CHAPTER II

2. REVIEW RELATING TO GOVERNMENT COMPANY

Review on Recovery Performance of Bihar State Credit & Investment Corporation Limited

Highlights

Bihar State Credit & Investment Corporation Limited (Company) was incorporated in January 1975 to promote, encourage industries by providing technical, managerial and financial assistance.

(Paragraph 2.1)

The percentage of recovery to total amount recoverable declined from 3.04 in 1998-99 to 2.54 in 2002-03, it resulted in substantial increase in recoverable from Rs 304.94 crore in 1998-99 to Rs 544.91 crore in 2002-03.

(Paragraph 2.8)

No amount has been realised since 1998-99 from 122 defaulting units having total overdues of Rs 421.42 crore i.e. 79.35 per cent of total overdues of Rs 531.07 crore against 201 units as on 31 March 2003.

(Paragraph 2.8.1)

No effective steps were taken by the Company to recover outstanding loans and interest of Rs 236.91 crore against 32 units (having outstanding of Rs 5 crore and above in each case), which accounted for 43.90 per cent of the total outstanding.

(Paragraph 2.8.2)

Due to poor recovery performance, the performing assets decreased from Rs 27.26 crore in 1997-98 to Rs 13.64 crore in 2001-02.

Number of closed units increased from 71 (31 March 2000) to 142 (31 March 2003) against which no effective recovery action was taken.

(Paragraph 2.8.3)

Due to sanction and disbursement of loan to a defaulting loanee, the Company could not recover Rs 2.39 crore.

(Paragraph 2.9.2)

Of 201 defaulting units having overdues of Rs 531.07 crore, the Company could take over only 28 units having overdues of Rs 54.39 crore.

(Paragraph 2.11)

Introduction

2.1 Bihar State Credit & Investment Corporation Limited (Company) was incorporated as a wholly owned Government company in January 1975.

The main objects of the Company are:

- to promote, encourage, undertake, co-ordinate, organise and develop small, medium and large industries by providing technical, managerial and financial assistance,
- to assist in establishing, running, expanding and modernising industrial undertakings, projects or enterprises owned by the State Government, Statutory body, corporation, public or private company, firm or individual, and
- to act as the major instrument for the rapid and integrated establishment, growth and development of industries in Bihar.

Organisational set up

The management of the Company is vested in Board of Directors.

2.2 The management of the Company is vested in a Board of Directors (BODs). As on 31 March 2003, the Board consisted of six directors comprising five directors including Chairman and Managing Director nominated by the State Government and one director nominated by IDBI[×].

The Managing Director (MD) is the chief executive of the Company and is assisted by Managers/ Deputy Managers at Head Office. The Company is divided

[×] Industrial Development Bank of India into three recovery zones[•], all situated at headquarters of the Company and headed by Manager/Deputy Manager who directly reports the recovery position to MD.

It was observed that during the period under review there were six MDs who held the post for the period ranging from two to 19 months.

Scope of Audit

2.3 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1994-95 (Commercial). The review has not been discussed by the Committee on Public Undertakings (September 2003).

The present review, conducted during June to August 2003, covers performance of the Company in respect of recovery of loans, as noticed in test check of records maintained at Head Office of the Company, for the last five years ending March 2003.

During January 1994 to March 2003, 75 loan cases were sanctioned, out of which 24 cases were reviewed. The audit findings, as a result of test check of these cases were reported to Government/company in October 2003 with specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government/management was taken into account before finalising the review. The meeting of ARCPSE was held on 28 October 2003 where Government was represented by Special Secretary, Department of Industries and the Company was represented by the Managing Director. The review has been finalised after considering the views of the Government and the management.

Financial position and working results

The Company has finalised its accounts upto 1996-97.

2.4 The Company has finalised its accounts up to 1996-97 only. The financial position and working results of the Company based on its provisional accounts of five years from 1997-98 to 2001-02 are indicated in Annexure 11.

Procedure for financial assistance and recovery

2.5 The Company does not have any manual approved by its Board of Directors in regard to the various procedures to be followed in discharging its functions. However, the Company has been following the practices basically followed by IDBI/SIDBI[•].

2.5.1 The Company provides financial assistance for setting up of new industrial units as well as expansion, diversification and modernisation of existing units. Financial assistance is given to the beneficiaries on receipt of application

[•] Recovery zone I, Recovery zone II, Recovery zone III.
[•] Small Industries Development Bank of India.

accompanied by detailed project reports, documents relating to credit worthiness of promoters/directors, etc. The Company conducts technical and financial appraisal in order to assess the technical and economic viability of the projects. The Company also stresses on the promoter's background, the product, its marketability, viability of the project and the prescribed margin to be borne by the loanee before sanction of loan and also ascertains the benefits such as stimulus to ancillary industries, generation of employment, income, contribution to state revenue etc. flowing from the project on the basis of appraisal report. Loan is sanctioned by the BODs.

2.5.2 The disbursement of the loan is required to be made after ensuring a clear title deed, non-encumbrance certificate and mortgage deed of the land, plant and machinery of the project. After sanction of loan, the assisted unit is required to execute an agreement. The release of first instalment of loan is subject to furnishing proof of acquisition of land and 50 to 100 per cent of promoter's contribution. The disbursement is also subject to fulfillment of terms and conditions of letter of intent (LOI), first mortgage over the unit's movable and immovable properties, furnishing of irrevocable and unconditional personal guarantee of promoters and collateral security of required amount and satisfactory progress of the project.

2.5.3 The borrowing units are required to pay interest once every six months, which falls due in March and September. Repayment of principal is based on the repayment schedule approved at the time of sanction of term loan. For recovery of dues demand notes are sent to loanees. In case of default by the loanee, action under Section 29 and 30 of State Financial Corporations (SFC) Act, 1951 and Public Demand & Recovery (PDR) Act, 1912 is initiated. As per SFCs Act, the Company is empowered to take over the assets of the defaulting units. The taken over units are sold/auctioned for realisation of outstanding dues. In case where outstanding amount is not fully realised on sale of assets of taken over units, the residual amount is recovered by invoking the collateral security and the personal guarantee of the promoters.

Sanction and disbursement of loan

2.6 A comparative statement showing the receipt of applications, sanction and disbursement of term loan made during the last five years ended 2002-03 is given below:

(Rupees in crore)

Particulars	**1998-99**		**1999-2000**		**2000-01**		**2001-02**		**2002-03**	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No	Amount
Loan applications pending at the beginning of the year	21	16.35	22	16.27	21	15.27	23	17.50	2	1.75
Add: applications received	9	5.10	4	2.72	4	2.78	1	0.27	3	2.04

Less: applications lapsed/rejected	--	--	2	1.54	--	--	22	16.02	--	--
Net balance	30	21.45	24	17.44	25	18.05	2	1.75	5	3.79
Loans sanctioned	8	5.18	3	2.17	2	0.55	--	--	2	1.75
Loans disbursed	12	3.48	6	1.82	7	2.54	4	1.04	Nil	Nil
Applications pending at the close of the year	22	16.27	21	15.27	23	17.50	2	1.75	3	2.04

The loans sanctioned and disbursed by the Company during the last five years upto 2002-03 amounted to Rs 9.65 crore and Rs 8.88 crore respectively. It could be seen from the table that disbursement of loans decreased from Rs 3.48 crore in 1998-99 to nil in 2002-03. The decrease in disbursement of loan was mainly due to non-availing of loan by the loanees.

Resources and uses of funds

2.7 The Company generated its resources mainly from recoveries from loanees for financing its loan operation. The table below indicates the inflow and outflow of resources during each of the five years upto 2001-02.

(Rs in crore)

Particulars	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**
A. Resources					
(i) IDBI refinance	0.83	--	--	--	--
(ii) SIDBI refinance	1.66	1.50	--	--	--
(iii) Loan from State Government	0.82	--	--	--	--
(iv) Recovery of loan and interest	11.81	9.27	8.13	5.79	11.98
(v) Opening bank balance	2.85	1.61	1.02	3.44	2.36
(vi) Opening fixed deposit		3.99	2.90	5.97	7.24
(vii) Others	--	--	1.20	--	0.01
Total	**17.97**	**16.37**	**13.25**	**15.20**	**21.59**
B. Uses					
(i) Disbursement of loan	3.62	3.48	1.82	2.54	1.04
(ii) Repayment to IDBI	3.02	1.18	0.71	0.01	2.00
(iii) Repayment to SIDBI	3.58	6.70	1.31	--	1.00
(iv) Closing bank balance	1.61	1.02	3.44	2.36	4.10
(v) Closing balance of fixed deposits	3.99	2.90	5.97	7.24	12.27
(vi) Others	2.15	1.09	--	3.05	1.18
Total	**17.97**	**16.37**	**13.25**	**15.20**	**21.59**

The Company retained cash ranging between Rs 3.92 crore and Rs 16.37 crore.

Though the Company retained cash ranging between Rs 3.92 crore and Rs 16.37 crore during last five years up to March 2002, it did not utilise the same for repayment of its borrowings from the State Government.

Recovery performance

Recoveries and default

2.8 The details of loan due for recovery, target fixed for recovery, amount recovered during the last five years upto 2002-03 are given below:

(Rs in crore)

Sl. No.	**Particulars**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
1.	Amount due for recovery at the beginning of the year (including interest)	245.52	295.67	338.94	410.84	485.16
2.	Amount due for recovery during the year (including interest)	59.42	51.40	77.69	86.30	59.75
3.	Total amount recoverable	304.94	347.07	416.63	497.14	544.91
4.	Target fixed for recovery	12.00	12.00	12.00	14.00	35.00
5.	Percentage of target to amount recoverable	3.94	3.46	2.88	2.82	6.42
6.	Total amount recovered (including interest)	9.27	8.13	5.79	11.98	13.84
7.	Amount remaining outstanding at the end of the year (including interest)	295.67	338.94	410.84	485.16	531.07
8.	Percentage of recovery to a) amount recoverable b) target	 3.04 77.25	 2.34 67.75	 1.39 48.25	 2.41 85.50	 2.54 39.57

It would be seen from the above table that:

Target fixed for recovery was very low.

- During the last five years upto 2002-03, the target fixed for recovery was very low and ranged between 2.82 and 6.42 per cent of the total amount recoverable. The actual recovery was 1.39 to 3.04 per cent of the total amount recoverable. Consequently, substantial funds were blocked, preventing recycling thereof.

The Company never achieved its target for recovery.

- The percentage of actual recovery to target ranged between 39.57 and 85.50 during 1998-2003. Thus, the Company did not achieve even the low target fixed by it.

- The Company had not fixed separate targets for recovery of old and current dues. No separate account for recovery from old and current dues were kept by the Company.

Company stated that reasons for non-achievement of targets were non availability of any settlement policy in intervening period, depression in industrial scenario and bifurcation of Bihar state in 2000.

Reply of the Company was not tenable as the Company failed to formulate and decide settlement policy. Besides, the position of recovery was not satisfactory even before bifurcation of the state.

Year wise details of overdues

2.8.1 The Company has not analysed the age of its overdues. Since its inception the Company had sanctioned loans of Rs 285.64 crore and disbursed[#] loans of Rs 160.22 crore with undisbursed commitment of Rs 2.69 crore up to 31 March 2003. The position of outstanding[1] amount and overdues[2] for the last five years upto 2002-03 is shown in the table below.

(Rs in crore)

Year	No. of units	Principal outstanding	Principal overdue	Interest overdue	Total overdue	Total outstanding
1.	2.	3.	4.	5.	6. (4+5)	7. (3+5)
1998-99	221	130.78	85.12	210.55	295.67	341.33
1999-2000	223	131.41	90.59	248.35	338.94	379.76
2000-01	219	129.72	103.72	307.12	410.84	436.84
2001-02	219	129.72	112.39	372.77	485.16	502.49
2002-03	201	119.84	110.08	420.99	531.07	540.83

It would be seen from the above table that:

- Out of Rs 540.83 crore outstanding against 201 units, Rs 531.07 crore was overdue from these assisted units as on 31 March 2003.

No amount has been realised since 1998-99 from 122 units having outstanding of Rs. 421.42 crore i.e. 79.35 per cent of total overdues.

- No amount has been realised since 1998-99 from 122 defaulting units having total overdues of Rs 421.42 crore i.e. 79.35 per cent of total overdues of Rs 531.07 crore against 201 units as on 31 March 2003.
- Out of these 122 units, only nine units were taken over (two units during 1996-97 and seven units during 2002-03) having overdues of Rs 18.14 crore. This shows ineffectiveness of the management in taking action under SFCs Act, 1951 and PDR Act, 1912 for realisation of overdue amount.

Management stated (October 2003) that it did not take over the defaulting units as it would have entailed substantial expenditure towards their security. Reply is not consistent with the provisions of the SFCs Act, 1951.

[#] Rs 122.73 crore lapsed and cancelled {Rs 285.64 crore – (Rs 160.22 crore + Rs 2.69 crore)}
[1] Amount of loan disbursed plus interest thereon less amount repaid.
[2] Amount of principal and interest became due for repayment as per repayment schedule.

2.8.2 The classification of outstanding dues of the Company as on 31 March 2003 in terms of money value is given below:

(Rs in crore)

Sl. No.	Particulars	Total outstanding including units in Jharkhand		Outstanding against units now under Jharkhand state	
1.	Loans and interest outstanding below Rs 1 crore	57	25.08	24	9.83
2.	Loans and interest outstanding Rs one crore but below Rs 5 crore	112	278.84	46	112.78
3.	Loans and interest outstanding Rs 5 crore and above	32	236.91	14	108.80
Total		**201**	**540.83**	**84**	**231.41**

Outstanding against 32 units were more than Rs 5 crore each.

Out of total outstanding dues of Rs 540.83 crore from 201 units, Rs 231.41 crore was outstanding against 84 units in Jharkhand State.

It would be seen from the above that:

- As on 31 March 2003 Rs. 236.91 crore was outstanding towards loans and interest against 32 units having dues of Rs. 5 crore each and above which was 43.80 per cent of total outstanding for which the Company has not taken any effective steps.

- After the bifurcation of Bihar (November 2000), 84 units having total outstanding of Rs 231.41 crore (42.79 per cent of total outstanding) are now located in Jharkhand state. The recovery of outstanding dues from these units seems to be doubtful in view of the management‘s reply (October 2003) that the Company has been facing resistance from Jharkhand Government in taking action against the defaulting units.

In view of above the Government of Bihar should take up the matter with Government of Jharkhand for recovery of its dues from the units which are now located in Jharkhand.

Classification of outstanding loans

2.8.3 In the case of financial corporations, IDBI had classified (March 1994) the loans into following groups depending upon their chances of realisation.

- Standard assets : Where repayments are regular.
- Sub-standard assets : Where loan as well as interest remain overdue for a period over one year but not exceeding two years.
- Doubtful assets : Where loans as well as interest remain overdue beyond two years.

- Loss assets : Where loans for which loss was identified but not written off wholly or partly.

However, the Company had not maintained records/data of loans as per the IDBI guidelines. Classification of outstanding loans, as maintained by the Company, is detailed in table below:

(Rs in crore)

Category	1997-98	1998-99	1999-2000	2000-01	2001-02	Per centage of total				
						1997-98	**1998-99**	**1999-2000**	**2000-01**	**2001-02**
Performing assets (standard assets)	27.26	21.70	17.47	18.45	13.64	18.82	18.43	14.95	14.74	11.12
Non-performing assets (NPAs) (sub-standard assets)	12.95	12.63	11.67	15.43	12.11	8.94	10.72	9.99	12.33	9.88
Defaulter: for less than 3 years	19.79	19.35	21.76	10.76	16.02	13.66	16.43	18.63	8.59	13.06
for more than 3 years	60.31	61.77	60.28	77.23	76.71	41.64	52.46	51.60	61.69	62.54
Loss assets	24.54	2.31	5.65	3.32	4.17	16.94	1.96	4.83	2.65	3.40
Total NPAs	117.59	96.06	99.36	106.74	109.01	81.18	81.57	85.05	85.26	88.88
Total loan assets	**144.85**	**117.76**	**116.83**	**125.19**	**122.65**					

It may be seen from the above table that:

Due to poor recovery, the performing assets decreased from Rs 27.26 crore in 1997-98 to Rs 13.64 crore in 2001-02.

Standard assets, sub-standard assets and defaulters for less than three years declined from Rs 27.26 crore to Rs 13.64 crore, Rs 12.95 crore to Rs 12.11 crore and Rs 19.79 crore to Rs 16.02 crore respectively, whereas defaulters for more than three years increased from Rs 60.31 crore in 1997-98 to Rs 76.71 crore in 2001-02 which indicated continuous slippage of standard assets, sub-standard assets and defaulters for less than three years into defaulters for more than three years, indicating poor recovery performance.

The management had not analysed reasons for such poor recovery. However, audit observed that the Company had not developed any system of regular review of loans by the top management, review on case to case basis with regard to factors affecting performance of loanee units and prospects of recovery of loans from them.

Number of closed units increased from 71 to 142 against which no effective recovery action was taken.

Management stated (October 2003) that periodical review of loan portfolio is undertaken by the MD in consultation with recovery officer. Based on the outcome of the review, recovery action is taken against defaulting units.

Reply is not tenable as there were 71 closed units as on 31 March 2000 which increased to 142 units as on 31 March 2003 but the management did not take effective action to recover the dues from the closed units.

Reasons for low/non- recovery

2.9 Poor/non recovery of dues is directly related to inadequate and improper pre-sanction appraisals as well as post disbursement follow-up. The deficiencies in pre-sanction appraisals and post disbursement follow up of the loan subsequently affect the recovery position. The irregularities noticed in ten test checked cases to whom loan of Rs 7.38 crore was sanctioned during December 1992 to March 2001 are discussed in subsequent paragraphs:

Diversion of fund due to improper monitoring

2.9.1 The Company sanctioned (March 1998) a term loan of Rs 85 lakh, reduced (December 1998) to Rs 75 lakh, to Grihastha Cold Storage (P) Limited (unit) for setting up a cold storage with ice plant at Pushauli, Bhabhua. Subsequently the Company sanctioned (March 2001) an additional term loan of Rs 15 lakh. The entire term loan of Rs 90 lakh was disbursed during March 1999 to January 2002.

The cold storage was completed in April 2002. The unit was not regular in repayment of loan and the amount outstanding against the unit as on 31 March 2003 was Rs 1.05 crore (principal : Rs. 88.34 lakh, interest : Rs 16.90 lakh) .

During test check of records, following points were noticed:

The Company disbursed (March/April 1999) Rs 43.29 lakh to loanee for payment to supplier of equipment. Of Rs 43.29 lakh, the loanee took back Rs 27.12 lakh from the supplier upto June 2000 in violation of the Company's prescribed procedure. However, despite this, the Company further disbursed (January 2002) Rs 24.61 lakh to the loanee for payment to the same supplier.

Income level of promoter was not properly assessed at the time of sanction and disbursement of loan.

The creditworthiness of the promoters was not scrutinised properly. The term loan of Rs 90 lakh was sanctioned/disbursed for the project (revised cost: Rs 1.96 crore) in which Rs 1.06 crore was to be contributed/arranged by the promoters whose assessed income levels ranged from "Nil" to Rs 49,500 per annum.

The management stated (October 2003) that the creditworthiness of promoters was taken into account before sanction of loan.

Management's reply is not tenable, as the Company had overlooked the assessed income of the promoters, who depended on soft loan/subsidy from National Horticulture Board to complete the project. This resulted in time and cost overrun of the project.

Unit made huge transactions in cash.

Further scrutiny revealed that the unit made most of the payments in cash without proper vouchers/receipts and also showed receipts of equity share capital (Rs 40 lakh), share application money (Rs 9.78 lakh) and interest free unsecured loans (Rs 21.75 lakhs) in cash. Though this practice of cash transaction left room for misappropriation of funds, the Company disbursed the term loan.

Thus, the Company sanctioned and disbursed loan to such unit (promoters/directors) whose acts were doubtful *ab-initio* and who ultimately became a defaulter. No amount has been paid towards principal and interest overdue.

Sanction and disbursement of term loan to defaulting promoters

A term loan of Rs 85 lakh was sanctioned and disbursed to a promoter, who was defaulter.

2.9.2 The Company sanctioned (March 1992) a term loan of Rs 85 lakh to Akshaya Technology Pvt. Limited (unit) with moratorium of three and half years from the date of first disbursement (5 November 1992) for repayment of principal i.e. repayment of principal was to start w.e.f. May 1996. During audit scrutiny it was observed that the loanee became defaulter[*] in repayment of loan (January 1997).

Despite knowing fully the defaulting status of the promoter, the Company sanctioned a term loan of Rs 90 lakh (January 1997) to the same promoter for Akshay Roll Mill (P) Limited situated in the same premises to set up a rolling mill. Entire term loan of Rs 90 lakh was disbursed during March 1997 to June 1998.

However, the unit could not be set up (March 2003). As on 31 March 2003 the total overdue stood at Rs 2.39 crore (principal: Rs 0.76 crore and interest: Rs 1.63 crore) for which the Company could not get any repayment.

Besides, the following irregularities were also noticed:

Two term loans aggregating Rs 1.75 crore were sanctioned and disbursed against same piece of land.

- The disbursement of term loan of Rs 90 lakh was made on the basis of land which already stood mortgaged to Bihar State Financial Corporation, State Bank of India and Bihar State Credit and Investment Corporation against term loan of Rs 85 lakh disbursed to Akshay Technology. Thus two term loans aggregating Rs 1.75 crore, were disbursed against the same land.

Management further stated (October 2003) that the cost of land was taken in the project of Akshaya Technology Pvt. Limited whereas the cost of development was considered in the project of Akshaya Roll Mills Pvt. Limited Thus the cost of land was taken only once and for one project only. Management's reply is not tenable as the land belonged to Akshaya Technology only which was already mortgaged to the financial institutions.

Loan was disbursed without verification of personal assets of the promoters.

The entire term loan of Rs 90 lakh was disbursed on the basis of unconfirmed/unverified personal assets of the promoters without any title

[*] Rs. 14.14 lakh (principal: Rs. 7.90 lakh and interest: Rs. 6.24 lakh) was overdue (January 1997).

deed/proof of titles, valuation certificates etc. Thus, the recovery of Rs 2.39 crore became doubtful.

Sanction of term loans without ensuring working capital

Non recovery of dues of Rs 1.65 crore. due to sanction and disbursement of term loan without ensuring working capital.

2.9.3 The Company sanctioned (January 1994) a term loan of Rs 51 lakh to Shivraj Modern Rice Mills (P) Limited for setting up an automatic rice mill at Rohtas. An amount of Rs 50.40 lakh was released to the borrowing unit in phases during June 1995 to May 1998. Although the Company imposed condition for furnishing assurance letter from the bank regarding sanction of working capital, the promoters could not produce any firm assurance regarding sanction of working capital from bank for release of the term loan. However, the Company released the entire term loan without any firm assurance about working capital from the bank. The unit could not start commercial production.

Thus, disbursement of Rs 50.40 lakh without assessing availability of working capital, resulted in blockage of fund of Rs 1.65 crore including interest of Rs 1.14 crore as on 31 March 2003.

Management stated (October 2003) that normally working capital loan is not sanctioned unless a project has been implemented. The project is required to be implemented first in order to get the working capital loan sanctioned. The system of joint appraisal and sanction of working capital loan prior to implementation of a project is not followed in the Company. However, it is basically the responsibility of the promoters to make arrangement of working capital.

Management's reply was not tenable as it was in the interest of the Company to assess and ensure availability of working capital before disbursement of loan to ensure repayment from the loanee.

2.9.4 The Company sanctioned (January 1997) a term loan of Rs 86 lakh to Bindhyabasini Bee Hive Hard Coke (P) Limited, for setting up a metallurgical coke manufacturing unit at Dhanbad. The entire term loan was disbursed to the loanee unit during September 1997 to August 1998. The repayment of term loan was to start from September 1999.

In February 2001, the promoters of the unit intimated that their unit was working below the break-even point and incurring cash loss on account of shortage of working capital which was not provided by the bank.

Sanction and disbursement of term loan without ensuring working capital resulted in non realisation of dues of Rs 2.10 crore.

The unit was defaulter since beginning in repayment of loan and interest thereon. The total outstanding dues of the Company mounted to Rs 2.10 crore including interest of Rs 1.24 crore upto 31 March 2003.Therefore, without ensuring working capital arrangement, the Company disbursed the loan and did not ascertain the reasons for not providing working capital from the bank. The Company issued notice under section 29 and 30 of the SFC Act, 1951 to the unit on 16 January 2002 after delay of two years and initiated certificate case in the year 2003. Thus sanction of loan without ensuring availability of working capital resulted in non-realisation dues of Rs 2.10 crore.

Management stated (October 2003) that the projects have failed for want of adequate working capital assistance and it is basically the responsibility of the promoter to obtain working capital assistance. The management reply is not tenable because the Company failed to visualise the requirement of the working capital of the loanee unit for running the unit.

Sanction and disbursement of term loan without ensuring working capital resulted in non-recovery of dues of Rs 1.06 crore.

2.9.5 The Company sanctioned (December 1994) a term loan of Rs 26 lakh to Maruti Iron Steel (P) Limited (unit) under equipment finance scheme (EFS) for purchase of plant and machinery for their existing rolling mills and disbursed the term loan during March to June 1995. The repayment of loan was to start after 12 months from the date of first disbursement i.e. from March 1996 but the unit became defaulter and did not pay any amount towards the principal and interest. The overdues against the unit was Rs 1.06 crore (principal: Rs 26.00 lakh and interest: Rs 79.76 lakh) as on 31 March 2003.

The Company failed to consider the adequacy of unit's working capital as the plant and machinery purchased could not run successfully for want of sufficient working capital.

Further audit scrutiny revealed that the Company had not taken any effective step for recovery of dues under section 29 of SFC Act, 1951. The Company has issued notice in January 2002 after lapse of more than five years from the first default and without taking over of unit, the unit was advertised for sale, however, no bidder was found for purchase of assets of the unit.

Thus, failure of the Company in ensuring the working capital requirement and delay in taking recovery action resulted in non-realisation of dues.

2.9.6 The Company sanctioned (December 1992) a term loan of Rs 75 lakh and further sanctioned (June 1998) an additional term loan of Rs 10 lakh to Periwal Chemical Industries (P) Limited for setting up a synthetic caffeine and theophyllin and acitic acid manufacturing unit at Ranchi. Against the sanctioned term loan the unit received Rs 79 lakh between March 1995 and January 1999. The trial production could only commence in June 1996 against scheduled date of commercial production by October 1993. The unit failed to start commercial production due to non-availability of working capital. Since the unit defaulted in repayment of principal and interest, which mounted to Rs 2.01 crore including interest of Rs 1.39 crore upto 31 March 2003.

Backdated letter (6 years old) was taken into cognizance for disbursement of loan.

The following irregularities were noticed during test check of records:

- The Company took cognizance of a backdated letter (March 1989) of a commercial bank regarding consideration by the bank for arranging working capital to the loanee unit before disbursement of first instalment of Rs 35 lakh (March 1995).

Deferment of interest for construction period was not considered which resulted in shortage of finance.

- The unit availed of Rs 69 lakh out of the sanctioned term loan of Rs 75 lakh during March 1995 and March 1998. The Company adjusted Rs 24.48 lakh out of Rs 69 lakh towards interest against the provision of Rs 11.50 lakh for interest during construction period. This resulted in shortage of finance to the loanee unit. Having considered this, the Company sanctioned (June 1998) additional term loan of Rs 10 lakh and disbursed the same in January 1999. However, in other cases the Company allowed deferment of such interest.

- In view of prolonged disbursement period the project cost increased from Rs 1.35 crore (1993) to Rs 1.58 crore (1998). The loanee unit was forced to maintain skeleton production for want of working capital and could not start commercial production even after receipt of additional term loan of Rs 10 lakh in January 1999.

- Although a commercial bank intimated in February and December 1998 sanction of Rs 25 lakh as working capital to the unit, the said bank, later in May 1999 did not release working capital to the loanee unit. The promoters of the loanee unit having no other alternatives closed down the factory and requested the Company in May 2000 to take over assets of the unit. Finally, the Company issued (February 2002) notice under section 29 and 30 of the SFC Act, after a lapse of 21 months and filed requisition under PDR Act during 2002-03.

Closure of unit due to shortage of working capital resulted in locking of Rs 2.01 crore.

Thus, disbursement of loan without ensuring working capital resulted in closure of the unit and locking of the Company's fund of Rs. 2.01 crore.

Management stated (October 2003) that deferment of interest realisation during construction period or after production is allowed on merits in the interest of the project and in the interest of the Company.

Management's reply is not tenable, as the non-deferment of interest for construction period had resulted in shortage of working capital, which was against the interest of the project and the Company.

Sanction and disbursement of term loan to an unviable project

2.9.7 The Company sanctioned (March 1997) a term loan of Rs 60 lakh to Jai Ganga (P) Limited Hajipur[*], promoted by Sri Jailal Prasad for setting up a button mushroom farming and processing unit at Hajipur and disbursed Rs 53.50 lakh during June 1999 to November 2000. The repayment of loan was to commence from December 2000 but the unit failed to pay any amount towards

[*] Promoted by Sri Jialal Prasad

principal and interest. As a result the Company issued (August 2002) notice under section 29 of SFC Act, and filed requisition for Certificate to Certificate Officer Patna under section 5 of Public Demand Recovery Act, 1912. The position of outstanding against the unit as on 31 March 2003 was Rs 77.24 lakh (principal Rs 53.50 lakh and interest Rs 23.74 lakh).

Sanction of loan to an unviable project, resulted in blocking of fund of Rs. 77.24 lakh.

It was observed that the Company failed to evaluate the technical and economic viability of the project because button mushroom farming in Bihar is a seasonal activity (winter season - temperature 15 to 18 degree celsius) and air conditioning plant was required for whole year production which would increase the cost of mushroom produced and thereby making the project economically unviable.

Thus, sanction and disbursement of loan to a technically and economically unviable project resulted in blocking of fund of Rs 77.24 lakh.

Disbursement of term loan without proper monitoring

2.9.8 The Company sanctioned (April 1998) a term loan of Rs 80 lakh to City Gold (P) Limited for setting up a re-rolling mill at Purnea and disbursed Rs 71 lakh.

Improper monitoring and delayed recovery action resulted in locking of Rs 1.25 crore.

The unit completed the formalities for power supply arrangement in December 2000 after a lapse of more than two years from the date of first disbursement and got power connection released in January 2001 and went into commercial production in January 2001. The outstanding against the unit had mounted to Rs 1.25 crore (principal: Rs 71 lakh and interest: Rs 54 lakh) as on March 2003. The Company had not taken any action under SFC Act to take over the unit (August 2003).

The unit has filed a suit against the Company in the court of law against recovery action and the same is pending (October 2003).

Thus, improper monitoring and delayed recovery action resulted in non-realisation of overdues.

Management stated (October 2003) that during the monitoring/inspection of the unit by the Company's officers, it was found that there was undue delay by Bihar State Electricity Board in providing power connection to the unit resulting in late commissioning and delay in repayment.

Management's reply is not tenable as the unit deposited balance security money of Rs 0.66 lakh in December 2000 and after depositing full security money the connection was released in January 2001.

2.9.9 The Company sanctioned (January 1997) a term loan of Rs 90 lakh to Rama Expoinvest (P) Limited, Patna for setting up a PVC rigid pipe manufacturing unit at Patliputra. Against the sanctioned loan, the Company disbursed only Rs 88.59 lakh between June 1998 and June 2000. The repayment of loan was to start from June 2000. The unit became defaulter since June 2000 without paying any amount towards principal or interest. Overdues as on March 2003 stood at Rs 75.24 lakh including interest of Rs 36.54 lakh.

Promoters removed the assets.

Scrutiny of records revealed that the Company served (May 2002) notice under section 29 and 30 of SFC Act, to the unit but did not make any arrangement for protecting the assets of the unit. As a result valuable equipment viz. air compressor, slotting machine, die body, die trolly, scrap grinder, mendral etc. were removed (May 2002) by promoters of the unit to another site at Fatuha industrial area. Thereafter the residual assets were taken over in May 2002. The Company intimated (May 2002) police authorities regarding take over of the residual assets.

Thus, recovery of total outstanding dues of Rs 1.25 crore including interest of Rs 36.54 lakh upto March 2003 was doubtful.

Management stated (October 2003) that the Company has filed a criminal case for the missing assets.

Inadequate pre-sanction appraisal

2.9.10 The Company sanctioned (March 1996) a term loan of Rs 80 lakh to Port Steel Complex (P) Limited for setting up a rolling mill at Raxaul. The entire term loan was disbursed to the unit during February 1997 to March 1998. Although the rolling mill was commissioned (February 1998) and started production but the promoters did not pay any instalment of the dues. The total overdues mounted to Rs 1.88 crore including interest of Rs 1.30 crore as on March 2003.

Loan was sanctioned without verifying credit worthiness of the promoter.

Audit observed that the Company sanctioned and disbursed the loan without ascertaining the creditworthiness of the promoters from the bank. The management stated (August 2003) that the Board had reviewed the matter and accordingly imposed a condition that disbursement of term loan would start after 75 per cent investment of promoter’s contribution. Management’s reply is not tenable as it contravened the pre-requisite condition of obtaining creditworthiness report from bank.

In the meantime, the Managing Director of the loanee unit was accused in a police case in the year 1999 This affected the operation of the rolling mill and as a result the mill remained closed for several years. Besides the Managing Director of the unit filed a petition (July 2002) before the District Court, Patna to declare him insolvent. The management stated (October 2003) that the distress warrants were yet to be executed and assets of the unit were yet to be sold.

The reply of the management was not tenable as the Company failed to take over the units timely under section 29 of the SFC Act.

Settlement policy - 2002

2.10 The Company, with a view to reduce the overdues, announced (July 2002) a settlement policy. The validity of accepting this policy by the defaulting units was 14 August 2002, which was subsequently extended upto May 2003.

Under the scheme, the defaulting units were divided in two categories. The units of more than 10 years old had to pay net of 2.5 times of cash principal disbursed and cash repayment received* and the units less than 10 years old had to pay** net of double of cash principal disbursed and cash repayment received.

There was poor turn out of the defaulters for settlement of their dues under the scheme.

Under the settlement policy, only eight defaulter units turned up and five of them settled their overdues of Rs 8.75 crore. The Company had realised Rs 3.54 crore only and given relief of Rs 5.21 crore. The reasons for low turn up of defaulters units was not on record.

Recoveries made under section 29 of SFC Act

2.11 Under section 29 of SFC Act, the Company had a right to take over the management or possession of the assets or both of loanees in default and to transfer the properties pledged, mortgaged, hypothecated or assigned by way of lease or sale to realise the dues.

The Company had no norms for taking action under the SFC Act against the defaulters. The Company had adopted *ad hoc* approach in selection of defaulters for action under the Act.

Since inception only 28 units were taken over having overdues of Rs 54.39 crore.

As against 201 defaulting units having total overdues of Rs 531.07 crore (principal: Rs 110.08 crore and interest: Rs 420.99 crore), the Company has taken over only 28 units having overdues of Rs 54.39 crore (principal: Rs 16.57 and interest: Rs 37.82 crore) as of March 2003 whereas 32 units having overdues of Rs 5 crore to Rs 18.73 crore were not taken over.

Thus, the system adopted by the Company lacked transparency and undue benefit was given to defaulting units.

Out of 28 units only five units were sold and suffered loss of Rs 8.56 crore.

Five out of 28 units taken over were sold during May 1994 to May 1996 in which the Company suffered loss of Rs 8.56 crore which was recoverable from promoters/ directors of these units. But even after lapse of more than six years the Company failed to recover the above loss by invoking personal guarantees and collateral securities to make good the losses as required under the Act (September 2003).

Management stated (October 2003) that the Company has not adopted casual approach. The Company has to be very prudent and careful in taking action under

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* (Cash principal disbursed x2.5)- cash repayment received
** (Cash principal disbursed x2)- cash repayment received

the Act particularly in respect of taking over of assets. The Company does not have the infrastructure for taking over a large number of units at a time, if professional help is taken from security agencies the expenses would be prohibitive.

Management's reply is not tenable as there was no system of selecting units for takeover. Of 201 defaulting units, only 28 units were taken over since inception to March 2003, whereas no effective action was taken to recover the outstanding dues from 32 units having overdues of Rs 5 crore each and above and 122 units having overdues of Rs 421.42 crore from whom nothing has been realised during the last five years. Besides in respect of, 71 units having outstanding of Rs 146.93 crore which were closed prior to March 2000, action was yet to be taken to effect recovery.

Conclusion

The Company was formed to promote, encourage and assist small, medium and large industrial units for rapid and integrated growth and development of industries in the state. The performance of the Company in recovery of loans was very poor due to non-observance of procedure prescribed for approval, sanction and disbursement of loan, lack of proper monitoring and delay in taking action under State Financial Corporation Act, 1951. As a result, huge amount could not be realised for recycling and assisting new units. Thus, the Company failed to achieve its objective.

The Company needs to take following measures:

- **To ensure observance of procedure for sanction and disbursement of loans.**
- **To focus on 32 high value loanees against whom outstanding dues are more than Rs 5 crore in each case and who account for 43.80 per cent of the total outstanding dues.**
- **To formulate a clear strategy for realisation of dues against 142 closed units.**
- **To take up at Government level the issue of outstanding dues of Rs 231.41 crore against loanees in Jharkhand state.**
- **To ensure proper monitoring and post disbursement follow up action.**
- **To take action against defaulting loanees under State Financial Corporations Act, 1951.**

The matter was reported to the Government (October 2003); their reply had not been received (October 2003).