CHAPTER IX: MINISTRY OF HOUSING AND URBAN POVERTY ALLEVIATION

Housing and Urban Development Corporation Limited

9.1 Sanction of loan violating internal guidelines

Sanction of loan to a financially weak borrower/promoter who had defaulted in servicing loans from other financial institutions, in contravention of internal guidelines of HUDCO, resulted in sub-standard loan asset and potential loss of ₹628.47 crore.

Housing and Urban Development Corporation Limited (HUDCO) sanctioned (July 2007) a loan of ₹350 crore to Nagarjuna Oil Corporation Limited (NOCL) for setting up a refinery. The loan was sanctioned under a consortium arrangement. The loan instalments were disbursed between December 2008 and March 2013. NOCL defaulted on servicing the loan even as the loan was being disbursed. The loan became a Non Performing Asset (NPA) in January 2013.

It was noticed that the refinery project of NOCL did not achieve financial closure. In December 2011, the project activities stopped due to paucity of funds. The project cost increased nearly four times from ₹4,790 crore (February 2007) to ₹18,830 crore (August 2015). Efforts to bring in strategic investors both from India (including Public Sector Oil Companies) and abroad have not succeeded. In this context, the future viability of the project is doubtful and HUDCO faces a potential loss as there is remote possibility of recovery of principal and interest amounting to ₹628.47 crore (principal ₹349.88 crore and interest ₹278.59 crore up to 30 June 2016).

Audit observed that the loan to NOCL was sanctioned by HUDCO deviating from its internal guidelines as elaborated below:

- A proposal for sanctioning loan to NOCL was considered (February 2007) by the Board of HUDCO. The Board expressed a set of concerns regarding the promoters and project:

(i) track record of promoters was not sound and they had entered into Corporate Debt Restructuring,

(ii) UTI Bank, Karur Vysya Bank and EXIM Bank had confirmed that loan given to NOCL was sub-standard/NPA in their books,

(iii) the name of the borrowing agency's director was on the RBI's list of defaulters

(iv) UTI Bank had filed an application with Debt Recovery Tribunal against NOCL and promoters.

After deliberations, the Board declined the loan. It was stressed that as per HUDCO's guidelines, no loan was given to agencies if their previous track record of repayment was not good. Besides, the Board also expressed concern regarding the long term viability of the project as the basic refinery plant being imported for the project was old, having been constructed in 1970.

- The same proposal was re-submitted to the Board in June/July 2007. The Board approved the loan even though some of the concerns raised earlier (February 2007) remained un-addressed. The loan given to NOCL by UTI Bank remained substandard/ NPA in their books. The application with Debt Recovery Tribunal against NOCL was pending at the time of HUDCO sanctioning the loan. Besides, the concerns regarding long term viability of the refinery project remained un-addressed. As such, much of the conditions for declining the loan in February 2007 remained valid at the time of sanctioning the loan in July 2007. The loan to NOCL was sanctioned in July 2007 against the internal guidelines of HUDCO on loan sanctioning.

The Management stated (December 2016) that clarifications with respect to the observations of the Board were sought from the lead lender and the same were furnished to the Board along with the revised note in July 2007. The settlement of UTI Bank loan account was fixed as pre-disbursement condition. The lead lender confirmed (November 2008) that NOCL had settled the dues of UTI Bank following which, the first instalment of the loan was released to NOCL. Hence, there was no violation of internal guidelines.

The reply is not acceptable. As per the internal guidelines, if an agency was in default of servicing their existing lenders, loan would not be given to such agency. In line with this guideline and considering the uncertainty regarding the long term viability of the refinery project, the Board had declined loan to NOCL in February 2007. In fact, the proposal to the Board (February 2007) was to sanction the loan to NOCL with pre-disbursement conditions for all concerns which the Board had declined. Much of these concerns remained valid when the loan was sanctioned in July 2007 with pre-disbursement conditions. The future events of default in loan servicing and loan account being sub-standard confirmed that the apprehensions of the Board (February 2007) regarding financial soundness of the promoters was indeed valid.

Thus, sanction of loan to a financially weak borrower/promoter who was already in default vis-à-vis loans taken from other financial institutions, in contravention to internal guidelines of HUDCO, resulted in sub-standard loan asset and potential loss of ₹628.47 crore.

The matter was reported to the Ministry in January 2017; their reply was awaited (January 2017).