Chapter III

3. Performance review relating to Statutory corporation

Haryana Financial Corporation

3.1 Disbursement and Recovery of Loans

Highlights

There was shortfall in achievement of targets in respect of sanction and disbursement of loans. The shortfall as compared to targets in sanction of loans ranged between 24.69 to 51.97 *per cent* during 2003-06 and in disbursement ranged between 9 to 83.24 *per cent* during 2003-08.

(Paragraph 3.1.13)

The spread of loan was uneven among various districts and heavily tilted towards National Capital Region (NCR) thereby impeding balanced industrial growth in the State.

(Paragraph 3.1.25)

The percentage of recovery against amount recoverable decreased from 12.27 to 7.85 *per cent* during 2003-08. Similarly, recovery of old dues decreased from 4.94 to 1.76 *per cent* during 2003-08. Due to non-recovery, loss assets of Rs. 87.43 crore were written off during 2007-08.

(Paragraphs 3.1.18 and 3.1.20)

The appraisal of loan applications was deficient as the information supplied by the loanees was not cross verified, sectoral portfolio analysis was not done, norms for sanction of loan were relaxed, creditworthiness of the loanees was not verified and there were delays in sanction of loans.

(Paragraph 3.1.15)

The Corporation failed to properly monitor the loan cases as it had no system of reviewing the financial statements of the loanees, inspecting the loanee units, appointing its nominee on the Board of loanee units and non renewal of insurance of primary securities .

(Paragraph 3.1.17)

Collateral securities accepted at a value of Rs. 34.63 crore were disposed of for Rs. 29.34 crore despite boom in the real estate indicating acceptance of securities at inflated value.

(Paragraph 3.1.21)

Introduction

3.1.1 The Haryana Financial Corporation (Corporation) was established in April, 1967 under the State Financial Corporations (SFC) Act, 1951 to provide loan assistance to small and medium scale industrial units to accelerate industrial growth in the State. The Corporation has financed Rs. 1,720 crore to 16,857 units from its inception to December 2007.

The management of the Corporation is vested in a Board of Directors (BOD) comprising 11 Directors including a Chairman. The Managing Director, appointed by the State Government, is the chief executive of the Corporation and is assisted by an Executive Director, three General Managers and four Deputy General Managers at Corporate office. The Corporation has nine[@] branches in the State each headed by a Branch Manager.

The Disbursement and Recovery Performance of the Corporation was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999 (Commercial). The Committee on Public Undertakings (COPU) discussed the review in March 2003 and its recommendations are contained in its fiftieth Report presented to the State Legislature on 14 March 2003. The cases where recommendations of the COPU were not complied with by the Corporation are discussed in paragraphs 3.1.17, 3.1.18 and 3.1.22.

Scope of Audit

3.1.2 The present review conducted during November 2007 to March 2008, covers the performance of the Corporation with regard to disbursement and recovery of loans during April 2003 to March 2008. Besides examining the records maintained at Corporate office, Audit also checked the records of five[$] out of nine branches. Out of 287 loan cases sanctioned/disbursed in these branches during the period under audit, 135 cases were examined in detail besides other cases of recovery. The selection was made by adopting simple random sampling without replacement method**.**

Audit objectives

3.1.3 The objectives of the performance review were to ascertain whether:

- the Corporation had formulated long term/short term plans for mobilisation of resources for loan disbursement to boost industrialisation in the State and incorporated in its procedure, the controls and the checks for minimising risk;

[@] Bahadurgarh, Bhiwani, Faridabad, Gurgaon, Hisar, Karnal. Panchkula, Panipat and Sonepat.

[$] Bahadurgarh, Gurgaon, Panchkula, Panipat and Sonepat.

- the Corporation had carried out a transparent assessment of risk associated with project appraisal/sanction of term loan and in providing the assistance to the loanees;
- the targets set for loan disbursement were achieved and there were no delays in processing the cases at various stages;
- the Corporation had put in place system and procedure for effective monitoring of recovery of its dues and ensured its application;
- effective and efficient internal control/internal audit and Management Information System existed in the Corporation; and
- the overall objective to create institutional framework for financing small and medium industrial units had been achieved to accelerate industrial growth in the State.

Audit criteria

3.1.4 The following audit criteria were adopted:

- laid down procedures for sanction, disbursement and monitoring of recovery;
- targets fixed and their achievements;
- guidelines and circulars issued by the Reserve Bank of India (RBI) and Small Industries Development Bank of India (SIDBI)/Industrial Development Bank of India (IDBI);
- the provisions of SFC Act, 1951 and the State Industrial Policy; and
- decisions of Board of Directors, instructions and circulars issued from time to time.

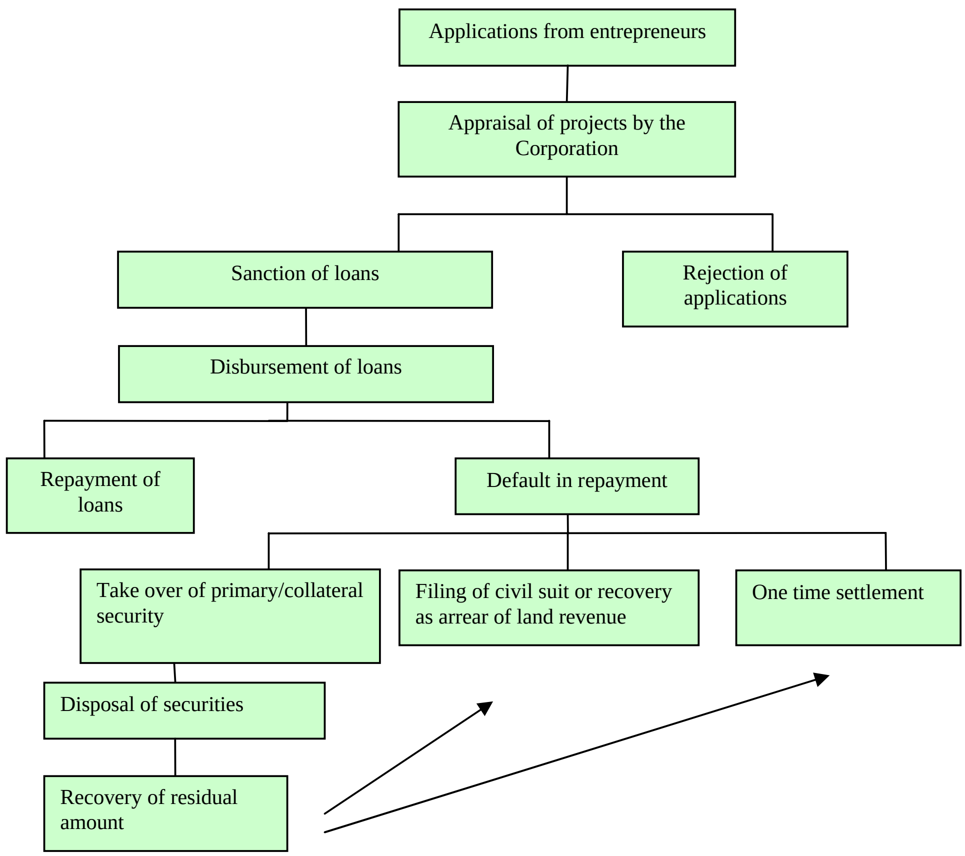
Audit methodology

3.1.5 Audit adopted the mix of following methodologies:

- analysis of the Corporation's procedure in respect of disbursement and recovery of loans;
- review of agenda and minutes of the meetings of Board of Directors/ Executive Committee;
- review of loan ledgers and recovery registers;
- review of records and analysis of data regarding take over of the defaulting units and system of their disposal; and
- interaction with the Management at various levels.

Procedure for financial assistance and recovery

3.1.6 The Corporation grants loans upto a maximum of Rupees five crore for acquiring fixed assets, expansion/modernisation and for setting up new units. The repayment period for small scale industrial (SSI) units is seven to eight years with gestation period of one and half year and 10 years with gestation period of two years for non SSI units, in quarterly installments. In case of default, penal interest at the rate of two *per cent* per annum is levied on defaulted amount. The loans are sanctioned after appraisal of the project reports for their viability and disbursed in installments depending upon compliance of terms and conditions of sanction. The loans are secured by mortgage of all the existing and future fixed assets and collateral security is also obtained depending upon the location of the unit and risk perception. A flow chart indicating the process of sanction, disbursement and recovery is presented below:



The Corporation is also extending deferred payment facility to the buyers of primary/collateral securities auctioned by the Corporation to realise its dues. The Corporation takes 25 *per cent* of the bid amount before confirmation of the sale and remaining 75 *per cent* of auction price is treated as loan to be repaid in three years (12 quarterly installments) at the prevailing rate of interest. This 75 *per cent* is included in the fresh sanctions, disbursements and recoveries which tantamount to overstatement of sanctions, disbursements and recoveries.

Share capital and working results

3.1.7 The authorised share capital of the Corporation was Rs. 300 crore divided into 30 crore shares of Rs. 10 each. Against this, the paid up capital was Rs. 104.68 crore as on 31 March 2008 and accumulated loss was Rs. 132.19 crore which was 1.26 times of the paid up capital. The working results of the Corporation for the last five years ending March 2008 are given in **Annexure 17.** It would be seen from the annexure that income of the Corporation declined by 49.30 *per cent* from Rs. 57.18 crore in 2003-04 to Rs. 28.99 crore in 2007-08 and loss increased from Rs. 3.82 crore in 2003-04 to Rs. 22.86 crore in 2004-05. The Corporation earned profit of Rs.11.94 crore, Rs. 6.37 crore and Rs. 15.46 crore during 2005-06 to 2007-08 respectively. Audit noticed that the Corporation had written back provision of Rs. 9.95 crore and Rs. 3.10 crore during 2005-06 and 2006-07 respectively made against non performing assets which were settled under one time settlement schemes during these years resulting in increase in profit to that extent. Further, the Corporation changed its method of accounting from cash system to accrual basis during 2007-08. Consequently, the Corporation made a provision for deferred tax[*] assets which converted the loss of Rs. 17.15 crore before tax to profit of Rs. 15.46 crore after tax during 2007-08.

Total loans outstanding as on 31 March 2008 were Rs. 824.76 crore which included interest of Rs. 611.01 crore. The corporation has not developed sector wise data bank of loans disbursed to assess the impact of funding in different sectors.

Audit findings

3.1.8 The audit findings were reported (April 2008) to the Government/Management and discussed in the meeting (23 July 2008) of Audit Review Committee for State Public Sector Enterprises (ARCPSE) wherein representatives of the State Government and the Corporation were present. Views of the Government/Management were considered while finalising the review. The audit findings are discussed in succeeding paragraphs:

Resource mobilisation and utilisation

Business Plan and Resource Forecast

3.1.9 The Corporation had neither conducted any study/survey for preparing long term/short term plan nor formulated any long term plan for its operations.

[*] Deferred tax is the tax effect of timing differences between taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent years.

The Corporation prepares Business Plan and Resource Forecast (BPRF) every year for submission to SIDBI indicating the source of funds and utilisation thereof. The loans sanctioned by the Corporation to loanee units under refinance schemes are funded by the SIDBI. The details of resources planned, mobilised and utilised during the five years ended 31 March 2008 are given in the **Annexure 18.** Audit noticed that the Corporation did not prepare and submit BPRF well before the commencement of financial year to SIDBI. Resultantly, there was delay in approval of BPRF by the BOD which ranged between 5 and 12 months from the commencement of the year during 2003-08. The analysis of BPRF revealed that the Corporation mobilised Rs. 856.06 crore against the target of Rs. 899.75 crore during the period 2003-08**,** out of which Rs. 593.56 crore (69.34 *per cent*) came from recovery, Rs. 166.42 crore (19.44 *per cent*) from borrowings, Rs. 73.75 crore (8.61 *per cent*) from equity contribution from the State Government and Rs. 22.33 crore (2.61 *per cent*) from other sources like loan processing fee, sale of application forms etc. As against aggregate resources of Rs. 856.06 crore, the Corporation could disburse only Rs. 220.31 crore including Rs. 64.24 crore adjusted against deferred payment facility during the same period which was 25.74 *per cent* of funds mobilised. It was further noticed that Rs. 504.56 crore (58.20 *per cent*) was utilised for repayment of loans and interest thereon.

Against aggregate resources of Rs. 856.06 crore, the Corporation could disburse only Rs. 220.31 crore during 2003-08.

The Management stated (July 2008) that BPRF can only be prepared on the basis of last year results which are known after the finalisaion of annual accounts. The reply is not tenable as the Corporation had been preparing BPRF even when its accounts were in arrears. Further, the plans & forecast should be prepared in advance to optimise achievement of objectives. During ARCPSE meeting the Corporation assured (July 2008) that in future BPRF would be prepared in time on the basis of provisional accounts**.**

Contribution from State Government

3.1.10 A Memorandum of Understandings (MOU) was signed (March 2004) between the Corporation, State Government and SIDBI. The State Government agreed to provide resource support from time to time to strengthen the equity base of the Corporation to facilitate higher level of borrowings and achieving capital adequacy ratio* of 9 *per cent* which was (-)28 *per cent* in 2003-04 and further decreased to (-)30 *per cent* in 2006-07. The Corporation needed (March 2007) approximately Rs. 145 crore to meet the desired capital adequacy ratio. The Corporation failed to mobilise substantial equity contribution from the State Government and received Rupees eight crore only during 2003-07 against the target of Rs. 10 crore. It is pertinent to mention here that the Corporation had set the target of raising equity at lower side and SIDBI, while approving the target of Rupees five crore for the year 2004-05, stated (November 2004) that it was a token amount which should be stepped up further in future. Instead of stepping up the target during the years 2005-06 and 2006-07, the Corporation reduced the target to Rupees two crore and Rupees three crore respectively, resulting in

* The ratio represents share capital plus reserve and surplus minus accumulated losses divided by total risk weighted assets. The weight of each asset is determined by RBI/SIDBI.

lower moblisation of funds and consequently lower disbursement of loans. Due to negative capital adequacy ratio and negative networth which ranged from 28.36 *per cent* to 33.39 *per cent* and Rs. 99.53 crore to Rs. 125.84 crore respectively during 2003-07, SIDBI stopped (June 2007) the refinancing facility to the Corporation.

The State Government sanctioned/released Rs. 65.75 crore towards share capital to the Corporation during 2007-08. Out of this, the Corporation invested Rs. 65 crore at the behest of the State Government in Haryana Power Generation Corporation (a public sector Company of the Haryana Government), leaving only Rs. 0.75 crore for business operations. Thus the Corporation failed to generate funds for loaning activities. In the reply and during ARCPSE meeting the Management stated that with the infusion of this capital their networth and capital adequacy ratio had improved.

Appraisal/Sanction and Disbursement

3.1.11 Appraisal is the critical examination of technical, financial and commercial feasibility of a project and judging the managerial competence of promoters to implement and run the project successfully. Appraisal of projects is necessary to determine whether investment in these projects would be worthwhile. The Corporation has a manual for appraisal of the loan cases giving a general idea of eligibility criteria, documents required, promoter's contribution, procedure for sanction of loans, collateral security norms etc.

Financial target and achievement

3.1.12 The position of targets and achievements as per BPRF in respect of loans sanctioned and disbursed by the Corporation for the five years ended 31 March 2008 was as under:

(Rupees in crore)

Year	Sanction of loan			Disbursement of loan					
	Target	Achieve-ment	Short-fall	Target	Achieve-ment	Short-fall	Achievement excluding deferred payment facility	Short-fall	Percentage of shortfall of disburse-ment to actual sanction (3 – 6)/3 x 100
1	2	3	4	5	6	7	8	9	10
2003-04	68.40	33.04	35..36 (51.70)	85.67	30.93	54.74 (63.90)	14.36	71.31 (83.24)	6.39
2004-05	70.00	33.62	36.38 (51.97)	50.00	26.95	23.05 (46.10)	14.56	35.44 (77.88)	19.84
2005-06	83.50	62.88	20.62 (24.69)	60.00	40.36	19.64 (32.73)	19.95	40.05 (66.75)	35.81
2006-07	110.00	163.30	-	70.00	67.09	2.91 (4.16)	54.41	15.59 (22.27)	58.92
2007-08	60.00	59.17	0.83 (1.38)	58.00	54.98	3.02 (5.21)	52.78	5.22 (9.00)	7.08

Figures in the bracket indicate percentage of shortfall in achievement

3.1.13 An audit analysis revealed as under:

- The Corporation could not achieve the targets fixed in respect of sanction of loans. The shortfall in achievement of targets ranged between 24.69 to 51.97 *per cent* during 2003-06.

The Corporation could not achieve the targets of sanction and disbursement of loans. The shortfall in disbursement ranged between 9 and 83.24 *per cent*.

- The shortfall in disbursement targets was 63.90 *per cent*, 46.10 *per cent*, 32.73 *per cent*, 4.16 *per cent* and 5.21 *per cent* during 2003-08 respectively. The shortfall would further increase to 83.24 *per cent*, 70.88 *per cent*, 66.75 *per cent*, 22.27 *per cent* and 9 *per cent* respectively during the same period, if the disbursement of deferred payment facility was excluded from the figures worked out by the Management.
- The shortfall in percentage of disbursement to actual sanction increased from 6.39 *per cent* in 2003-04 to 58.92 *per cent* in 2006-07.

The Management stated (July 2008) that during 2002-06 the main emphasis of the Corporation was to recover the old dues.

Physical performance

3.1.14 The details of loan applications received, sanctioned and disbursed by the Corporation during five years upto 2007-08 are given in the **Annexure 19.** It would be seen therein that percentage of sanction cases to applications received ranged between 53 and 89 *per cent* during five years ended March 2008. Against 568 cases sanctioned, the Corporation disbursed loans to 429 units only during five years ending March 2008.

3.1.15 During test check of 135 loanees' accounts in five districts* it was noticed that the appraisal of loan applications was deficient as the information supplied by the loanees was not cross verified, sectoral portfolio analysis was not done, norms for sanction of loan were relaxed, creditworthiness of the loanees was not verified and there were delays in sanction of loans. This has been discussed below:

- The appraisals were finalised mainly on the basis of information supplied by the loanees. The Corporation had not obtained/collected information from other sources regarding demand/supply and pricing of products etc.;
- While appraising loan applications, sectoral portfolio analysis detailing existing Corporation's credit exposure to respective sector and factors impacting sector performance etc. which were critical for decision making were not reflected in the appraisal report;
- In appraisal report, personal means of promoters/directors/guarantors were taken on the basis of affidavits submitted by them. No system was devised for independent verification and valuation of the personal means. In one case, when valuation was carried out by the Corporation, the personal means were found to be Rs. 1.04 crore against the affidavit given for Rs. 1.46 crore;

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* Bahadurgarh, Gurgaon, Panchkula, Panipat and Sonepat.

- The Corporation relaxed the norms for accepting/releasing the collateral securities in nine cases;
- Creditworthiness/financial position of the applicants was not ascertained from banks/financial institution in four cases;
- In three cases special conditions of sanction letter were relaxed while making disbursements; and
- The Corporation took considerable time in sanction of loans. There was delay in 97 cases (72 *per cent*) beyond prescribed period of one month. The delay ranged from 3 to 30 days in 35 cases, more than one month to six months in 59 cases and more than six months in three cases.

The Management stated (July 2008) that:

- conditions regarding obtaining of collateral security were relaxed by competent authority;
- creditworthiness of the applicants is verified before disbursement as a result there have been negligible NPAs after April 2003;
- delay in sanctions occurs due to delay on the part of borrowers to furnish the required information /documents in time.

The Management should prescribe timeframe for completion of all formalities by the applicants to avoid delays in sanctions of loans as abnormal delays result in cost overrun and affect the viability of the projects.

Appraisal of real estate projects

3.1.16 In view of the cautious stand taken by RBI for bank financing of real estate projects, SIDBI sent **(**March 2007) a detailed overview of the real estate industry in India and guidance note for SFCs to mitigate credit risks in real estate projects. As per the detailed overview, lease rental in Gurgaon would face downward pressure in future, as approximately 70 *per cent* new real estate projects were expected to be added in National Capital Region/Delhi market in 2005-06. Guidance note suggested that the appraisal of real estate projects should be detailed and contain comments on demand-supply position. The possibility of obtaining suitable feed back from organisations set-up exclusively for rating real estate projects could be considered. Further, considering the nature of the industry suitable collateral securities with adequate coverage might be taken.

Scrutiny of the records revealed that the Corporation sanctioned (March to June 2007) Rs. 18.05 crore to four real estate projects in Gurgaon for construction of institutional/commercial buildings for leasing out. Audit noticed the following deficiencies in appraisal of the cases:

- the appraisal of these projects did not cover analysis of demand and supply position as directed by SIDBI in its guidelines;
- the Corporation did not take any feed back from any rating agency for appraisal of these projects;

- the Corporation did not work out future cash flow on conservative basis and cash flow had been worked out on the basis of prevailing market rate of lease rental; and
- the Corporation sanctioned these projects without taking any collateral security.

The Management stated (July 2008) that the Corporation took into consideration broad overview of demand and supply position and made its own assessment based on its past experience and inbuilt cushion in the primary security was adequate to cover the exposure of the Corporation. The fact, however, remained that the Corporation did not comply with the guidelines issued by SIDBI for SFCs to mitigate credit risks in real estate projects.

Monitoring of loan cases

3.1.17 Effective monitoring is essential for success of all programmes. For effective monitoring, spot inspection of financed units and scrutiny of working results/balance sheets are important both as tools of internal control and to enable timely correction wherever necessary. The COPU recommended (March 2003) for strict monitoring of the performance of loanee units. Test check of the records revealed that the corporation failed to properly monitor the loan cases as it had no system of reviewing the financial statements of the loanees, inspecting the loanee units, appointing its nominee on the Board of loanee units and non renewal of insurance of primary securities as discussed below:

The Corporation had no system to periodically review the balance sheets and working results of the financed units.

- No system had been devised for conducting inspections of loanee units at regular intervals. The branch offices did not maintain any record to keep details of inspections actually conducted in respect of each unit despite recommendations (March 2005) of SIDBI for preparation of a branch wise schedule of units to be visited, monitoring of units actually visited by the Branch Manger and its review by the head office.
- The Corporation had not evolved any system of collection/analysis of balance sheets/working results of financed units to know their financial health.
- In terms of Section 27 (2) of the SFC Act, 1951, the Corporation, by virtue of provisions in the agreement, could appoint its nominee on the BOD of financed units. This is important to ascertain the status of financed units. It was, however, observed that the Corporation had not appointed any nominee on the BOD of the financed units even where credit exposure was high.
- The Corporation was getting the primary securities insured at the time of disbursement of loans. However, renewal of the insurance of securities in the subsequent years was not ensured even after being pointed out by the Statutory Auditors in their Audit Reports for the years 2003-04 to 2005-06.

During ARCPSE meeting the Management assured to take into consideration the shortcomings pointed out in Audit.

Recovery performance

3.1.18 Recovery of loan is pursued by respective branch officer and the head office monitors overall recovery position of the Corporation. The Corporation issues demand notice prior to due date of repayment in terms of loan agreement. The borrowers are expected to clear the dues by the specified date. In case the payment is not feasible due to unavoidable circumstances, the borrower could approach the Corporation for reschedulement. If a unit fails to pay or approach the Corporation for reschedulement, another notice is issued giving 15 days time to clear the default. On failure of the borrower to repay the due amount, the entire loan is recalled under section 30 of the SFC Act giving 30 days notice to clear the dues. Even after recall if the borrower does not respond, the Corporation, after issuing notice of 21 days under section 29 of SFC Act, takes possession of the unit. The assets so acquired are sold through open auction and realisation adjusted against the dues. For recovery of residual amount, the cases are pursued through the District Collectors for recovery as arrears of land revenue under Section 3 of Haryana Public Money (Recovery of Dues) Act, 1979.

The details of the amount due for recovery[*] (including interest), target fixed and amount recovered during the last five years ending March 2008 are given in the table below:

(Amount: Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Amount due for recovery :					
Arrears at the beginning of the year	1068.22	1235.29	1356.76	1450.02	1575.84
Add amount due during the year	331.25	357.23	336.35	339.89	368.29
Total amount recoverable	1399.47	1592.52	1693.11	1789.91	1944.13
Less amount rescheduled/ written off	8.69	2.20	0.38	0.04	1049.13
Net Amount recoverable	1390.78	1590.32	1692.73	1789.87	895.00
Target amount for recovery	**148.19**	**150.10**	**140.70**	**100.75**	**81.60**
Recovery against :					
Old dues[#]	52.75	43.66	53.15	42.48	27.81
Current year demand	88.41	70.35	50.13	43.90	31.28
Prepayments	25.40	24.08	12.85	9.41	6.94
Leasing/Merchant Banking[**]	4.10	3.89	5.17	2.85	4.21
Total recovery	**170.66**	**141.98**	**121.30**	**98.64**	**70.24**
Percentage of recovery against :					
Target amount for recovery	115.16	94.59	86.21	97.91	81.08
Net amount recoverable	12.27	8.93	7.17	5.51	7.85
Old dues	4.94	3.53	3.92	2.93	1.76
Current year demand	26.69	19.69	14.90	12.92	8.49

[*] Figures as per Memoranda account which include interest on NPAs as well as standard assets.

[#] Arrear at the beginning of the year.

[**] This activity had been closed about ten years back.

Audit analysis revealed that :

- the amount recovered included Rs. 7.98 crore, Rs. 10.86 crore, Rs. 12.67 crore, Rs. 11.72 crore and Rs. 8.04 crore during 2003-08 respectively on account of deferred payment facilities;
- separate targets were not fixed for recovery of old dues;
- the targets for recovery were reduced from Rs. 148.19 crore during 2003-04 to Rs. 100.75 crore during 2006-07 whereas the net amount recoverable increased from Rs. 1,390.78 crore to Rs. 1,789.87 crore during the same period. The net amount recoverable came down to Rs. 895 crore at the end of 2007-08 because of rescheduling/writing off of loans amounting to Rs. 1,049.13 crore.
- the targets (Rs. 148.19 crore to Rs. 81.60 crore) were much lesser than *even* the amount due for recovery (Rs. 331.25 crore to Rs. 368.29 crore) during these years;
- the percentage of recovery against net amount recoverable decreased from 12.27 to 7.85 *per cent* during 2003-08;
- recovery of old dues decreased from 4.94 to 1.76 *per cent* during 2003-08 despite recommendations of COPU for making vigorous efforts to increase the recovery of old dues.

The Management stated (July 2008) that the net amount recoverable increased every year due to debiting of interest even on those NPAs which were not recoverable. During ARCPSE meeting the Management further intimated that the Corporation was examining the feasibility of discontinuing debiting of interest on such NPAs.

- out of 1,762 default accounts comprising 1342 loanees as on 31 March 2007, 733 accounts of 314 loanees were in default as multiple loans (two to seven) had been disbursed to the same units. Analysis of these cases revealed that the Corporation sanctioned subsequent loans before start of recovery of earlier loans (i.e. during the moratorium periods).

Undue waiver of loading charges

3.1.19 With a view to discourage swapping of loans taken from the Corporation with the loan from other banks/financial institutions at lower rate of interest, the BOD decided (September 1997) to recover loading charges at two *per cent* per annum from the units who prematurely adjusted their loan accounts. Audit noticed that during the five years ending March 2007, the Corporation had waived 50 *per cent* of the loading charges amounting to Rs. 0.93 crore in 88 cases on recommendations by the Branch Managers. This could not be justified as there was no transparent system in deciding the waiver of loading charges. Swapping of loans had resulted in decrease of interest income of the Corporation due to subsequent re-lending at lower rate of interest.

The Corporation arbitrarily waived off Rs. 0.93 crore loading charges on prepayment of its loans.

The Management stated (July 2008) that there was no financial loss to the Corporation as without liquid funds, the Corporation could not have repaid high cost SLR Bonds/refinance to SIDBI. Reply is not tenable as 50 *per cent* loading charges were refunded arbitrarily after accepting prepayments without any recorded reasons.

In one case (In Trading Private Limited, Gurgaon) the Corporation waived off 100 *per cent* loading charges of Rs. 10.40 lakh due to non incorporation of provision of loading charges in the mortgage deed. The Management stated (July 2008) that this provision had been added in subsequent mortgage deeds.

Asset management

3.1.20 In the case of State Financial Corporations, SIDBI had classified the loans into the following four categories depending upon their chances of realisation.

Standard assets - where payments are regular.

Sub-standard assets - where loans as well as interest remain overdue over a period of 3 months but not exceeding 15 months.

Doubtful assets - where loans as well as interest remain overdue beyond 15 months to 51 months.

Loss assets - where the security is not available and losses are identified but not written off at the end of the year.

The assets other than Standard assets are Non-performing Assets (NPAs). The position of NPAs (excluding interest accrued) during the last five years ended 31 March 2008 was as under:

(Amount: Rupees in crore)

Year	**2003-04**		**2004-05**		**2005-06**		**2006-07**		**2007-08**	
	Case (No.)	**Amount**	**Case (No.)**	**Amount**	**Case (No.)**	**Amount**	**Case (No.)**	**Amount**	**Case (No.)**	**Amount**
Total assets/ loan outstanding	3503	387.39	3039	324.78	2544	287.72	2129	290.49	981	213.75
Standard Assets	937	124.58 (32.16)	730	75.52 (23.25)	622	74.02 (25.73)	559	104.36 (35.93)	464	132.52 (62.00)
Sub-standard assets	275	22.27 (5.75)	187	16.22 (4.99)	117	7.30 (2.54)	81	4.91 (1.69)	52	2.32 (1.08)
Doubtful assets	1344	174.75 (45.11)	1169	153.69 (47.32)	826	119.32 (41.47)	556	91.44 (31.48)	465	78.91 (36.92)
Loss Assets	947	65.79 (16.98)	953	79.35 (24.43)	979	87.08 (30.27)	933	89.78 (30.91)	-	-
Total NPAs	2566	262.81 (67.84)	2309	249.26 (76.75)	1922	213.70 (74.27)	1570	186.13 (64.07)	517	81.23 (38.00)

(Figures in bracket represent percentage to total loan outstanding)

It would be seen from the above table that:

- the loss assets which were Rs. 65.79 crore during 2003-04 (16.98 *per cent* of total assets) increased to Rs. 89.78 crore during 2006-07 (30.91 *per cent*). The Corporation has written off the entire loss portfolio of Rs. 87.43 crore during 2007-08 as per the guidelines issued by SIDBI on Uniform Accounting Practices.

The NPAs were 38 *per cent* as on March 2008 against the commitment of less than 10 *per cent* made to SIDBI/State Government.

- as per the MOU signed (March 2004) between the Corporation, SIDBI and the State Government for restructuring of the Corporation, the Corporation agreed to bring down the level of NPAs to less than 10 *per cent* during next five years. The Corporation, however, failed to bring down the NPAs as they remained at 38 *per cent* as on March 2008 even after writing off the entire loss portfolio of Rs. 87.43 crore during the year; and
- the Corporation did not maintain any records indicating industry wise NPAs to contain increase of NPAs in future by restricting the financial assistance to units/industries having major chunk of NPAs.

During ARCPSE meeting the Management informed that it had started classifying industry wise NPAs.

Disposal of collateral securities

3.1.21 The Corporation obtains collateral security from loanees in the form of land, building, shops etc. in addition to primary security to secure the loans. The value of collateral security is assessed by the Corporation and taken as accepted value. In case of default, the Corporation disposes of the collateral security to realise its dues.

Scrutiny of the records relating to disposal of collateral securities during 2003-08 revealed that the Corporation sold 331 properties at Rs. 29.34 crore against the accepted value of Rs. 34.63 crore. Following table depicts the year wise detail of disposal of these properties:

(Amount: Rupees in crore)

Year	No. of properties sold	Accepted value	Sale value	Less realisation with respect to accepted value
2003-04	55	4.31	2.32	1.99
2004-05	64	7.14	4.30	2.84
2005-06	122	13.76	13.74	0.02
2006-07	60	6.63	5.53	1.10
2007-08	30	2.79	3.45	-
Total	**331**	**34.63**	**29.34**	**5.95**

The Corporation suffered a loss of Rs. 5.95 crore due to acceptance of collateral securities at inflated values.

Despite boom in the real estate, the Corporation suffered a loss of Rs. 5.95 crore during 2003-07 which indicated acceptance of collateral securities at inflated value.

During ARCPSE meeting the Management informed that it had discontinued the practice of taking collateral securities and only Haryana State Industrial Infrastructure Development Corporation Limited/Haryana Urban Development Authority plots were being considered for financing on book value.

Recovery certificate cases

3.1.22 The table below indicates the position of cases where recovery certificates (RC) had been issued by the Corporation as on 31 March 2008.

Particulars	Number of cases	Amount recoverable (Rupees in crore)
Total number of RC cases	715	1224.11
Returned by collectors being non enforceable	147	211.42
Pending with collectors	438	861.59
Whereabout of borrowers/guarantors not known	130	151.10
Arrests made	81	61.73

The recovery of Rs. 362.52 crore in 277 cases could not be effected in the absence of means and whereabouts of the loanees/guarantors.

It would be seen from the above table that Rs. 1,224.11 crore was recoverable from 715 units. In 277 cases involving Rs. 362.52 crore, the recovery could not be effected as recovery certificates were returned by collectors due to non availability of latest addresses and means with the loanees/guarantors (Rs. 211.42 crore) and whereabouts of the promoters/guarantors were not available with the Corporation for issuing RCs (Rs. 151.10 crore). The Corporation could recover only Rs. 33.24 crore during the period 2003-08. Huge pendency of RCs showed the ineffectiveness of this mode of recovery. The COPU recommended (March 2003) that the Corporation should take up the matter at highest level to boost recovery from defaulters. The Committee further desired that Chief Secretary of the State should be requested to give the requisite direction to all the District Collectors to pursue the recovery cases for effecting recovery as arrears of land revenue, on priority basis. The Corporation had not, however, complied with this direction.

The Management stated (July 2008) that demi-official letters from Chairman of the Corporation were issued from time to time to the Collectors. The fact remained that still large number of cases were pending with the collectors.

One time settlement scheme

3.1.23 The Corporation, with the objective of realising sticky overdues, formulated following settlement schemes from time to time.

- One time settlement scheme: It was applicable for those accounts which had been classified as doubtful accounts.
- Policy for Compromise Settlement of NPAs of Haryana Financial Corporation-2003[*] and 2005[**]: These schemes were applicable for the accounts which were classified as NPAs as on 1 April 2000 and 31 March 2003 respectively.
- Policy for Compromise Settlement of Loss Accounts of Haryana Financial Corporation-2003[*] and 2005[**]: These schemes were

[*] Currency of the scheme was from 16.6.2003 to 31.3.2005.
[**] Currency of the scheme was from 1.7.2005 to 31.3.2008.

applicable for the accounts which were classified as loss accounts as on 15 June 2003 and 15 June 2005 respectively.

The following table depicts the position of amount outstanding at the time of settlement, amount of settlement and amount waived off under one time settlement during the last five years ended 31 March 2008:

(Rupees in crore)

Year	No. of cases settled	Total outstanding at the time of settlement	Amount of settlement	Amount waived	Amount received against settlement up to 31.3.2008	Percentage of waived amount to total outstanding
2003-04	158	74.56	28.59	45.97	22.54	62
2004-05	41	24.89	9.01	15.88	9.25	64
2005-06	378	256.13	51.81	204.32	40.07	80
2006-07	152	166.30	23.38	142.92	9.81	86
2007-08	81	193.83	22.63	171.20	10.43	88
Total	**810**	**715.71**	**135.42**	**580.29**	**92.10**	**81**

The Corporation waived Rs.580.29 crore (81 *per cent*) in settlement of dues worth Rs. 715.71 crore in respect of 810 cases and recovered Rs. 92.10 crore (68 *per cent*) out of Rs. 135.42 crore settled till March 2008. Deficiencies noticed in 14 out of 128 cases test checked in Audit are given in succeeding paragraphs.

The Corporation suffered loss of Rs. 1.14 crore by settlement of 12 cases under OTS at a value less than the value of securities available.

- The Corporation settled 12 cases for Rs. 4.92 crore under OTS even when it had in its possession, primary/collateral securities worth Rs. 6.69 crore resulting in loss of Rs. 1.14 crore as per details given in **Annexure 20.** Corrective steps were not taken by the Corporation despite repeated observations by the Statutory Auditors in their audit reports (2004-05 to 2005-06) that recoveries made by the Corporation from cases settled though OTS schemes were not commensurate with the value of securities available with the Corporation.
- In case of Mahendra Foam Udyog (P) Limited, Faridabad the Corporation settled the loans at Rs. 28.76 lakh whereas the settlement amount worked out to Rs. 41.66 lakh as per the approved policy of the Corporation, resulting in loss of Rs. 12.90 lakh.
- The Corporation disbursed two loans to Shree Wood Products Pvt. Ltd., Gurgaon of Rs. 32.82 lakh and Rs. 42.59 lakh against sanction of Rs. 33 lakh (October 1987) and Rs. 49 lakh (September 1992) respectively. The unit went into default and both the accounts became doubtful in December 1995 and March 1996 respectively. The possession of primary security was lying with the Central Excise Department as there was a dispute with regard to first charge on the primary security mortgaged to the Corporation and the case was pending (July 2004) before the High Court.

  The unit approached (July 2004) the Corporation for compromise settlement of loan. The matter was placed before BOD which declined

(July 2004) the request of the unit as the value of available security was Rs. 3.60 crore against the total outstanding of Rs. 1.76 crore as of July 2004. The Board further decided to take up the matter with Central Excise Department, who agreed (November 2004) to revoke the attachment orders and allow the Corporation to proceed with the sale of mortgaged property subject to the Corporation withdrawing the court case and sharing the sale proceeds in proportion to the outstanding dues. The BOD agreed (November 2004) with this proposal. Despite this the case was not withdrawn from the court. The unit again applied (July 2005) for settlement under the prevalent OTS and the Corporation settled (July 2005) both accounts at the principal amount of Rs. 38.45 lakh against the total outstanding of Rs. 2.37 crore as of June 2005.

Thus undue favour was granted to the unit in settlement of loans at the principal amount. Had the Corporation complied with the decision (November 2004) of the BOD and disposed of property at the assessed value of Rupees four crore it could have fetched proportionate amount of approximately Rs. 1.51 crore against Rs. 38.45 lakh realised under settlement.

The Management stated (July 2008) that the case was not withdrawn as the Corporation had filed the case challenging the action of Central Excise Department for attaching the properties. Withdrawal of the case would have affected the number of other cases where the Sale Tax/Excise Department passed attachment orders. The reply is not tenable as the directions (November 2004) of the BOD to withdraw the case from the court were not implemented.

Manpower analysis

The administrative and establishment expenditure was 61.30 *per cent* of the total income against the commitment of 10 *per cent* made to SIDBI/State Government.

3.1.24 As per MOU signed (March 2004) between the Corporation, SIDBI and State Government, the Corporation had agreed to curtail the administrative and establishment expenditure in a phased manner so as to ensure that it would not exceed 10 *per cent* of total income. However, the percentage of expenditure on employees during five year period ended March 2008 increased from 14.16 *per cent* in 2003-04 to 61.30 *per cent* in 2007-08 due to higher expenditure and consistent depletion in income as tabulated below:

(Rupees in crore)

Years	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**
Income	57.18 -	51.25 (-10.37)	44.25 (-13.66)	36.81 (-16.81)	28.99 (-21.24)
Salary & Administration expenditure	8.10 -	9.74 (20.25)	9.00 (-7.60)	9.57 (6.33)	17.77 (85.68)
Percentage of expenditure on employees to income	14.16	19.00	20.34	26.00	61.30

(Figures in brackets indicate the increase/decrease (-) in percentage terms over previous year)

The expenditure beyond 10 *per cent* worked out to Rs. 32.35 crore during these years. Thus the Corporation failed to exercise control over employee cost as per provisions of MOU.

The Management stated (July 2008) that with fresh business and increased income the expenditure on employees in the coming years would be contained within 10 *per cent* of the total income**.**

Contribution in industrial growth

The areas outside NCR were not paid due attention for financial assistance which hampered balanced industrial growth in the State.

3.1.25 The Corporation has not devised any mechanism to evaluate the impact of financial assistance on industrial growth in the State. No data regarding success ratio of financed units has been maintained by the Corporation. As on 31 December 2007 the Corporation had 1,919 loanee units, out of which only 524 units (27.31 *per cent*) were running successfully. Moreover, no attention was paid to the overall industrial growth of the State. As of January 2006, out of 119 blocks in the State, 88 were industrially backward. It was noticed that there was a declining trend towards sanction of loans in backward blocks. The Corporation sanctioned Rs. 4.49 crore (12.86 *per cent* of the total sanction of Rs. 34.88 crore) in 2003-04 in these blocks which declined to Rs. 0.22 crore (0.37 *per cent* of total sanction of Rs. 59.17 crore) during 2007-08. The spread of loan was uneven among various districts and heavily tilted towards areas in the NCR. Out of Rs. 394.61* crore sanctioned during 2003-08, loans amounting to Rs. 362.56 crore (91.88 *per cent*) were sanctioned in the National Capital Region (NCR). In Gurgaon district alone 57.18 *per cent* loans were sanctioned whereas no loan was sanctioned in Kaithal and Narnaul districts during the last five years upto March 2008. This indicated that areas outside NCR were not paid due attention thereby impeding balanced industrial growth in the State.

During ARCPSE meeting the Management assured to explore possibilities of extending loan facilities in other areas also.

Management Information System

3.1.26 A well defined Management Information System (MIS) is a vital part of the internal control system and is necessary for providing timely, adequate and accurate information to the relevant persons in the organisation. It helps in enabling right decisions to be taken at right time. MIS enables weak spots to be identified for corrective action so as to make the system more effective. As per MOU signed (March 2004) among the Corporation, SIDBI and State Government, the Corporation agreed to introduce proper and comprehensive MIS. Following deficiencies were noticed in audit:

* Gross amount of sanctions.

- The Corporation had not identified information source centres and information use centres to channelise the flow of information for effective decision making;
- the Corporation did not have a suitable mechanism for critical examination of viability of projects through market research and had not maintained data bank regarding performance of various industrial units of different sectors in the State; and
- the Corporation had not maintained information and statistics in respect of industry benchmark of various financial parameters for inter corporate comparison and not conducted post review of appraisals to identify areas of deficiencies for taking remedial measures.

The Management stated (July 2008) that after implementation of IT plan, the MIS would be strengthened.

Vigilance set up

3.1.27 There was no separate system in place to look after the matters related to vigilance. The SIDBI in its report (March 2005) stressed the need to form a separate vigilance department. The State Government directed (August 2006) all the heads of departments/Public Sector Enterprises to nominate a Chief Vigilance Officer and appropriate number of vigilance officers with a view to look into areas where opportunity for corruption was likely to arise and to devise ways and means for minimising scope of corruption. Accordingly, the Corporation appointed (September 2006) one DGM as Chief Vigilance Officer. The scope of work/duties of vigilance cell were not framed. Neither any major work regarding conducting of inquiries, verification of documents etc. was entrusted to the cell nor any record, returns/reports were prepared/submitted by vigilance cell.

Conclusion

Even after more than 40 years of its operations, the corporation had no system to formulate long term plans for its operations. Appraisal of loan applications and monitoring of loans was defective due to lack of requisite systems. The Corporation failed to mobilise sufficient funds during the five year period ending March 2008 for its business operations. Disbursements were much lower than the actual amount of sanctions. The spread of loan was uneven among various districts and heavily tilted towards National Capital Region thereby impeding balanced industrial growth. The Corporation had not evolved any mechanism to evaluate the impact of financial assistance on industrial growth. No separate targets for recovery of old dues were fixed to monitor their recovery. The level of Non Performing Assets was high and the process of recovery of old dues through Collectors was ineffective and very slow. The Corporation had

not evolved any system of collection/analysis of balance sheets/working results of loanee units to know their financial health.

Recommendations

The Corporation may consider to:

- **put in place a system of resource planning to achieve its targets and objectives;**
- **ensure the spread of loans cover all the regions in the State for balanced growth;**
- **evolve a mechanism to evaluate the impact of financial assistance on industrial growth;**
- **ensure realistic valuation of collateral securities by getting verification from local/revenue authorities or professional valuers at the time of their acceptance;**
- **bring down the percentage of non performing assets by taking up recovery cases vigorously with the revenue authorities; and**
- **devise a suitable monitoring system to have regular feed back of the operational/financial performance of the loanee units.**

The matter was referred to the Government in April 2008; the reply had not been received (September 2008).