CHAPTER V

GOVERNMENT COMMERCIAL

AND

TRADING ACTIVITIES

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5.1 Overview of Union Territory of Puducherry Public Sector Undertakings

Introduction

5.1.1 The Public Sector Undertakings (PSUs) of Union Territory of Puducherry consist of only Government companies. The PSUs have been established to carry out activities of commercial nature while keeping in view the welfare of people and also occupy an important place in the State economy. As of 31 March 2016, in UT of Puducherry, there were 12 working Government companies and one non-working Government Company. None of the working Government companies were listed on the stock exchange. The details of the PSUs in UT of Puducherry as of 31 March 2016 are given in **Table 5.1** below:

Table 5.1 - Total number of PSUs as on 31 March 2016

Type of PSUs	Working PSUs	Non-working PSUs[1]	Total
Government Companies[2]	12	1	13
Total	**12**	**1**	**13**

(Source: Details collected from the Government)

The working PSUs registered a turnover of ` 362.61 crore, as *per* their latest finalised accounts as of September 2016. This turnover was equal to 1.37 *per cent* of State Gross Domestic Product (GSDP) for 2015-16. The working PSUs incurred loss of ` 70.62 crore, as *per* their latest finalised accounts, as of September 2016. They had employed 4,899 employees as at the end of March 2016.

Since 2011-12, Pondicherry Electronics Limited is the only non-working PSU in UT of Puducherry. The assets and liabilities of this PSU were taken over by its holding Company (Pondicherry Industrial Promotion Development and Investment Corporation Limited) and the PSU was in the process of getting its name struck off from the Register of Companies.

[1] Non-working PSUs are those which have ceased to carry on their operations

[2] Government PSUs include companies referred to in Section 139 (5) and 139 (7) of the Companies Act, 2013

Accountability framework

5.1.2 The audit of Government companies is governed by respective provisions of Section 139 and 143 of the Companies Act, 2013 (Act). According to Section 2(45) of the Act, “Government Company” means any Company in which not less than 51 *per cent* of the paid-up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a Company, which is a subsidiary Company of such a Government Company. Further, as per sub-Section 7 of Section 143 of the Act, the Comptroller and Auditor General of India (C&AG) may, in case of any Company covered under sub-Section (5) or sub-Section (7) of Section 139, if considered necessary, by an order, cause test audit to be conducted of the accounts of such Company and the provisions of Section 19 A of the C&AG’s (Duties, Powers and Conditions of Service) Act, 1971 shall apply to the report of such test audit. Thus, a Government Company or any other Company owned or controlled, directly or indirectly, by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more State Governments is subject to audit by the C&AG.

Role of Government and Legislature

5.1.3 The UT Government exercises control over the affairs of these PSUs through its administrative departments. The Chief Executive and Directors to the Board are appointed by the UT Government.

The Legislature of Puducherry also monitors the accounting and utilisation of Government investment in the PSUs. For this, the Annual Reports together with the Statutory Auditors’ Reports and comments of the C&AG, in respect of Government companies are to be placed before the Legislature as per Section 394 of the Act or as stipulated in the respective Acts. The Audit Reports of C&AG are submitted to the Government as per Section 19 A of the C&AG’s (Duties, Powers and Conditions of Service) Act, 1971.

Stake of UT Government

5.1.4 The UT Government’s stake in PSUs is mainly of three types:

- **Share Capital and Loans:** In addition to the share capital contribution, UT Government also provides financial assistance by way of loans to the PSUs from time to time.

- **Special Financial Support:** UT Government provides budgetary support by way of grants and subsidies to the PSUs, as and when required.

- **Guarantees:** UT Government also guarantees the repayment of loans with interest availed by the PSUs from Financial Institutions.

Investment in State PSUs

5.1.5 As of 31 March 2016, the investment (capital and long-term loans) in 12 PSUs was ` 734.52 crore, with the capital ` 722.66 crore and ` 11.86 crore of long term loans. As of 31 March 2016, the total investment in working PSUs consisted of 98.39 *per cent* towards capital and 1.61 *per cent* in long-term loans. The investment has grown by 1.14 *per cent* from ` 726.25 crore in 2011-12 to ` 734.52 crore in 2015-16.

5.1.6 The sector-wise summary of investments in the UT PSUs as on 31 March 2016 is given in **Table 5.2** below:

Table 5.2 - Sector-wise investment in PSUs

(` in crore)

Name of the Sector	Working PSUs	Investment (in *per cent*)
Manufacturing	409.51	55.75
Finance	147.93	20.14
Power	99.78	13.58
Service	52.37	7.13
Agriculture and allied	24.93	3.40
Total	**734.52**	**100.00**

Special support and returns during the year

5.1.7 The UT Government provides financial support to PSUs in various forms through annual budget. The summarised details of budgetary outgo towards equity, loans, grants / subsidies, loans written off and interest waived in respect of UT PSUs for three years ended 2015-16 are given in **Table 5.3** below:

Table 5.3 - Details of budgetary support to PSUs

(` in crore)

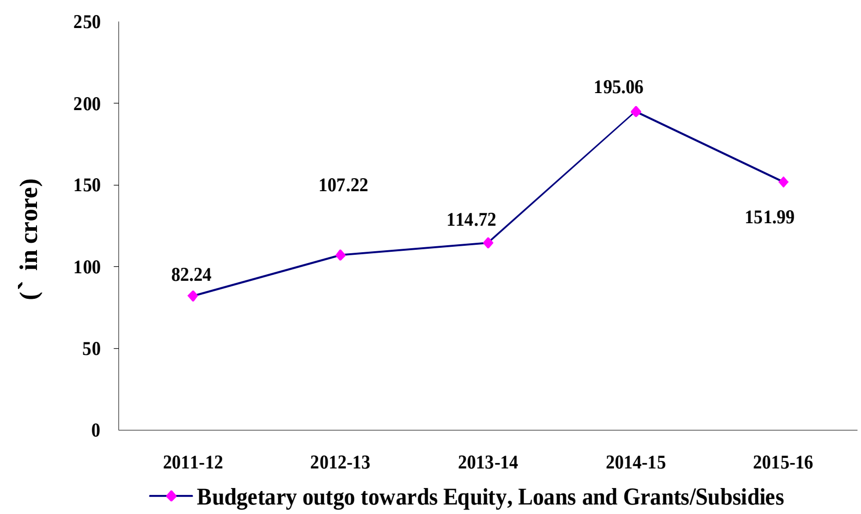
Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity capital outgo from budget	3	3.83	3	7.96	1	0.31
2	Loans given from budget	Nil	Nil	Nil	Nil	Nil	Nil
3	Grants/subsidy from budget	7	110.89	9	187.10	7	151.68
4	**Total outgo (1+2+3)**	**8[3]**	**114.72**	**9[3]**	**195.06**	**7[3]**	**151.99**
5	Loans converted into equity	Nil	Nil	Nil	Nil	Nil	Nil
6	Loans written off	Nil	Nil	Nil	Nil	1	5.27
7	Interest/penal interest written off	Nil	Nil	Nil	Nil	1	7.71
8	**Total waiver (6+7)**	Nil	Nil	Nil	Nil	**1**	**12.98**
9	Guarantees issued	Nil	Nil	Nil	Nil	Nil	Nil
10	Guarantee commitment	1	3.30	1	3.15	1	3.15

(Source: Details furnished by the companies)

[3] These are the actual number of companies, which have received budgetary support in the form of equity, loans and grants/subsidies from the UT Government during the respective years

The details regarding budgetary outgo towards equity, loans and grants / subsidies for past five years are given in the **Chart 5.1** below:

Chart 5.1 - Budgetary support to PSUs



5.1.8 As regards guarantee commitment, only Puducherry Adi-Dravidar Development Corporation Limited availed the guarantee from the UT Government against which ` 3.15 crore was outstanding as on 31 March 2016.

Reconciliation with Finance Accounts

5.1.9 The figures in respect of equity, loans and guarantees, outstanding as per records of UT PSUs, should agree with that of the figures appearing in the Finance Accounts of the UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as of 31 March 2016 is stated in **Table 5.4** below:

Table 5.4 – Equity, loans, guarantees outstanding as per Finance Accounts *vis-a-vis* records of PSUs

(` in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	710.92	712.39	1.47
Loans	0.94	Nil	0.94
Guarantee	18.15	3.15	15.00

(Source: Finance Accounts and details furnished by the companies)

We observed that the difference occurred in respect of equity and loans in one PSU[4], and guarantee in one PSU[5]. Reconciliation of difference was

[4] Puducherry Agro Products, Food and Civil Supplies Corporation Limited
[5] Puducherry Backward Classes and Minorities Development Corporation Limited

pending since March 2007 in case of one PSU[6]. The Secretary to UT Government, Finance Department was requested (June/August 2016) for reconciliation of figures in Finance Accounts and as furnished by the companies in their respective accounts. The UT Government and PSUs need to take concrete steps to reconcile the differences in a time bound manner.

Arrears in finalisation of accounts

5.1.10 The financial statements of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year, *i.e*., by September end, in accordance with the provisions of Section 96 (1) of the Act. Failure to do so may attract penal provisions under Section 99 of the Act.

The **Table 5.5** below provides the details of progress made by working PSUs in finalisation of accounts as of 30 September 2016.

Table 5.5 - Position relating to finalisation of accounts of working PSUs

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Number of working PSUs	13	13	13	12[7]	12[7]
2	Number of accounts finalised during the year	17	10	3	14	7
3	Number of accounts in arrears	21	24	34	29	34
4	Number of working PSUs with arrears in accounts	12	12	13	12	12
5	Extent of arrears (years)	1 to 3	1 to 4	1 to 5	1 to 5	1 to 6

(Source: Details compiled by audit based on certified accounts of companies)

It can be observed that the number of accounts in arrears had increased from 29 in 2014-15 to 34 in 2015-16.

The administrative departments have the responsibility to oversee the activities of these Companies and ensure that the accounts are finalised and adopted by these PSUs within the stipulated period. The Accountant General (AG), Economic & Revenue Sector Audit, Tamil Nadu has brought out the position of the arrears of accounts to the notice of the Secretary, Finance Department every quarter. As there were arrears in accounts in all the 12 working PSUs upto 2015-16, their net worth could not be assessed in Audit.

5.1.11 The UT Government had invested ` 194.39 crore in nine PSUs (equity: ` 13.28 crore (four PSUs) and grants: ` 181.11 crore (nine PSUs)),

6 Puducherry Agro Products, Food and Civil Supplies Corporation Limited

7 One PSU, *viz*., Pondicherry Electronics Limited had become a non-working Company and is under the process of winding up

during the years for which accounts had not been finalised, as detailed in **Appendix 5.1**. Due to non-finalisation of accounts and their subsequent audit, it could not be ensured whether the investments and expenditure incurred had been properly accounted for and the purpose for which the amount was invested was achieved or not and thus UT Government's investment in such PSUs remained outside the control of Legislature.

Impact of non-finalisation of accounts

5.1.12 As pointed out above (Para 5.1.9 to 5.1.11), the delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the relevant Statutes. In view of the above state of arrears of accounts, the actual contribution of PSUs to the Puducherry's GDP for the year 2015-16 could not be ascertained and their contribution to State exchequer was also not reported to the Legislature. It is, therefore, recommended that:

- The UT Government may set up a Special Cell to oversee the clearance of arrears and fix the targets for this purpose for individual companies, which would be monitored by the cell.

- The UT Government may consider outsourcing the work relating to preparation of accounts, wherever the staff is inadequate or lacks expertise.

Performance of PSUs as per their latest finalised accounts

5.1.13 The financial position and working results of working Government companies are detailed in **Appendix 5.2**. A ratio of PSU turnover to UT GDP shows the extent of PSU activities in the UT economy. **Table 5.6** below provides the details of working PSUs turnover and UT GDP for a period of five years ending 2015-16.

Table 5.6 - Details of working PSUs turnover *vis-a-vis* GSDP

(` in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Turnover[8]	336.68	373.92	378.86	401.26	362.61
GSDP	14,661	16,768	21,061	25,819	26,533
Percentage of turnover to GSDP	2.30	2.23	1.80	1.55	1.37

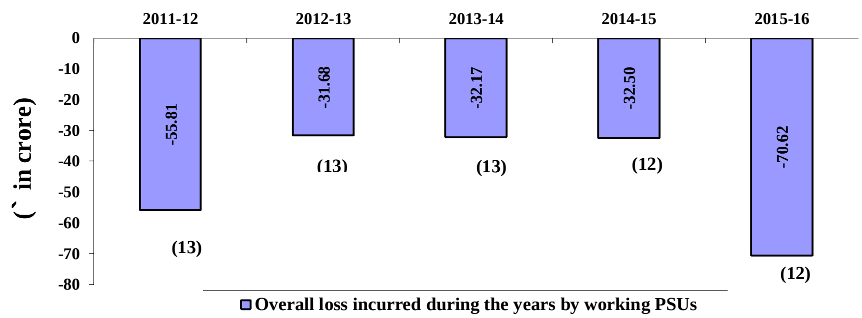
(Source: Details furnished by the companies)

Turnover of PSUs has increased continuously from 2011-12 to 2014-15 but decreased in 2015-16 by 9.63 *per cent* as compared to 2014-15. Percentage of turnover of PSUs to UT's GDP decreased from 2.30 to 1.37.

[8] Turnover as per the latest finalised accounts as of 30 September 2016

5.1.14 Overall losses incurred by working PSUs of UT of Puducherry, during 2011-12 to 2015-16, as per the latest finalised accounts are given below in **Chart 5.2**.

Chart 5.2 – Profit / Loss of working PSUs



(Figures in brackets show the number of working PSUs in respective years)

Working PSUs of the UT Government collectively incurred continuous losses in all the five years ending 2015-16. As per the latest finalised accounts, out of 12 working PSUs, two PSUs had earned a profit of ` 6.21 crore and nine PSUs incurred a loss of ` 76.83 crore, leading to overall loss. One[9] Company neither earned profit nor incurred any loss.

5.1.15 Some other key parameters of PSUs are given **Table 5.7** below:

Table 5.7 - Key parameters of State PSUs

(` in crore)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Return on Capital employed (*per cent*)	Nil [10]	Nil	Nil	Nil	Nil
Debt	15.35	Nil	Nil	12.83	11.86
Turnover[11]	336.68	373.92	378.86	401.26	362.61
Debt / turnover ratio	0.05:1	Nil	Nil	0.03:1	0.03:1
Interest payments	15.15	12.88	12.98	17.12	17.02
Accumulated losses	449.45	496.38	490.12	520.39	550.01

(Source: Details furnished by the Companies and latest finalised accounts of companies)

5.1.16 The UT Government had not formulated any policy for payment of minimum dividend on the share capital contributed by it. None of seven companies, which had finalised their accounts during the year declared dividend.

[9] Puducherry Corporation for Development of Women and Differently Abled Persons Limited

[10] Nil indicates that Return on Capital Employed was negative during those years

[11] Turnover of working PSUs, as per the latest finalised accounts, as on 30 September 2016

Winding up of non-working PSUs

5.1.17 There was one non-working PSU as on 31 March 2016, which was in the process of getting its name struck off from the Register of Companies.

Accounts Comments

5.1.18 Seven working companies had forwarded seven audited accounts to the C&AG during the year 2015-16. Of these, accounts of five companies were selected for supplementary audit. The audit reports of Statutory Auditors appointed by C&AG and the supplementary audit of C&AG indicated that the quality of maintenance of accounts was required to be improved substantially. The details of aggregate money value of comments of Statutory Auditors and C&AG are given in **Table 5.8** below:

Table 5.8 - Impact of audit comments on working companies

(` in crore)

Sl. No.	Particulars	2013-14		2014-15		2015-16	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1	Increase in loss	Nil	Nil	2	8.58	2	1.51
2	Decrease in loss	Nil	Nil	1	0.15	1	0.27
3	Increase in profit	Nil	Nil	1	0.42	Nil	Nil
4	Errors of classification	Nil	Nil	1	2.06	Nil	Nil
	Total	Nil	Nil	**5**	**11.21**	**3**	**1.78**

(Source: Latest finalised annual accounts of companies)

During the year, the Statutory Auditors had given unqualified certificates for five accounts and qualified certificates for two accounts. The compliance of companies with the Accounting Standards remained poor, as there were six instances of non-compliance in four accounts during the year.

Coverage of this Chapter

5.1.19 This Chapter contains an audit para on Financial assistance and recovery by Pondicherry Industrial Promotion Development and Investment Corporation Limited involving financial effect of ` 7.75 crore.

PONDICHERRY INDUSTRIAL PROMOTION DEVELOPMENT AND INVESTMENT CORPORATION LIMITED

5.2 Audit of Financial assistance and Recovery by Pondicherry Industrial Promotion Development and Investment Corporation Limited

Introduction

Pondicherry Industrial Promotion Development and Investment Corporation Limited (Company) incorporated in April 1974 is engaged in industrial development of the Union Territory of Puducherry. The development activity includes developing industrial estates for allotment to entrepreneurs and extension of short term, medium term and working capital loans to industries falling within the jurisdiction of the UT of Puducherry. The extension of financial assistance was mainly concentrated in the sectors of Cottage Industries, Small / Medium and Large Scale Industries, Transport and Hotel.

5.2.1 The management of the Company is vested with a Board of Directors consisting of seven Directors including a Managing Director (MD), who is incharge of its day to day activities. The MD is assisted by General Manager (Administration), General Manager (Technical) and Executive Engineer.

5.2.2 The performance of the Company was last reviewed by us and included in the Report of the Comptroller and Auditor General of India – Government of Union Territory of Pondicherry for the year ended 2006-07. The Public Accounts Committee discussed (April 2015) the audit observations contained in the performance audit and called for the latest report from the Company, which was yet (November 2016) to be furnished by it. During this audit, we observed that defective pre-sanction appraisals of the projects and ineffective follow-up of the assisted units by the Company resulting in non-recovery and increased Non-Performing Assets (NPAs). With a view to assess the efforts made by the company to overcome the deficiencies pointed out in the earlier review, a fresh audit was taken up between April and August 2016 covering the period from 2011-12 to 2015-16.

The criteria for this audit was (i) targets fixed by the Company for sanction and recovery of loan, (ii) guidelines of Reserve Bank of India (RBI) for NPAs and (iii) provisions of State Financial Corporation (SFC) Act, 1951, and State Revenue Recovery Act, 1970 for recovery of overdues. The draft audit findings were forwarded to the Company/Government in October 2016. An Exit Conference with the Secretary, Industries Department, UT Government was held on 20 October 2016. During the Exit Conference, the Secretary assured that the audit findings would be discussed in the ensuing Board Meeting to take appropriate remedial actions. The reply received from the Company in November 2016 and the views expressed by the Secretary in the Exit Conference were considered and incorporated wherever found appropriate. The audit observations are given below:

Sanction of loans

5.2.3 The Company provides term loan assistance for setting up of new industrial units, including expansion, modernisation and diversification of the existing units. On receipt of application from the entrepreneurs seeking financial assistance along with detailed project reports, the Company conducts technical and financial appraisals to assess the economic viability of the project and sanction loans. After verifying the genuineness and adequacy of securities provided by the borrowers, the loan amount is disbursed. The term loans are repayable, along with interest at 13 to 15 *per cent per annum*, in quarterly installments within a maximum period of six to 10 years with moratorium upto two years. During the period from 2011-12 to 2015-16, the Company had sanctioned ` 33.27 crore to 91 units as detailed in **Table 5.9** below:

Table 5.9 - Sanction of loans

Year	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Targets for sanction (` in crore)	20	20	15	15	@	**70@**
No. of applications received (` in crore)	39 (19.01)	29 (11.96)	25 (12.67)	11 (2.59)	10 (6.62)	**114 (52.85)**
No. of applications sanctioned (` in crore)	24 (9.98)	29 (9.53)	14 (3.36)	15* (4.99)	9 (5.41)	**91 (33.27)**

(Source: Data provided by the company)

@ Does not include target for the year 2015-16, since no target was fixed

* This includes four applications pending from the previous year

- The company was established to foster industrial development of the UT and to attract investment in Industries. The Company, however, did not have any plan to focus on the growth of its business for loan assistance. In the absence of any plan, the company's lending activity started shrinking from ` 9.98 crore in 2011-12 to ` 5.41 crore in 2015-16. This was despite the fact that the amount parked by the Company in short-term deposit had increased from ` 16.15 crore in March 2013 to ` 28.03 crore in March 2016. This indicated reduction in term loan was not due to shortage of funds, but due to lack of seriousness on the part of the Company in conducting its main business of financial assistance. Thus, the Company could not play a pro-active role in fostering industrial development and was able to process only loan applications as and when these were received from the applicants.

Improper project appraisals

5.2.4 For scrutinising the loan applications, the Company had formed an Appraisal Committee consisting of officials from Finance and Technical wing of the Company. The Committee submitted its findings to the Board, based on which the loans were approved by the Board. We noticed that the Company had not prescribed any criteria for processing the appraisals, but the same was done on case to case basis. During the previous audit, we had pointed out pre-sanction defects such as not properly scrutinising the projects to ensure their feasibility, sanction of loan, when the units were incurring heavy losses and failure to ensure adequacy of working capital by the units.

During the present audit, a total of 48 out of 91 cases of loans sanctioned to Small Scale Industries (SSI), Hotel and other sectors during 2011-16, were examined. The audit examination revealed deficiencies such as acceptance of inflated turnover, inadequate arrangement for raw materials and working capital by the loanees as detailed in the following **Table 5.10**.

Table 5.10 – Statement showing defects in sanction

(` in lakh)

Sl. No.	Name of the loanees	Amount sanctioned	Date of sanction	Amount due as on 31.3.2016	Nature of defect in sanction
1	M/s. Nest	125.00	13.02.13	61.05	Consideration of Higher occupancy rate and cash flows.
2	Sri Vijayavarthini Mahal	100.00	19.12.11	57.00	Consideration of Higher bookings.
3	M/s. Pondicherry Co-operative Sugar Mills Limited	500.00	24.02.11	536.00	Sanction of second loan to already loss making Mill.
4	KNS Enterprises Packaging Unit	55.00	19.12.11	32.32	Not ensuring availability of raw material and performance of the machinery.
5	Sri Lakshmi Plastics	19.00	24.10.11	7.38	Not ensuring working capital before sanction of loan
6	M/s Shree E-Serve	72.00	17.04.12	48.15	Not ensuring working capital before sanction of loan
7	M/s Susila Coir Industries	10.00	18.04.12	7.52	Not ensuring working capital before sanction of loan
8	M/s Morigot Food Industries	25.00	05.02.14	4.25	Not ensuring working capital before sanction of loan.
9	M/s G.G. Packaging	25.00	30.04.12	11.26	Not ensuring working capital before sanction of loan
10	M/s. Ganapathy Semiya Unit II	12.00	25.05.12	2.00	Not ensuring working capital before sanction of loan
11	M/s. Thanigai Fasteners	12.00	05.04.12	8.16	Project not implemented
			Total	**775.09**	

The deficiencies mentioned in the table led to sanction of loan to ineligible units resulting in NPA of ` 6.50 crore and interest overdue of ` 1.25 crore in respect of these projects. We observed that the deficiencies which were pointed out during previous audit continued during the current audit period, which was indicative of the fact that the Company had not streamlined its pre-sanction procedures. Two illustrative cases of defective appraisals are detailed below:

(i) M/s Shri Vijayavarthini Mahal, a Marriage Hall was a proprietory firm promoted by a local entrepreneur. The loanee had applied (March 2011) for a term loan of ` 100 lakh and was sanctioned (December 2011) ` 100 lakh considering 230 bookings *per annum*. The loan was disbursed in six installments starting from September 2012 and marriage hall commenced business in April 2013. The loan amount along with interest was repayable in eight years upto December 2021 after allowing a moratorium of 15 months (September 2012). The first installment of loan of ` 0.80 lakh was due in December 2013. However, the loanee failed to pay principal from the beginning and paid interest upto June 2016. A scrutiny of inspection notes of the Company revealed that the non-payment of principal was due to lack of adequate booking of the Marriage Hall. In the meantime, principal and interest overdue amounted to ` 24 lakh and ` 33 lakh respectively as on March 2016. Thus, improper appraisal led to non-recovery of dues of ` 57 lakh.

(ii) The Company sanctioned (December 2009) and disbursed a short term loan of ` 10 crore to the M/s Pondicherry Co-operative Sugar Mills Limited (PCSM) to meet the working capital requirements. While a major portion of the loan already sanctioned was in arrears (Principal - ` 7.50 crore), the Mill again requested for sanction of an additional short term loan (Loan II) of ` five crore. The second loan was sanctioned (February 2011) by adjusting ` 2.50 crore for dues of the first loan and the balance amount of ` 2.50 crore was released in March 2011. Though the second loan was repayable from July 2011 onwards on quarterly basis, the sugar mill did not repay both the loans during 2011-16 and the overdue of these loans accumulated to ` 9.57 crore as on March 2016 (Principal - ` 6.25 crore and interest - ` 3.32 crore).

In this connection, we observed that:

- When the Company sanctioned second term loan, the sugar mill had a negative networth of ` 93.83 crore.

- The UT Government approved the availing of the short term loan in October 2010 with a condition that repayment of the principal with interest would be out of mill's own resources, without seeking grant or assistance from the Government. It means that the UT

Government had not stood guarantee for loan to the sugar mill, indicating that the Company was not directed by UT Government to extend loan to the sugar mill.

Thus, the sanction of second loan was *ab-initio* irregular considering the financial position of the sugar mill, which resulted in non-recovery of ` 9.57 crore. The Company replied (November 2016), that the loss making sugar mill, being a Government Undertaking was sanctioned loan based on the directions of the UT Government. However, a review of the memorandum of the Appraisal Committee done by us revealed that UT Government had only permitted the sugar mill to avail loan and there was no direction to the Company to sanction loan. Moreover, the co-operative sugar mill is not a Government Company.

Recovery Performance

Non-Performing Assets

5.2.5 According to RBI guidelines, loan assets would be treated as NPAs, if interest and/or instalment of principal remained unpaid for more than 180 days. The details of NPAs for the four years ending 2014-15[12] are given in **Table 5.11.**

Table 5.11 - Non-performing assets

(` in crore)

Type of assets	2011-12	2012-13	2013-14	2014-15
Total assets/ loan balance (A)	83.37	88.33	85.70	82.10
Less: Standard Assets (B)	19.07	23.27	14.67	12.95
Non-Performing Assets (C=A-B)	64.30	65.06	71.03	69.15
Percentage of NPA to total assets (C/A x 100)	77.00	73.64	82.87	84.22

(Source: Annual Accounts and data provided by the Company)

It may be seen that the NPAs, which were at 77 *per cent* in 2011-12 had further increased to 84 *per cent* in March 2015. This was far in excess of the NPA of the banking industry, which was only ranging from 4.40 to 8.12 *per cent*. Our audit analysis of reasons for high levels of NPAs indicated as under:

- The Company had failed to effectively recover the current as well as the overdues by effective follow up and by imposing deterrent in the form of references under the State Finance Corporation (SFC) Act and the Revenue Recovery (RR) Act.

[12] Annual Accounts finalised upto 2014-15

- The Company had neither prepared a MIS depicting the details of categories of assets like standard, sub-standard and loss assets nor reported the position of outstanding to its Board of Directors during the entire period of 2011-15.

- The Board of Directors also did not demand for the placement of the status report.

- The Company also did not verify the status of the defaulting units, which availed financial assistance from it. These failures led to large scale NPAs of ` 69.15 crore.

- One of the recommendations of the previous audit was to reduce NPAs. But we observed that the proportion of NPAs to the total assets increased from 61 *per cent* in 2006-07 to 84.22 *per cent* in 2014-15 due to poor follow-up of recovery indicating dismal performance of the Company.

- In order to reduce the NPAs, the Company had introduced (December 2013) a One Time Settlement (OTS) scheme for the NPAs as on 31 March 2014, wherein loanees, who were sanctioned loans upto ` 20 lakh would be covered. We noticed that as against 323 cases identified by the Company as eligible for OTS, only 31 cases were settled under the scheme realising ` 3.48 crore towards principal against the total NPA of ` 69.13 crore. Thus, the introduction of OTS had created only a little impact on the position of NPAs of the Company.

Lack of seriousness in fixation of 100 *per cent* target for recovery

5.2.6 All recoverable amounts due in a year from the loanees should be the target fixed for recovery. While accepting this fact, the management had assured (September 2007) in a reply to our previous audit report (paragraph No. 7.12.21) that it would improve the recovery and fix higher targets. However, during the present audit, it was observed that the targets were reduced from about 25 *per cent* (2006-07) to 17 *per cent* in 2011-12 and further to 9 *per cent* in 2014-15. The targets fixed for recovery and the actual recovery there-against during the period 2011-12 to 2014-15 have been given in the following **Table 5.12**.

Table 5.12 – Targets and recovery of dues

(` in crore)

As on 31st March	Dues (including Over dues)			Target (principal and interest)	Target as a percentage of dues (5/4X100)	Collection		
	Principal	Interest	Total			Actual	Percentage to target (7/5 x 100)	Percentage to total dues (7/4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2012	51.36	75.96	127.32	22	17	13.29	60	10
2013	55.65	87.25	142.90	22	15	15.46	70	11
2014	58.49	97.75	156.24	15.9	10	12.43	78	8
2015	60.32	113.91	174.23	15.9	9	10.49	66	6

From the above, it may be seen that targets were not achieved in any of the years and the actual recovery was meagre which ranged between 11 and 6 *per cent* of the total dues. This was contrary to the management's assurance given during the previous audit to fix higher recovery targets. This indicated lack of seriousness on the part of the Company in realising the outstanding dues. Such poor recovery assumes significance, since there was no fresh infusion of capital by the Government or any finance from the Development Banks during the audit period. These lapses led to increase in Loss Assets[13] from ` 11.78 crore in 2011-12 to ` 46.78 crore in 2014-15, which forced the Company to make a provision of ` 33.04 crore towards bad and doubtful debts during the above period.

Thus, due to lack of seriousness in fixing 100 *per cent* target for recovery and owing to lack of special drive on the part of management, the recovery performance was very poor. During the Exit Conference, the Secretary, Industries Department stated that he would draw the attention of the Board for fixing the target at 100 *per cent*.

Recovery as per State Financial Corporation (SFC) Act, 1951

5.2.7 Section 29 of the SFC Act empowers the Company to take over and dispose of the assets of the defaulting company for realisation of overdues. During the audit period, the company initiated action under this provision in 14 cases involving overdues of ` 614.16 lakh (principal ` 365.56 lakh and Interest ` 248.60 lakh). However, the action of taking over of assets was completed in three cases and subsequently the dues were settled. In respect of two other cases, the Company could not proceed due to interim stay order granted by High Court. In respect of balance nine cases, the action of taking over of assets was dropped by collecting a meagre amount of ` 17.32 lakh (six *per cent*) against the overdue amount of ` 2.96 crore.

5.2.8 Section 32 G of the Act empowers the company to recover the balance outstanding dues, through the District Collector concerned, as

[13] As per RBI's Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisions pertaining to Advances, Loss Assets is one where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly

arrears of land revenue under the State RR Act, 1970. We noticed that upto the year 2003, the Company had referred as much as 100 cases under SFC Act involving an amount of ` 20.28 crore (principal: ` 2.69 crore and interest: ` 17.59 crore), but did not refer any of the defaulting cases thereafter till date (October 2016) under SFC Act. According to the Company, there were 86 cases pending with the UT Government, as on 31 March 2016, whereas as per the records of the UT Government, there were only 69 cases, resulting in non-monitoring of 17 cases involving ` 2.62 crore. Out of these 69 cases, five cases were closed by the UT Government, as on March 2016. In respect of the balance 64 cases, the Company was not aware of the present status of recovery and the post of the revenue official was lying vacant since May 2013.

Thus, the availability of recourse for recovery of outstanding dues under the SFC Act and RR Act was not effectively pursued due to lack of seriousness on the part of the company resulting in recovery of a very small amount.

Dormant/Struck off Companies

5.2.9 The Registrar of Companies (RoC) classified the Companies registered with it into various categories like active, dormant and struck-off *etc*. We noticed that the loanee Companies to which loans had been granted had neither repaid loan/interest nor had filed the periodical returns to the Company as per the terms of the agreement. Moreover, the Company had not taken steps to ascertain the status of the loanee Companies.

We independently verified the status of 71 units registered with RoC, which had availed loan from the Company and which had become NPAs. The results of audit verification are indicated in the following **Table 5.13**.

Table 5.13 – Results of verification

Sl. No.	Status of the assisted/loanee Companies	Number of companies
1	Companies classified as dormant[14] by RoC	21
2	Companies struck off from the records of the Registrar of Companies	26
3	Company which had been dissolved	01
4	Companies which had not filed their annual returns with RoC	19
5	Companies which had filed their annual returns with RoC	04
	Total	**71**

[14] Companies having no business operation

Thus, the Company had granted loans to the loanee units without ensuring the fact that these loanees had not complied with the statutory requirement under the Companies Act, and hence, the realisation of dues recoverable from 67 units (Total 71 – 4 companies who filed returns) amounting to ` 10.77 crore appears remote.

Monitoring

Absence of Follow-up mechanism to effect recovery

5.2.10 A mention was made in the previous audit that the Company did not have a codified procedure for monitoring and follow-up of recovery from the assisted units. Though the Company claimed (October 2016) that it had conducted inspection of the assisted units on quarterly basis, we found that the Company had failed to carry out periodical inspection of all 48 assisted units test-checked. We further noticed that there was no system for obtaining regular feedback about the financial health of the assisted units and there was no system in vogue for creation of the MIS about the value of collateral security obtained, list of guarantors together with the details of their property and dates of recall notices issued to the defaulted units, *etc*. Thus, the Company failed to monitor the assisted units, which resulted in lack of control over the assisted units.

Non-renewal of insurance policy by the loanees

5.2.11 One of the conditions for sanction of term loans stipulated that the loanee had to furnish Insurance policy covering the machinery and other assets mortgaged with the Company against the risk of fire, flood and extraneous perils, *etc*.

However, test check of 27 cases (hotels, SSI units and composite and merit loans) revealed that:

- Initially, all the 27 loanees had submitted insurance policy for their assets. However, the loanees failed to submit the renewed insurance policies to the Company from the subsequent year onwards.

- The Company also had not insisted upon the loanees to submit the renewed insurance policy to cover the risks. This led to exposure of the assets to the natural perils, which was evident from the fact that a loanee *viz*., Happy Green Hotel, which represented (February 2012) that due to occurrence of Thane cyclone in December 2011, the hypothecated assets of the hotel were affected and they could not lodge any claim since the insurance policy was not renewed after 31 March 2011. Consequently, due to failure of the Company to ensure periodical renewal of the insurance policy, it could not recover ` 3.58 crore from this loanee, since March 2011.

Non-ensuring of submission of periodical returns

5.2.12 As per Clause VIII of the sanction order issued to loanees, the loanees are required to submit the following periodical returns on commencement of production.

(a)	Annual	Audited Balance sheet and Profit and Loss Account
(b)	Half yearly	Profit and Loss Account and cash flow statements for the half years.
(c)	Monthly	Income and expenditure statements and production, sales & stock statement shall be submitted every month.

Further, it is also stated that the periodical returns should be submitted within expiry of one month of the relevant periods. Failure to comply with the above provision would also result in levy of penalty at one *per cent per annum* of the sanctioned amount of loan by the Company.

In respect of 48 cases test-checked by us, it was noticed that the loanees had not submitted these monthly/half yearly/annual returns during their repayment period and the Company also did not levy the penal interest as stipulated. Thus, non-ensuring of submission of periodical returns had led to non-monitoring of financial position resulting in poor recovery of dues and higher NPA.

Absence of MIS

5.2.13 Management Information system (MIS) report depicting the performance of the Company covering sanction, disbursement and recovery of loans needs to be prepared periodically and placed before the Board. A review of agenda and minutes of the meetings of the Board and other records of the Company revealed that no such periodical reports were prepared for placement before the Board for scrutiny and remedial measures.

Conclusion

The Company had been mandated to provide financial assistance to foster industrial development in the UT of Puducherry. However, the Company did not effectively pursue its mandate as it had failed to fix the achievable targets for sanction of loan. As a result of deficiencies in the appraisal of loan applications, sanction of loans was not based on merits of the loanees, which ultimately affected the recovery of the loans and interest thereon. The Company did not effectively enforce recovery by fixing adequate targets but fixed the recovery targets at a meagre nine *per cent* of its dues and it also failed to utilise the recovery mechanism available under the SFC Act and RR Act. The Company also failed to monitor the units by periodical visits and by obtaining the MIS prescribed for monitoring the performance of the assisted units. Though the irregularities in sanction and recovery performance were pointed out during previous audit, persistence of these irregularities revealed that the Company had not streamlined its procedures till date. Consequently, the NPAs had mounted to 84 *per cent,* threatening the very existence of the Company. Thus, there is an urgent requirement for the Company to take remedial steps for its survival.

The matter was referred to the UT Government in September 2016. Reply of the Government was awaited (November 2016).

Chennai
The 27 February 2017

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Countersigned

New Delhi
The 01 March 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India