up 49 industrial units after the plots of land were allotted between two and nine years back by the Company. No action had been taken by the Company to cancel the allotment as per terms of the agreement.
- 162 plots were reported to be under implementation where no industrial unit had been set up despite delay ranging between one month and 19 years beyond gestation period of six to nine months from the date of allotment or lease deed agreement whichever earlier.

#### **4.1.3 Delay in setting up of new industrial units due to inadequate infrastructure facilities**

Audit observed that 309 industrial units involving 1454 *kanals* of land out of 318 plots of land (1479 *kanals*) leased out to the promoters during the period from 2008-09 to 2012-13 by the Company were required to be set up by March 2013. Against this, only 100 units (32 per cent) had been set up and the remaining 209 units were under the process of implementation (June 2013). Of the set-up units, 31 units had been set up after delay ranging between one month and five years.

Audit further observed that poor infrastructure facilities in the industrial complexes/ estates were the contributing factor for delayed/ non-setting up of industrial units by the promoters/ entrepreneurs as discussed below:

- For upgradation of infrastructure in Industrial Complex Bari Brahmana Jammu at an estimated cost of ₹ 11.08 crore, it was seen that against ₹ 4.84 crore released during the period 2011-13, the Company had spent ₹ 2.58 crore only leaving ₹ 2.26 crore unutilized as of May 2013 and no progress had been achieved against targeted upgradation of road length of 15.41 Km, constructions of 1504.44 Mts

bund for flood protection and two dug bore-wells by the Company (May 2013). Similarly, in respect of Industrial Growth Centre (IGC), Samba despite incurring an expenditure of ₹ 1.85 crore during the period 2011-13 against receipt of ₹ 2.09 crore, the target of upgradation of 25.30 Km road length with an estimated cost of ₹ 4.36 crore (except some patch works), within the industrial complex, construction of one tube well/ overhead tank, pump house building etc. could not be achieved by the Company.

- The Company developed (2004-05) 236 *kanals* of land as food zone within Industrial Complex Bari-Brahmana Jammu out of which 96 *kanals* were covered under common facilities (roads, drains etc.) and remaining 140 *kanals* were to be allotted to the food related Industrial units. The Company allotted 130.70 *kanals* of land to 44 food related industrial units between December 2005 and February 2012 and earmarked 4.30 *kanals* of land for further five entrepreneurs.

Audit noticed that out of 47 industrial units, only ten units with area of 40.75 *kanals* of land were functional as of June 2013 and the remaining 37 units (34 allotted and three earmarked) involving area of 89.95 *kanals* had not set up their units as the land had been allotted without proper arrangement of water supply at the sites of these industrial units. Thus, failure of the Company to plan allotment of land after proper development of infrastructure led to idling of the land on which ₹ 1.25 crore had been incurred for development of common facilities.

#### 4.1.4 Deficient performance in processing of cases

As per the procedure laid down (February 2007) by the Department for allotment of plots in Industrial Estates, the Company has to forward the applications/ projects received from the prospective promoters/entrepreneurs to the concerned Chief Engineers of Public Health Engineering Department/Power Development, Pollution Control Board etc. for obtaining their statutory clearances/objections and submit the same before the Apex Level Projects Clearance Committee (APCC) within 15 days of date of receipt for taking decision for allotment of plots of land. Apart from this, supporting documents in support of the projections made in the Detailed Project Reports (DPRs) and documents in support of the fact that adequate finances have been arranged are a pre-requisite for allotment. After the allotment of plot of land by the Company (lessor) the Promoter/ entrepreneur (lessee) has to execute a lease deed agreement within 60 days of date of issue of allotment order and set up the industrial unit within six months. As per the terms of this agreement, if a lessee fails to implement his project within six months of allotment or signing of lease deed agreement, whichever is later, the Company can initiate proceeding of cancellation and resumption of land after giving entrepreneur 30 days clear notice for non-implementation of project. Scrutiny of records by Audit showed the following:

- Proper registers/ records were not maintained by the Company to indicate the date of receipt of applications/ proposals, date of forwarding it to the concerned agencies for clearance and date of placing the finalized proposals before the

APCC for approval. Due to non-maintenance of these basic records the time schedule followed for processing the applications/ proposals on first come first serve basis could not be verified in Audit.

- Projections/ estimates of the Detailed Project Reports (DPRs) of the industrial units submitted by the intending promoters in respect of 196 plots of land had not been analysed by the Company and accepted without ascertaining their viability in all the test-checked cases.
- Statutory and other clearances like pollution, environmental, etc. had not been obtained prior to allotment/ handing over possession of plots of land in respect of 72 cases out of 101 test-checked cases, reasons of default in timely setting up or the closure of units by promoters were neither recorded nor analyzed by the Company in 83 cases and no action had been taken for invoking eviction of the promoters for failure to establish the units in respect of 87 cases.
- Out of 95 test-checked cases the promoters had not set-up industrial units at all in 85 cases due to non-availability of timely finances by the Banks/ Financial Institutions which had not been evaluated/ ensured by the Company at the time of allotment of plots of land.
- The notices for setting-up of industrial units were issued belatedly in 73 cases and no action had been taken for resumption of land which was not utilized by the promoters for implementation of the projects/ units in 63 cases out of 95 test-checked cases.

#### **4.1.5 Delay in execution of lease deed agreement by the entrepreneurs**

There was delay ranging between 27 days and over seven years in execution of lease deed agreements after the date of issue of allotment orders in 99 cases involving 344 *kanals* of land. This led to delayed realization of land premium<sup>2</sup> of ₹ 8.45 crore, besides loss of revenue of ₹ 0.13 crore due to non-realization of ground rent for the intervening period from date of allotment to the date of execution of agreement.

On being pointed out in audit the concerned Manager Estates attributed the delay to the allottees. The reply should be viewed in light of fact that the Management took no steps to evoke terms and conditions of the allotment orders for failure of the promoters to enter into lease deed agreement within scheduled time.

#### **4.1.6 Non-utilization of plots of land**

The Company had not evolved any mechanism for ensuring optimal use of available plots of land in its industrial estates/complexes due to inaction on the part of the Company for resumption of idle land as per provisions of the lease deed agreement. A test check of records (June 2013) in Audit showed that in four cases involving

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<sup>2</sup> One-time payment which the allottees make at the time of allotment of plot of land

112.30 *kanals* of land is lying idle and no further action was taken by the Company as per details given in the **Table 4.1.2**.

Table-4.1.2

S. No	Industrial complex/ estate with land available	Remarks /Status
1.	22 <i>kanals</i> of land at Birpur, Industrial complex Bari-Brahmana Jammu earmarked exclusively for housing and commercial activities since last more than 30 years.	Construction of four storeyed two housing blocks comprising of 16 residential flats though approved (August 2010) by the Board of Directors of the Company, but no further action taken so far (June 2013).
2.	30 <i>kanals</i> of land at Industrial Complex Bari Brahmana, Jammu was retrieved (December 2005) after closure of Inland Container Depot.	Intended to be used for handling of metallic waste for which the Company approached (February 2007) Ministry of Finance (GOI) for grant of permission for using the premises which was denied by the GOI.
3.	10.30 <i>kanals</i> land and building at Industrial Complex Rangreth, Srinagar	Allotted (July 1989) to a promoter <sup>3</sup> for manufacturing of EPABX <sup>4</sup> / Fax machines for a period of 10 years which expired in 1999. However, no further action was taken (June 2013) for its re-utilisation.
4.	50 <i>kanals</i> of land at Industrial Complex Rangreth, Srinagar	Allotted (October 2004) to an entrepreneur <sup>5</sup> for establishing unit for manufacture of steel and steel ingots. However, the land allotted was undeveloped, marshy and without road connectivity due to which promoter could not set up unit as scheduled.

Thus, failure of the Company to evolve mechanism for avoiding non-utilisation of allotted land by the promoters resulted in non realization of land premium of ₹ 96.30 lakh and ground rent of ₹ 1.77 crore.

<sup>3</sup> M/S J&K Telecom Ltd.

<sup>4</sup> Electronic Private Automatic Branch Exchange

<sup>5</sup> M/S Himalayan Rolling Mills

#### 4.1.7 Transfer of land by the promoter

(a) (i) The Company allotted (June 1993) 42.31 *kanals* of land in industrial Complex Bari-Brahmana Jammu to a promoter<sup>6</sup> for setting up of a camphor unit at a premium of ₹ 40,000 per *kanal*. The conditions of allotment order stipulated that in case of failure of the entrepreneur to put the unit to production within nine months the lease deed was subject to cancellation and the allotted land was to be resumed by the Company.

Audit check showed that despite execution of the lease deed in March 2000 and approval (November 2000) of the building plan for setting up of unit on 2886 sft (0.5 *kanals*) out of 38.31 *kanals* of land, the unit had not been set-up and the promoter defaulted in deposition of license fee, lease rent, premium, water charges etc. which accumulated to ₹ 17.74 lakh (May 2011). It was also seen that the promoter had transferred (March 2004) four *kanals* of the allotted land to another promoter<sup>7</sup> and having been unable to set-up the unit. The Company, however, allowed (April 2011) to transfer the left out land to another promoter<sup>8</sup> at a cost of ₹ 2.30 crore. Thus, failure of the Company to get the lease deed cancelled after the promoter failed to set up the unit and allowing idle possession of land in violation of terms of allotment order and lease deed agreement led to un-due benefit of ₹ 2.21 crore<sup>9</sup> to the promoter on account of transfer of lease-hold rights of land.

The Management stated (May 2013) that the unit had not been made functional due to non-availability of raw material and that there was no excess allotment and undue benefit. The fact, however, remains that the building plan of the unit had been approved for the area (2886 sft) which formed less than two *per cent* of the allotted land (38.31 *kanals*), which too had not been setup.

(a) (ii) The Company allotted (January 2001) 178.50 *kanals* of industrial land to M/s Moral Overseas by allowing amalgamation/ transfer of land in Industrial complex Bari-Brahmana for manufacture of Hosiery garments and processing of Grey fabric. The firm on account of its inability to face competition in the market closed (October 2006) the operations of the unit. The Company transferred (April 2008) 89.60 *kanals* of land in possession of the unit to two pharmaceutical companies and allowed (September 2008) the unit holder to retain remaining 88.90 *kanals* of land for setting up another spinning unit. The promoters, however, failed to set up the unit and continued to hold the possession of idle land which was subsequently transferred (August 2011) to another entrepreneur M/S Sarveshwar overseas Mills Ltd. The non utilisation of allotted land resulted in its idleness besides denying opportunity to other prospective entrepreneurs of securing the land for establishing the industrial units.

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<sup>6</sup> M/S Dujodwalla Resins and Terpenes Ltd.

<sup>7</sup> M/S Balaji Pune Chemicals Limited

<sup>8</sup> M/S Uniflex Limited, Greater Kailash New Delhi

<sup>9</sup> ₹ 2.30 crore minus premium of ₹ 9 lakh paid at the time of allotment of plot of land to the Company

**(b) Non-resumption of unutilized land**

Audit scrutiny of records of test-checked units showed that the Company had not taken any action to identify and resume 94.50 *kanals* of land where the lessees (allottees) had failed to implement the project within six months of allotment or signing of lease deed and land was lying idle in possession of the allottees as detailed in the **Table-4.1.3**.

**Table-4.1.3**

S. No	Industrial complex/ estate with land available	Remarks
1.	4.5 <i>kanals</i> out of six <i>kanals</i> of land at Industrial Complex Bari-Brahmana Jammu	The land was allotted (October 1994 and June 1995) to a promoter <sup>10</sup> for manufacture of readymade garments which could not be set up. However, the promoter established another unit for manufacture of steel tabular poles, doors, windows and steel trunks etc., which was permitted (February 2009) by the Company on 1.5 <i>kanals</i> of land. The remaining 4.5 <i>kanals</i> of land remained idle with the promoter (June 2013).
2.	16 <i>kanals</i> of land at Industrial Complex, Bari-Brahmana, Jammu	Allotted (August 1985) to a promoter <sup>11</sup> for manufacture of Tor steel. The Company also sanctioned a term loan of ₹ 65.60 lakh in favour of the promoter for setting up the unit. The promoter neither utilize the land nor remitted the term loan back to the Company (June 2013).
3.	70 <i>kanals</i> of land at IGC Samba (Phase I)	The land measuring 13 <i>kanals</i> was allotted (January 2004) to a promoter <sup>12</sup> for manufacture of steel girders, pre-cast concrete girders etc., at IGC Samba (Phase I). The promoter surrendered 13 <i>kanals</i> of land and on his request the Company allotted (July 2005) to 70 <i>kanals</i> in Phase-II of the estate. However, out of this 57 <i>kanals</i> were cancelled (February 2013) by the Company due to non-utilisation. Further the remaining 13 <i>kanals</i> are still lying idle with the promoter (June 2013).
4.	Four <i>kanals</i> of land at Industrial complex Bari-Brahmana Jammu	The land was allotted (August 2005) to a promoter <sup>13</sup> for manufacturing of food color and dyes. However, due to failure of the promoter to get the NOC from Food and Drug control department/ Pollution control Board, due to unit being adjacent to a pesticide unit, the Company allotted (February 2011) alternate site to the promoter. However, the land remained idle with the promoter (June 2013).

Thus, failure of the Company to take timely action for resumption of un-utilised plots of land resulted in non-realisation of land premium of ₹ 1.17 crore and consequential

<sup>10</sup> M/S Comfy Garments (International)

<sup>11</sup> M/S Tawi Steel Rolling Mills

<sup>12</sup> M/S V K Sood Engineers and Contractors, Panchkula, Haryana

<sup>13</sup> M/S Ambay Additives



interest loss of ₹ 32 lakh besides denying opportunity to other prospective entrepreneurs of securing the land for establishing the industrial units.

#### 4.1.8 Encroachment of plots of land

Audit check showed that there were cases of encroachment of 18 *kanals* of plots of land allotted by the Company to the promoters/ entrepreneurs, as discussed below:

- The Company allotted (September 2005) six *kanals* of land to M/S Chenab Bottling Industries at Food Park Industrial Complex Bari-Brahmana, Jammu on lease for 90 years for implementation of the Project within six months. However, a local person objected to construction work claiming title of the land. Audit observed that 13 *kanals* of land being the evacuee's property was acquired for industrial purposes prior to the year 2000 by the Company and despite dismissal (2000) by the Special Tribunal of the claim of the private person, the Company had failed to obtain clear possession of land and allotted the land to three entrepreneurs including the six *kanals* of land to the promoters. Due to failure of the Company to get the land vacated from illegal possession of the local person, the promoters could not set up their units resulting in idleness of Industrial land measuring 12.75 *Kanals*. The Manager Estates stated that land in question had been leased out and promoters were supposed to use leased out land. The reply should be viewed in light of the fact that the Company made allotment of encroached land to entrepreneurs and subsequently could not evict the land from the encroachers as a result the projects could not be implemented by the promoters.
- The Company signed (October 2010) a lease deed agreement for allotment of three *kanals* of land in favour of M/s Roxy Distilled Beverages for setting-up of an industrial unit in IGC Samba for implementation of the project within six months. The physical possession of the plot of land was handed over to the entrepreneur despite his failure to obtain statutory clearances which led to continued idleness of allotted land. Due to poor mechanism of watch and ward of the plots of land by the Company and also the idleness of land for long period, some locals encroached the land and obstructed (March 2013) construction by the promoters. The land continued to remain under the encroachment of locals (June 2013).
- The Company allotted four *kanals* of land (June 1999: two *kanals* and October 2002: two *kanals*) to M/s Kashmir Jam Industries at IGC Samba. The promoter, however, subsequently (November 2004) encroached further two *kanals* of land adjoining to his main allotted land and applied for its allotment. The Company allotted (January 2009) and handed over possession of the encroached land to other entrepreneur viz., M/s Guru Nanak Plastic Industries. Against this allotment order, M/s Kashmir Jam industries approached the Hon'ble High Court which directed (July 2011) the Company to consider the case of petitioner for allotment of two *kanals* of land on its own merit along with cases of all those persons seeking allotment of land in question. Thereafter, the Company shifted the second allottee to another plot of land and recommended (September 2011) the allotment of retrieved two *kanals* of land to

M/s Kashmir Jam Industries. However, approval of the APCC thereof was awaited (June 2013).

Thus, failure of the Company to prevent illegal possession of encroached land by M/s Kashmir Jam Industries for more than nine years and subsequent failure to consider the case of the promoter alongwith other applicants seeking allotment of land on the basis of merit in accordance with the directions of the Hon'ble High court led to regularisation of encroached land in favour of the promoter.

#### 4.1.9 Allotment of land in excess of requirement

The lease deed executed by the Company with the promoter reserves right to the Company to resume any part or all the leased premises at any time after being leased out, if it is found that land has been obtained in excess of the actual requirements by any entrepreneur.

Test checks by Audit showed that 36 *kanals* of land (*i.e.*, 28 *kanals* at Industrial Growth Centre, Samba to two entrepreneurs in August 2004 and February 2009 and eight *kanals* at Industrial Complex Bari-Brahamana, Jammu in August 1996/ April 1997) was allotted in excess of the actual requirements of the entrepreneurs. The retention of excess land by the entrepreneur despite directions by the Chief Secretary of the State Government who directed (September 2008) the management to establish the mechanism to take *suo moto* action where excess allotment of land was detected by the Company. Thus, land was allotted by the Company as per the demand of the promoter and that there was no system of verification of actual requirements of land demanded by the promoter.

#### 4.1.10 Non-revision of rent

As per the terms and conditions of lease deed agreement, the ground rent of the plots of land leased out is to be enhanced by 20 *per cent* after every five years and lessee has to pay such enhanced ground rent to the Company without any damage and demur.

Audit check showed that the ground rent of leased out plots of land (1496 plots: involving 11816 *kanals* of land) had been last revised in April 2007 and as such was due for revision in April 2012. The rates of ground rent had however, not been enhanced as of May 2013 which resulted in loss of ₹ 1.49 crore<sup>14</sup> to the Company during the year 2012-13.

When the matter was pointed out in audit, the Management of the Company stated (May 2013) that ground rent in some estates had been revised and steps were being taken to enhance the ground rent in left out estates. The fact, however, remains that no

<sup>14</sup> Amount booked ₹ 7.44 crore against amount due ₹ 8.93 crore

orders of revision of ground rent had been issued by the Company and the ground rent during 2012-13 had been charged at the existing rates.

#### **4.1.11 Conclusion**

The Company did not ensure judicious use of plots of land for industrialization which led to large area of allotted land lying idle. The expenditure on development of industrial land in estates had become unfruitful due to its non-utilisation. The deficiencies persisted in processing and follow-up of cases and obtaining statutory clearances, besides there was huge delay in execution of lease deed agreement causing delayed realization of land premium loss of ground rent. Due to deficiencies in the transfer policy of land to new promoters led to undue benefit to defaulting promoters in setting up the units. No mechanism existed to check diversion of allotted land for un-intended purposes and avoiding encroachments. Land was allotted to promoters in excess of requirements. Ground rent was not being revised. Inadequate infrastructure caused non-utilisation of land by promoters.

The above points were reported to the Government (August 2013); the reply was awaited (December 2013).

## Power Development Department

(Jammu & Kashmir State Power Development Corporation Limited)

### 4.2 Implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched by the Government of India in April 2005 to provide access to electricity to all and to give electricity connection free of cost to Below Poverty Line (BPL) households. Under the scheme all un-electrified (UE) villages and habitations were to be electrified in five years, i.e., by March 2010.

In Jammu and Kashmir State, the scheme was taken up for execution in 2005-06 and 14 projects were sanctioned, one project for each of the districts<sup>15</sup> in the State at a cost of ₹ 635.94 crore revised (2010-13) to ₹ 940.05 crore for electrification of 237 unelectrified (UE)/ delectrified (DE) villages and intensive electrification to 3468 electrified villages (EVs). The revised programme envisaged covering of 1,42,664 rural households including 80,381 BPL households. Out of the 14 projects, 7 projects each were assigned to the National Hydroelectric Power Corporation Limited<sup>16</sup> (NHPC) and to the Jammu & Kashmir State Power Development Corporation Limited<sup>17</sup> (JKSPDC) for implementation.

As part of our audit during 2012-13 we reviewed three<sup>18</sup> out of 14 projects implemented by the JKSPDC to ascertain whether the projects were implemented in time bound manner and whether the goals of providing each village/ habitation access to electricity for overall development of the rural areas have been achieved. Audit observed deficiency in planning and implementation and delays in execution of projects as discussed in the subsequent paragraphs.

**(i) Non-finalisation of Rural Electrification (RE) Plan:** Rural Electrification (RE) Plans were to be finalized in consultation with Ministry of Power, Government of India (GOI) and to be notified within six months of the continuation of the programme in 11<sup>th</sup> five year plan period. It was seen in audit that despite the scheme being in force since 2006-07 and 14 projects under execution, the State had not prepared the RE Plans which were a pre-requisite for implementation of the scheme. This resulted in implementation of the projects in an unplanned and adhoc manner.

**(ii) Unreliable BPL Household Data:** One of the main objectives of RGGVY was to provide free electricity connection to Below Poverty Line (BPL) families. For this purpose, reliable lists of unelectrified BPL households in all the projects after proper field survey were required to be prepared by the State Government and had to be provided to Project Implementing Agencies (PIAs).

<sup>15</sup> The then existing 14 districts have since been reorganized into 22 districts.

<sup>16</sup> Jammu, Kathua, Udhampur, Srinagar, Budgam, Leh and Kargil

<sup>17</sup> Poonch, Rajouri, Doda, Anantnag, Pulwama, Baramulla and Kupwara

<sup>18</sup> Anantnag, Pulwama and Rajouri

Audit scrutiny of records showed that no authenticated reliable lists of unelectrified BPL households with proper identifiable address in each village/ habitation to be covered were prepared by the State Government. The projects were planned based on some tentative number of BPL households. In certain cases in contractor's pre execution survey, number of BPL households was either increased or decreased or remained static though the villages/ habitations to be covered were reduced (December 2013) as per details given in *Appendix 4.1*.

Though audit as part of the field survey came across instances of distribution of BPL Kits, it could not ascertain whether the free of cost electricity connections were provided to the identified/ approved BPL households as neither the project implementing agency viz., JKSPDC had any authentic list of BPL households from Power Development Department nor had any record of the BPL ration card number of the beneficiaries issued by the Consumer Affairs and Public Distribution Department. The beneficiary status mechanism was thus deficient.

**(iii) Misutilization of funds:** In terms of clause 1.4 of tripartite agreement executed amongst the State Government, REC and J&KSPDC, works contract tax (WCT) payable to State Government in respect of 11<sup>th</sup> five year plan period projects was to be borne by the State Government.

Audit scrutiny of records showed that in contravention of the tripartite agreement, the Project Implementing Agency (PIA) viz., the JKSPDC was levying WCT on these project works and paying it to the State Government by debiting the same to the financial assistance received from the Government of India which was contrary to RGGVY norms. In the case of three selected projects, an amount of ₹ 4.89 crore had been unauthorizedly debited to the project funds ending March 2012. On being pointed out, the JKSPDC stated (September/ November 2012) that matter regarding reimbursement of the amount paid on this account had been taken up with the State Government.

**(iv) Purchase of material in excess of requirement:** As per the codal provisions and sound financial management, only that much material is to be procured as is actually needed for immediate consumption as the purchase of material in excess of requirement results in unnecessary blockade of Government money.

Audit scrutiny of records of Anantnag and Pulwama projects showed that the contractors procured various electrical materials like conductor guy wire, GI wire, LT spacers, earthing rods, thimbles, insulators etc. amounting to ₹ 1.04 crore in excess of the quantities actually needed for consumption on RGGVY works. This resulted in unnecessary blockade of project funds. On this being pointed out in audit, the work executing division admitted the excess purchase of material and stated that it was being adjusted in the subsequent bills of the contract.

**(v) Irregular grant of Mobilization Advance:** As per CVC guidelines, granting of interest free mobilization advance is not to be encouraged. However, in cases where granting of interest free mobilization advance is felt necessary, its recovery should be

time bound and should not be linked with progress of work. This is to ensure that even if the contractor is not executing the work or executing it at slow pace the recovery of advance could commence and scope for its misuse could be reduced.

Audit check of records of Rajouri and Pulwama projects revealed that mobilization advance amounting to ₹ 7.54 crore (Pulwama: ₹ 2.81 crore and Rajouri: ₹ 4.73 crore) was paid to the contractors of the said projects in January 2009 and August 2010 respectively without specifying any time bound mode of recovery. Instead the recovery of advance was linked with the presentation of work bills by the contractors (15 *per cent* of value of bill). The pace of execution of works by the contractor was very slow and the projects which as per the letter of award were to be completed by December 2010 and November 2011 respectively were in progress and mobilization advance amounting to ₹ 3.64 crore (Pulwama: ₹ 1.91 crore and Rajouri: ₹ 1.73 crore) ending March 2012 remained unrecovered. Thus, non-formulation of any mechanism by the PIA for time bound recovery of mobilization advance resulted in undue financial aid to contractors.

**(vi) Non-Levy of Liquidated Damages:** As per terms and conditions of letter of award, if in the event of failure of the contractor to complete the work within the specified period of completion, liquidated damages at the rate of 0.5 *per cent* of the contract price for each calendar week of delay or part subject to maximum of five percent of the total contract price are to be recovered from the contractor and adjusted against the project cost. However, a review of the records of the three test-checked projects showed that contractors failed to complete the allotted works within stipulated period of twelve months. The liquidated damages amounting to ₹ 7.79 crore in accordance with the contract agreement were neither recovered nor adjusted against the contract price of these projects. In reply, it was stated that recovery of liquidated damages would be effected in due course.

The above points were reported to the Government (January 2013); the reply was awaited (December 2013).

## **FINANCE DEPARTMENT**

### **JAMMU AND KASHMIR STATE FINANCIAL CORPORATION**

#### **4.3 Recovery of loans**

##### **4.3.1 Introduction**

The Jammu and Kashmir State Financial Corporation was established as a Statutory Corporation in December 1959 under the State Financial Corporation Act, 1951 with the objectives to promote industry and service sector in the State by catering to the financial requirements of these sectors in the Medium, Small and Micro Scale Enterprises (MSME). The financial assistance from the Corporation is extendable to industry and service sector including Tourism and Transport industry.

The Corporation had advanced loans to the borrowers of small scale enterprises to the extent of ₹ 499 crore since inception (1959) to March 2012. The recovery of loans was governed by the Corporation through terms and conditions of the sanction in each case. However, the Corporation could not recover its loan amount from the borrowers. Consequently, the borrowers became defaulters since 1990 onwards. As the borrower defaulted in repayment of loan, the loan turned Non Performing Advances<sup>19</sup> (NPAs). As a result, the Corporation suffered losses which accumulated to ₹ 176.77 crore and the Net worth of the Corporation was recorded negative as (-) ₹ 104.58 crore as at the end of March 2009. With a view to recover Principal amount of NPAs, the Corporation introduced one time settlement scheme from 1997, latest being in August 2009. Besides, to overcome the declining growth and mitigating the losses the Corporation brought in (February 2010) a 'Revival plan' which inter-alia envisaged concentration on loaning potential sectors, such as Agriculture, Tourism, Hydro Power (Mini/Micro), Transport etc. apart from equitable regional growth of the State.

The audit was taken up to assess effectiveness of the recovery of loans and lending of money under Revival Plan in the Corporation and was undertaken between April 2013 and August 2013 covering the examination of records of the Corporate office of the Corporation and two Large Branches (LBO) viz., Srinagar and Jammu and two district offices of Udhampur and Pulwama pertaining to the period 2008-2013.

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<sup>19</sup> It refers to loans that are in jeopardy of default. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing advance.

## Audit Findings

### 4.3.2 Performance of Loan Recovery

Examination of Loan recovery performance requires review of lending policy norms, status of Non Performing Assets (NPA) and outcome of One Time Settlement Scheme (OTS). The following are the audit findings:

#### 4.3.2.1 Lending policy and shortfall in recovery of overdue amounts

The Corporation's main source of Finance is the Small Industries Development Bank of India (SIDBI) and it follows the guidelines in terms of disbursement of loan of

SIDBI which has been main refinancing facility provider to the Corporation and the Corporation charges minimum of 2.5 *per cent* over and above the refinance interest rate of SIDBI. In audit it was noticed that the Corporation does not have clear enunciation of its lending policy in terms of exposure limit to various sectors/ borrowers, lending rates and maturities. Instead the Corporation has prescribed guidelines as regards limit for sanctioning authorities, quantum of loan to be sanctioned, security mortgaged, periodicity of repayment, rate of interest, penal interest etc on security mortgage, recovery of instalments/ repayment schedule of principal and interest, penal interest etc on terms and conditions of individual cases. In addition to this, the guidelines also contain instructions regarding documentation and conditions to be followed before disbursement of loan to safeguard the financial interest of the Corporation.

The status of loans advanced by the Corporation and recovery thereof during the period 2008-13 at a glance is shown in **Table-4.3.1**.



**Table-4.3.1**

**Status of loans advanced and its recovery during 2008-2013 at a glance**

(₹ in crore)

S.N.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13 (Provisional)
1.	Amount outstanding at the beginning of each year	846.03	804.00	750.78	651.07	623.82
2.	Amount Over due for recovery					
	a) At the beginning of the year	<b>725.33</b>	<b>751.93</b>	<b>725.95</b>	<b>624.60</b>	<b>573.89</b>
	b) Fallen due during the year	64.84	173.25	142.49	94.33	12.36
	c) Gross amount overdue for recovery (a+b)	<b>790.17</b>	<b>925.18</b>	<b>868.44</b>	<b>718.93</b>	<b>586.25</b>
	Less					
	i) Amount Reschedule	Nil	Nil	Nil	Nil	5.70
	ii) Amount written Off	22.59	178.45	229.20	127.58	45.99
	<b>d) Total (i+ii)</b>	<b>22.59</b>	<b>178.45</b>	<b>229.20</b>	<b>127.58</b>	<b>51.69</b>
	Net amount recoverable (c-d)	<b>767.58</b>	<b>746.73</b>	<b>639.24</b>	<b>591.35</b>	<b>534.56</b>
3.	Percentage of amount overdue for recovery to amount outstanding at the beginning of each year	85.74	93.52	96.70	95.94	92.00
4.	Target for recovery	43.82	31.62	26.64	38.25	31.03
5.	Percentage of Target to Net Recoverable Amount	5.70	4.23	4.17	6.47	5.80
6.	Recovery effected					
	Old cases	5.53	11.82	6.78	9.47	13.16
	New cases	10.12	8.96	7.86	7.99	12.99
	<b>Total</b>	<b>15.65</b>	<b>20.78</b>	<b>14.64</b>	<b>17.46</b>	<b>26.15</b>
7.	Amount in Arrear	<b>751.93</b>	<b>725.95</b>	<b>624.60</b>	<b>572.89</b>	<b>508.41</b>
8.	Percentage of Recovery against Net Recoverable	2.03	2.78	2.29	2.95	4.89
	Arrears (amount over due for recovery at the beginning of each year)	2.16	2.76	2.02	2.80	4.56

It was observed that:

- There was a reduction of 30 percent in amount overdue for recovery during 2008-13. The reduction was due to writing off of ₹ 603.82 crore which included principal amount of ₹ 20 lakh during this period.
- The overall recovery of over-dues against the targets set was very small which indicated that the performance of the Corporation in respect of recovering the dues and over-dues had not been satisfactory. The Corporation had, however, not set targets for recovery separately for old cases (NPA) (which ranged between 10 to 20 years) and current years demand (fresh cases).
- Despite settling 641 cases under One Time Settlement (OTS) Schemes during 2008-13 and writing off of ₹ 603.82 crore, the overall recovery performance of the Corporation ranged between 2.03 per cent and 2.95 per cent of net recoverable amount during 2008-12 and 4.89 per cent during 2012-13. Besides, an amount of ₹ 508.41 crore was still overdue for recovery as at the end of March 2013.

- All the branches of the Corporation, except Kargil branch, failed to achieve the targets of recovery fixed by the Corporate office of the Corporation during each year as per details given in **Appendix 4.2**. The Corporation had, however, not fixed any responsibility for non-achieving the targets of recovery at branch level.

The management stated (July 2013) that due to continuous disturbances and disuse/ abandonment of the property charged to the Corporation, the value of security had substantially eroded restricting the choice for other drastic remedial measures of recovery. The recoveries effected so far were through settlement only.

The reply was not acceptable as under the settlement process the recovery remained below three *per cent* of net recoverable amount during the currency of settlement scheme indicating that all out efforts had not been made to recover the over dues.

### 4.3.3 Status of Non-Performing Assets

The Corporation is exposed to credit and operational risks in credit/ loan portfolio and, as such, is required to classify the advances as per Assets Classification norms formulated by the Small Industries Development Bank of India (SIDBI). An asset becomes a non performing asset (NPA) when it ceases to generate income for the financial institution for a period of more than 90 days. The position of NPAs, classification of Assets of the Corporation and recoveries of NPAs affected during the years 2008-2013 is indicated in **Table-4.3.2**.

**Table-4.3.2**

(₹ in crore)

S. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13 (Provisional figures)	Total
1.	NPA at the beginning of the year	104.98	104.39	92.63	83.72	78.08	
2.	Additions during the year	3.30	Nil	Nil	1.76	Nil	5.06
3.	<b>Total NPA(2+3)</b>	<b>108.28</b>	<b>104.39</b>	<b>92.63</b>	<b>85.48</b>	<b>78.08</b>	
4	<b>Less</b>						
4a	Upgraded accounts	Nil	0.07	3.29	Nil	14.12	
4b	Recoveries made (Principle)	3.89	11.64	5.61	7.28	3.60	
4c	Amount Written off (Principle)	0.01	0.05	0.01	0.12	0.01	0.20
5.	<b>Total (4a+4b+4c)</b>	<b>3.90</b>	<b>11.76</b>	<b>8.91</b>	<b>7.40</b>	<b>17.73</b>	
6.	<b>NPA at the end of each year(3-5)</b>	<b>104.38</b>	<b>92.63</b>	<b>83.72</b>	<b>78.08</b>	<b>60.35</b>	
	<b>Classification of NPA</b>						
	a) Sub-Standard	4.00 *(3.45)	2.95 *(2.93)	1.80 *(1.87)	2.47 *(2.40)	1.26 *(1.21)	
	b) Doubtful Assets	27.76 *(23.92)	27.91 *(27.72)	36.31 *(37.57)	37.57 *(36.43)	24.30 *(23.36)	
	c) Loss Assets	72.63 *(62.58)	61.77 *(61.35)	45.61 *(47.18)	37.41 *(36.89)	25.24 *(24.26)	
	<b>Standard Assets</b> (% to total Loan portfolio)	<b>11.66</b> (10.05)	<b>8.06</b> (8.00)	<b>12.94</b> (13.39)	<b>25.04</b> (24.28)	<b>53.20</b> (51.15)	
7.	<b>Total Loan Portfolio</b>	<b>116.05</b>	<b>100.69</b>	<b>96.66</b>	<b>103.12</b>	<b>104.00</b>	
8.	% age of NPA to total Loan /Advances Portfolio (6/7 x100)	89.95	92.00	86.61	75.72	58.03	
9.	Targets of recoveries of NPA	Nil	Nil	Nil	Nil	10.16	
10.	% age of actual recovery to total NPA (4b/1 x100)	3.71	11.15	6.06	8.70	4.61	

\*percent to total Loan Portfolio

It was seen that the Non Performing Advances (NPA) had reduced by ₹ 44.03 crore (42.18 percent) during the last five years ended 31 March 2013. The reduction was, however, due to settlement of NPA cases through OTS and not through normal process of recovery. The Board of Directors had directed (March 2009) for chalking out a strategy for containment of NPAs but despite this there had been an addition of ₹ 5.06 crore to the NPAs during this period. The Corporation had not fixed target for recovery of NPAs separately during the above period except during 2012-13 as a result of which the recovery performance was dismal and ranged between ₹ 3.60 crore (4.61 *per cent*) and ₹ 11.64 crore (11.15 *per cent*) of total NPAs during 2008-13 despite One Time Settlement Schemes remained operative during this period.

The Management attributed huge NPAs to the reasons of disturbance in the State, inadequate fund generation by loanees, lack of market support, poor performance of the assisted units and obsolescence of technology.

The contention of the Management is not tenable as study of NPA cases (selected) showed that most of the cases turned NPA due to failure of the Corporation to timely reschedule the sub-standard loan accounts, non-conducting of post disbursement monitoring, non-adherence of terms of the sanction especially with regard to obtaining statutory clearances from the competent authorities by the loanees<sup>20</sup> such as, Pollution Control Board, District Industries Centre (DIC), etc. to run the unit before disbursement of the Loan.

#### **4.3.4 One Time Settlement Scheme**

The Corporation, with a view to effect recovery of NPAs, introduced different settlement schemes from time to time (like OTS scheme-1997 and OTS scheme-2007) extending the benefits to the borrowers in line with the Government Policy either for the revival of the unit or to exit from the debt of the Corporation. During the period upto 2008-09, the Corporation settled 2,942 accounts recovering an amount of ₹ 88.37 crore and waiving interest of ₹ 445.27 crore.

Considering the persistent demand of Trade and Transport Associations for one time settlement scheme, the Corporation in August 2009 approved yet another One Time Settlement Scheme (OTS) titled as “One Time Settlement Scheme 2010 for NPAs (Loss Assets) of the Corporation” without any notification issued by the Government. Under OTS-2010 Scheme, the borrower had to pay only principal outstanding and the outstanding interest was to be waived off. As per the eligibility criteria, the loan account should have been non-performing asset (NPA) and a Loss Asset in the books of Corporation as on 30 September 2009. The Scheme commenced from 01 October 2009 and was extended upto 30.06.2011 and no extension was allowed thereafter.

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<sup>20</sup> Test checked cases in audit were M/s Samya Food Products - Jammu, M/s Kashmir Honey Industries, M/s Shalimar Flour Mills – Pulwama and M/s Agro Foods.

During 2009-10 to 2012-13, the Corporation settled 612 accounts recovering Principal of ₹ 28.13 crore and interest of ₹ 5.30 crore and had waived off Interest amounting to ₹ 581.03 crore under One Time Settlement Scheme 2010. It was observed that:

- The Corporation waived off Principal amount of ₹ 19 lakh during 2009-10 to 2012-13, contrary to the eligibility criteria of OTS-2010 scheme regarding waiving off Principal amount.
- During 2009-10 and 2010-11, the Corporation settled as many as 462 cases recovering ₹ 17.25 crore Principal (17 *per cent* of NPA at the beginning of 2009-10) under OTS-2010 Scheme. In this process it had sacrificed interest amounting to ₹ 407.59 crore. However, settlement of NPAs through waiver of interest had not been much effective in reducing the NPA, as was envisaged in the Scheme, as the percentage of NPA to total loan portfolio continued to range between 92 and 87 *per cent* during this period. Resultantly, the purpose of OTS-2010 Scheme got defeated leading to loss to the Corporation to the extent interest was waived.
- The Board granted final extension in repayment of settled liability under OTS-2010 Scheme till 30 June 2011 and no further extension was granted thereafter. Even then the Corporation continued with the Scheme without the approval of the Government and settled 150 NPA cases during 2011-12 and 2012-13 and recovered ₹ 10.88 crore while as it sacrificed interest amounting to ₹ 173.44 crore leading to a further loss to the Corporation.
- The guidelines for negotiated settlement of NPA cases under One Time Settlement Scheme 2010 provided for settlement of only Loss Asset/ NPA appearing in the books of accounts of the Corporation as on 01 October 2009 emphasizing 100 percent recovery of the NPA balance. Test-check of 23 cases in four Branches (LBO Srinagar, Jammu, Udhampur and Pulwama), settled under the Scheme showed that settlement under one time settlement scheme was allowed in 17 cases (*Appendix 4.3*) which were not Loss Assets appearing in the books of accounts of the Corporation. It was seen that against a recovery of ₹ 3.38 crore, interest to the tune of ₹ 17.63 crore had been waived in these 17 cases. This was contrary to the prescribed guidelines of one time settlement scheme, leading to extending undue benefit to the defaulting borrowers and loss to the Corporation to the extent interest had been waived off.

The Management replied (November 2013) that after expiry of OTS-2010 scheme, loan accounts had been settled by Default Review Committee (DRC) under the mandate approved by the BOD of the Corporation. But the fact remains that approval of the State Government to settle cases under One time settlement arrangement had not been obtained by the Corporation.

#### **4.3.5 Review of new lending under Revival Plan**

In pursuance of Government policy to provide germane/ suitable support to the industrial and allied sectors of the State which suffered heavy business losses during the disturbance period in the State, the Corporation introduced different settlement schemes and waived off ₹ 445.27 crore from September 1997 to March 2009 to recover locked funds. Despite waiving off the interest amount, the recovery of over dues remained at 2 *per cent* during 2005-06 and 2008-09. As a result of poor recovery of over dues, the Corporation faced severe liquidity constraints. With a view to overcome the declining growth and losses, the Corporation brought in (February 2010) a 'Revival plan' which inter-alia envisaged concentration on loaning potential sectors, such as Agriculture, Handicrafts, Handloom, Tourism, Pharmaceutical, Information Technology and Electricals, Sports goods, Hydro Power (Mini, Micro), Transport etc. The Revival Plan also envisaged that the Corporation should have a judicious mix of advances with thrust on lending to Micro sector and approaching the market with tailor made and area specific schemes for equitable regional growth of the State and make all out efforts to effect recovery of NPAs.

The Corporation failed to achieve the targets both in respect of sanction and disbursement of loans during the period under review except during 2011-12 and the shortfall ranged between 37 and 82 *per cent* in respect of sanctioning and between 27 and 82 *per cent* in respect of disbursement indicating that the performance of the Corporation with regard to disbursement of the loans had not improved as envisaged under the Revival Plan. Moreover, the disbursement of Loans declined from ₹ 18.41 crore in 2011-12 to ₹ 15.23 crore in 2012-13.

Audit observed that the Corporation, contrary to the Revival Plan, concentrated mainly on Transport sector, which too declined from ₹ 16.39 crore in 2011-12 to ₹ 11.04 crore in 2012-13. This restriction to a single sector, i.e., Transport ignoring various other sectors leading to non-generation of adequate revenue to mitigate the losses of the Corporation thereby defeating the very purpose of Revival Plan. In reply the management stated (August 2013) that due to constraints of funds it could not enhance its portfolio. It further stated that it focussed on Transport sector mainly because of speedy disposal of cases under the transport sector compared to other sectors. Thus, the concentration on a single sector had defeated the objective of the Revival Plan.

Further, the total loan advanced by the Corporation ranged between 72 *per cent* and 100 *per cent* in Kashmir Division as against zero *per cent* and 28 *per cent* in Jammu Division during 2008-09 to 2012-13 indicating that the market potential of Jammu division had remained un-exploited.

The Management replied (August 2013) that the projects in Jammu division would be taken up after restoration of refinancing facility by the SIDBI. The reply was not

tenable as the fact remained that the Corporation should have made efforts to cover the Jammu region with the available resources.

#### 4.3.6 Conclusion

The Corporation had not set target for recovery of Non-Performing Advances (NPAs). Targets for over-dues were very small and that too had not been achieved. The Corporation had NPAs ranging between ₹ 60.35 crore and ₹ 104.38 crore during 2008-13. Despite One Time Settlement (OTS) scheme remained operating during 2008-13, there had not been significant reduction of NPAs. Revival Plan envisaged equitable regional growth with thrust on lending to Micro sector but the Corporation concentrated on Transport sector in Kashmir division only.

The above points were reported to the Government (September 2013); the reply was awaited (December 2013).



(Subhash Chandra Pandey)  
Principal Accountant General (Audit)  
Jammu and Kashmir

Srinagar/Jammu  
The

Countersigned



(Shashi Kant Sharma)  
Comptroller and Auditor General of India

New Delhi  
The