

Chapter-III

3. Reviews relating to Statutory corporations

Maharashtra State Electricity Board

3.1 Fund Management

Highlights

The fund inflow of the Board mainly comprises revenue from sale of power, equity contribution and loans from State Government, banks and financial institutions, subsidy/grants from State Government. The fund outflow is by way of expenditure on power and fuel, interest payment, establishment, operation and maintenance works, repayment of loans and capital assets.

(Paragraph 3.1.1)

There was deterioration in collection of revenue. Arrears of revenue increased by 91 per cent (Rs.4,875.39 crore to Rs.9,300.33 crore) during 1999-2004. At the end of March 2004, arrears more than two years old constituted over 40 per cent of total arrears.

(Paragraphs 3.1.5-3.1.7)

The Board had obtained decrees of Rs.22.44 crore in its favour but the recovery from consumers was a meagre Rs.17.32 lakh.

(Paragraph 3.1.8)

Due to delayed remittances by banks between headquarters and field offices, the Board suffered interest loss of Rs.1.33 crore.

(Paragraphs 3.1.12 and 3.1.13)

Short recovery of security deposits of Rs.31.66 crore from consumers resulted in interest loss of Rs.3.48 crore per annum.

(Paragraph 3.1.19)

Failure to take full advantage of rebate offered by National Thermal Power Corporation led to loss of Rs.7.34 crore.

(Paragraph 3.1.23)

Advances to suppliers and contractors amounting to Rs.116.23 crore remained unrecovered/unadjusted.

(Paragraph 3.1.24)

The Board has not drawn loans as per drawal schedule in 109 out of 138 cases during 1999-2004 which resulted in payment of commitment charges of Rs.8.45 crore to Power Finance Corporation.

(Paragraph 3.1.27)

Introduction

3.1.1 Efficient fund management provides for establishing a system of cash and credit control, which serves as a tool for decision making for optimum utilisation of available resources and borrowings at appropriate time and most favourable terms. The fund inflow of the Board mainly comprises revenue from sale of power, equity contribution and loans from State Government, banks and financial institutions, subsidy/grants from State Government. The fund outflow is by way of expenditure on power and fuel, interest payment, establishment, operation and maintenance works, repayment of loans and capital assets.

Organisational set up

3.1.2 The fund management of the Board is looked after by the Director of Finance and Director of Accounts under the supervision of Member (Accounts).

Scope of Audit

3.1.3 An appraisal on ways and means (WM) section of the Board was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1994 No.1, (Commercial) Government of Maharashtra. The Report was discussed in September 1997 by the Committee on Public Undertakings (COPU). The COPU *inter alia* recommended that dues recoverable from public utilities should be adjusted from grants and the Board should take up the matter with banks for timely remittance of fund as there was persistent delay in remittances of fund. Action taken report on the

recommendations of the COPU is yet to be submitted by the Board (August 2004).

The present review conducted during January-April 2004 covers cash management, collection and remittances of revenue, borrowings from financial institutions, *etc.* It is based on a test check of records for the period 1999-2004 at WM section, head office and 15 out^o of 100 field units.

The audit findings, as a result of test check of records, were reported to the Government/Board in June 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting of ARCPSE was held on 19 July 2004 and their viewpoints had been duly incorporated in the review.

Sources and application of funds

3.1.4 The Board prepares an annual financial statement of estimated capital and revenue receipts and expenditure for submission to the State Legislature. **Annexure-10** shows sources and application of fund during 1999-2004.

Revenue

3.1.5 The revenue from sale of power accounts for more than 90 *per cent* of the Board's total revenue during 1999-2004. The position of revenue, its realisation and arrears of revenue during 1999-2004 is given below:

(Rupees in crore)

| Year | Opening balance | Revenue from sale of power | Total | Realisation | Closing balance | Borrowings during the year |
|-----------|-----------------|----------------------------|-----------|-------------|-----------------|----------------------------|
| 1999-2000 | 4,044.48 | 10,625.59 | 14,670.07 | 9,794.68 | 4,875.39 | 1,967.44 |
| 2000-01 | 4,875.39 | 11,739.70 | 16,615.09 | 10,706.09 | 5,909.00 | 2,003.91 |
| 2001-02 | 5,909.00 | 12,048.10 | 17,957.10 | 10,698.33 | 7,258.77 | 1,802.55 |
| 2002-03 | 7,258.77 | 12,517.40 | 19,776.17 | 10,965.50 | 8,810.67 | 1,500.88 |
| 2003-04 | 8,810.67 | 12,056.29* | 20,866.96 | 11,566.63 | 9,300.33 | 1,734.05 |

From the above table, it is seen that during 1999-2004 arrears of revenue have increased by 91 *per cent* (Rs.4,875.39 crore to Rs.9,300.33 crore). This indicates that there was deterioration in collection of revenue. The Board could have avoided borrowings by evolving an effective mechanism for recovery of outstanding dues.

^o Bhandup and Nagpur Urban Zones, Kalyan, Pen, Vashi, Bhiwandi, Pune Rural, Pune Urban and Nagpur Rural – Operation and Maintenance Circles, Nasik, Koradi, Khaperkheda, Chandrapur and Uran Power Stations and SE Coal Nagpur.

* Demand for the year 2003-04 is provisional.

Year-wise and category wise recoverable dues

3.1.6 Following table shows year-wise dues recoverable from the major categories of consumers during 1999-2004:

(Rupees in crore)

| Category | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | Increase (Percentage) |
|------------------------------------|-----------|----------|----------|----------|----------|--------------------------|
| Agriculture | 1,303.46 | 1,581.44 | 2,070.58 | 2,858.26 | 2,213.14 | 69.78 |
| Street lights | 49.20 | 102.46 | 152.11 | 230.95 | 308.29 | 526.60 |
| Public water works | 384.77 | 470.19 | 555.56 | 643.56 | 738.86 | 92.03 |
| Power looms | --- | 258.23 | 364.36 | 430.52 | 560.52 | 117.06 |
| Industrial | 917.43 | 858.75 | 802.19 | 708.18 | 782.84 | (-) 14.67 |
| Permanently disconnected consumers | 859.83 | 1,189.75 | 1,497.77 | 1,969.25 | 2,215.55 | 157.67 |
| Mula pravara* | 364 | 244.73 | 223.12 | 370.61 | 445.69 | 22.44 |
| Tata Power Company | 181 | 245.77 | 417.47 | 519.87 | 356.27 | 96.83 |

- Arrears of revenue show an increasing trend for consumers in the category of street lights, public water works, power looms and permanently disconnected consumers.
- Dues recoverable from permanently disconnected (PD) consumers have increased by 158 per cent (Rs.859.83 crore to Rs.2,215.55 crore) during 1999-2004. The Board needs to investigate how the PD consumers are meeting their energy needs after disconnection by the Board. The Board stated during ARCPSE meeting (July 2004) that the matter would be investigated by vigilance wing of the Board.
- In the case of Tata Power Company, revenue arrears increased from Rs.181 crore in 1999-2000 to Rs.356.27 crore in 2003-04.
- Similarly, in the case of Mula Pravara, the arrears increased from Rs.364 crore in 1999-2000 to Rs.445.69 crore.
- As on 31 March 2004, top 100 industrial and high tension (HT) consumers owed the Board Rs.1,101.84 crore. 'Conditions and miscellaneous charges for supply of electrical energy' prescribes payment of the bill within 15 days from the date of the bill (HT consumer). If the consumer fails to pay any bill presented to him within the prescribed period, the Board is at liberty to cut off the supply after giving not less than seven days clear notice. The Board failed to effectively use its powers to ensure prompt recovery of energy charges. Instead, the Board allowed the facility of instalments/deferments of dues from time to time,

* Mula pravara is a co-operative society for distribution of power in Ahmednagar district.

as discussed below:

| Sl. No. | Name of the consumer and circle | Dues as on March 2004 (Rupees in crore) | Audit observations |
|---------|--|---|---|
| 1. | Uniferro International (Bhandara circle) | 170.07 | The consumer was in arrears of Rs.6.61 crore (September 2001). The Board allowed various packages to the consumer from time to time. This resulted in increase in arrears to Rs.170.07 crore (March 2004). |
| 2. | Ispat Industries Limited (Pen circle) | 132.27 | The consumer was given instalment facility for clearing arrears several times. However, arrears of the consumer increased from Rs 5.49 crore (April 1998) to Rs.155.94 crore (July 2000) and Rs.132.27 crore (March 2004). |
| 3. | Lloyd Steel Industries (Wardha circle) | 33.44 | The Board granted instalment facility six times between March 2001 and October 2002. |
| 4. | Vipras Castings Limited (Pen circle) | 16.78 | The Board granted instalment facility several times. Arrears of the consumer increased from Rs.8.33 crore (April 2002) to Rs.16.78 crore (March 2004). The supply of the consumer has been permanently disconnected on 25th May 2004. |

Thus, due to the laxity shown by the Board, the consumers failed to clear the dues.

Age-wise analysis of dues

3.1.7 Dues outstanding for more than three years increased from Rs.936.10 crore (1999-2000) to Rs.2,663.68 crore (2003-04). Dues outstanding for more than two years constitute more than 40 *per cent* of the total dues. Zone-wise analysis showed that major arrears are in Nasik (Rs.1,190.34 crore), Bhandup urban (Rs.1,104.74 crore) and Beed (Rs.1,056.41 crore) zones. Circle wise analysis showed that in Bhiwandi circle, total arrears were to the tune of Rs.809.31 crore followed by Pune urban (Rs.457.22 crore) and Aurangabad (Rs.424.16 crore) circles.

Management of revenue collection

Slackness in recovery

3.1.8 Audit noticed that there was slackness in filing court cases and recovery of dues from defaulters as detailed below:

- As on 31 March 2004, the Board had not filed court cases against 384 HT consumers for recovery of arrears of Rs.116.08 crore.

The Board had obtained decrees of Rs.22.44 crore in its favour but recovery from consumers was a meagre Rs.17.32 lakh.

- The courts had decided 9,423 cases of LT consumers (Rs.6.70 crore) and 228 HT consumers (Rs.56.11 crore) in favour of the Board. A test check of 115 cases in 12 operation and maintenance (O&M) circles* revealed that as against the decreed amount of Rs.22.44 crore the Board recovered only Rs.17.32 lakh. In Kalyan circle, decrees were passed in four cases (January 2001-03) for Rs.2.73 crore in favour of the Board, but even after lapse of two years no action had been taken for execution of the decrees.

Delay in issue of bills

3.1.9 Timely issue of bills facilitates early realisation of revenue. A reference is invited to paragraphs No.3.3.20 and 3.3.27 of Information Technology Review of HT billing system of Comptroller and Auditor General of India (Commercial) 2002-03, Government of Maharashtra wherein delay in issue of bills has been commented upon. There is a need to ensure timely issue of bills.

The Board admitted (July 2004) the delay and promised to strengthen the system.

Incorrect withdrawal of arrears relating to minimum charges

3.1.10 As per Code of Commercial Instructions, consumers in whose case period of six months is not over after temporary disconnection (TD) are to be treated as live consumers. In such cases, the consumer is given a grace period of six months within which the consumer can pay the dues either in lump sum or in instalments to avoid permanent disconnection. In view of this concession, the consumer is required to pay minimum charges to the Board for this period.

There was incorrect withdrawal of arrears of Rs.1.09 crore.

Scrutiny in Kalyan circle showed that during 2001-02, while preparing the final bill in respect of 24 consumers, arrears of Rs.1.09 crore billed for the period between temporary and permanent disconnection were wrongly withdrawn on the ground that they were fictitious. The withdrawal was incorrect because the arrears were not fictitious but related to the minimum charges payable. By withdrawing the arrears, the Board forfeited its claim to realise the revenue.

The Board stated (July 2004) that it was revising the suit amount in respect of court cases already filed by incorporating amount of arrears wrongly withdrawn.

Delay in adjustment of energy charges from Western Coal Fields Limited

3.1.11 The Board purchases coal from Western Coal Fields Limited (WCL) and also supplies energy to it. The agreement between the Board and WCL provides that the Board can adjust its monthly energy bills against coal bills of WCL between ninth and eighteenth of the month. Payments to WCL are almost on daily basis. It would have, therefore, been in the interest of the

*Pune Rural , Pune Urban, Vashi, Bhiwandi, Gadchiroli, Nagpur Rural, Jalgaon, Kalyan, Nasik, Pen, Nagpur Urban and Dhule Circle.

Board to have made adjustment of its energy bills at the earliest possible date *i.e.* ninth of a month. A scrutiny of energy bills (2001-2004) showed that energy charges of Rs.397.57 crore were adjusted from the coal bills after nineteenth of the month. Failure to adjust energy bills on the earliest permissible date led to interest loss of Rs.1.44 crore^{*}.

Management of banking transactions

Delayed remittances by nationalised banks

3.1.12 As per the standing instructions given to the nationalised banks, at the time of opening of the non-operative accounts by the concerned unit, remittance of the fund is to be made daily to head office.

Due to delayed remittances by banks between HQrs and field offices, the Board suffered interest loss of Rs.91.38 lakh.

- Test check of 1,509 cases for 2002-03 revealed that after allowing grace period of three days for telegraphic transfer (TT) and seven days for mail transfer, delay in remittances involving Rs.230.24 crore by Bank of Maharashtra and State Bank of India resulted in loss of interest of Rs.91.38^{*} lakh. In 17 cases, delays were more than 100 days. Table below illustrates a few cases:

| Sl. No. | Name of Bank | Place | Amount (Rupees in lakh) | Delay in days |
|---------|---------------------|----------|-------------------------|---------------|
| 1 | State Bank of India | Kamptee | 5.49 | 126 |
| 2 | State Bank of India | Bhandara | 2.60 | 125 |
| 3 | State Bank of India | Dhule | 3.92 | 128 |
| 4 | State Bank of India | Dhule | 2.45 | 233 |
| 5 | Bank of Maharashtra | Nasik | 20.00 | 221 |
| 6 | Bank of Maharashtra | Nasik | 10.00 | 173 |
| 7 | Bank of Maharashtra | Nasik | 15.00 | 191 |
| 8 | Bank of Maharashtra | Nasik | 25.00 | 236 |

The Board stated (July 2004) that the interest due to delayed remittances was not collected from the banks as they were giving at par remittances facilities. The reply is not tenable as the delay by banks was violative of the standing instructions of Reserve Bank of India (RBI). There is a need to evolve transparent arrangement with banks where the two issues are not linked together and a few bank branches do not unduly delay remittances. The Board should have also taken up with the banks to remit the fund through electronic transfer in urban and semi urban areas.

^{*}At the rate of 14.5 *per cent* being interest rate of cash credit availed by the Board. Loss of interest in other cases in this review has also been worked out by considering interest on cash credit.

^{*}Worked out at cash credit rate of 14.5 *per cent* per annum.

Delay in transfer of funds by banks to field offices

3.1.13 A review of repatriation of funds from WM section to field offices revealed that banks were not repatriating the fund to field offices within three days (as per RBI norm) in the cases of TT. A test check of transactions revealed that there were delays up to 14 days in crediting the funds to units by banks resulting in loss of interest of Rs.41.41 lakh as detailed below:

| Name of the units | No. of cases | Years | Delay in days | Loss of interest (Rupees in lakh) |
|---|--------------|---------|---------------|-----------------------------------|
| Nasik TPS | 60 | 2001-03 | 14 | 8.56 |
| Chandrapur, Koradi and Khaperkheda TPSs | 199 | 2002-03 | 10 | 25.78 |
| Superintendent Engineer, coal office | --- | 2002-03 | 8 | 7.07 |
| Total | | | | 41.41 |

Delay in transfer of funds by banks resulted in loss of interest of Rs.41.41 lakh.

Delay in transfer of balances from non operative accounts

3.1.14 Operational and maintenance circles, divisions and sub-divisions maintain bank accounts with different banks. Since these are non-operative accounts, there is a need for speedy transfer of balances to the Board's working fund account at WM section. Audit noticed that in nine* out of 15 circles/divisions test checked, banks were not repatriating funds promptly. Some major cases pertaining to the year 2002-03 are given below:

Field units failed to promptly transfer funds from non-operative accounts to the Board's working fund.

| Name of the Unit | Remarks | Loss of interest |
|-----------------------|---|------------------|
| Pune urban circle | Non remittance of full amount | 1.09 crore |
| Pune rural circle | Non remittance of full amount | 41.23 lakh |
| Nagpur rural circle | Delay in remittances to HQs | 1.73 lakh |
| Amravati O&M circle | Non remittance of full amount | 3.00 lakh |
| Bhandup O&M circle | Kept huge balances | 0.53 lakh |
| Bhandup O&M division | Kept huge balances | 0.99 lakh |
| Bhiwandi O&M division | Retains more than Rs.10,000 | 1.58 lakh |
| Panvel O&M division | Non remittance of full amount | 2.21 lakh |
| Pen O&M circle | Kept huge balances Up to Rs.2.07 crore | 0.93 lakh |

Prompt transfer of funds from field offices is necessary to minimise drawal of fund under cash credit (CC) and working capital demand loan (WCDL). Audit observed that there were huge balances lying in non-operative accounts in field offices that were not promptly repatriated to WM section. Audit further observed that despite huge balances lying in collection accounts in field units, the Board availed cash credit resulting in avoidable payment of interest. During 1999-2004, the Board paid Rs.3.83 crore towards interest on CC, besides Rs.31.12 crore towards interest on WCDL.

* Nagpur Rural, Amravati, Bhandup, Pune Rural, Pune Urban and Pen - O&M circles and Bhiwandi, Bhandup and Panvel - O&M divisions

The Board stated (July 2004) that instructions would be issued to field offices for prompt remittance of funds from non operative accounts.

Avoidable loss of interest and demand draft charges

3.1.15 Funds are transferred by WM section to various power stations for making various payments including for water cess. TPS in turn issues demand drafts (DD) to offices of the Maharashtra Pollution Control Board. Instead of following this circuitous route, payments directly by WM section through local cheques would have resulted in savings of commission on DDs/TTs besides loss of interest on fund blocked during transfer. A test check in three[‡] TPSs showed that during 2000-03 fund amounting to Rs.2.22 crore were transferred for payment of water cess.

The Board stated (July 2004) that possibility of direct payment at Mumbai through local cheque would be explored.

Non realisation/delay in realisation of inter-state energy charges

3.1.16 The Board was to supply (February-March 1998) electricity to Karnataka Electricity Board (KEB) during off peak period at the rate of Rs.2.10 per unit. The Board supplied electricity to KEB not only during the off peak period but during peak hours also. The tariff for drawal during peak hours was charged at non peak rates resulting in loss of Rs.9.82 crore in the sale of energy. Further, KEB was to open letter of credit (LC) for payment equivalent to one month's energy charges. But no LC was opened by KEB. As a result, dues of Rs.3.36 crore on account of power supply remained to be recovered (July 2004).

Similarly, recoveries from Madhya Pradesh Electricity Board (MPEB) on account of power supply were not made promptly. As a result, the amount outstanding from MPEB accumulated to Rs.2.27 crore as on March 2004, pertaining to the period 1996-2003.

Non refund of TT/DD commission charges

3.1.17 The Board maintains account with Canara Bank. During February-March 1999, in departure from prevalent practice, Canara Bank charged DD/TT commission of Rs.40.98 lakh instead of issuing DD/TT at par. The Board has not got the amount refunded so far (July 2004). The Board has agreed (July 2004) to take up the matter with the bank.

Collection of energy charges by collection Agents

3.1.18 The Board collects energy charges from consumers through its own collection centres as well as private collection agents. The terms and conditions of appointment of collection agents *inter alia* provides that collection agent shall pay security deposit (SD) which should match with the weekly collection and be reviewed every month. The collection agents are required to submit daily collection statements along with proof of deposit of

[‡] Chandrapur, Koradi and Khaperkheda.

money in bank. Audit observed that during test check of three[◇] out of 35 divisional offices for the years 2000-04, the SDs given by the agents were not matching with the weekly collections as shown below:

(Amount:Rupees in lakh)

| Name of O&M division | Security deposit collected | Average weekly collection | Amount defaulted by agent | Amount outstanding after adjusting security deposit |
|----------------------|----------------------------|---------------------------|---------------------------|---|
| Thane | 0.50 | 12.30 | 14.88 | 14.38 |
| Vashi | 2.00 | 67.54 | 10.25 | 3.91* |
| Kalwa | 0.50 | 4.43 | 5.12 | 4.62 |
| Total | 3.00 | 84.27 | 30.25 | 22.91 |

Lapses in collection of SDs facilitated default/misappropriation of collection of Rs.22.91 lakh by private collection agents.

Misappropriated cash of Rs.22.91 lakh by the three collection agents remained unrecovered (July 2004). The matter is pending with police/court in respect of two agents while the third agent (Vashi division) was adjusting the dues in piecemeal.

The Board stated (July 2004) that suitable instructions regarding collection of adequate SDs from private collection agents would be issued.

Short collection of SD from consumers

3.1.19 As per the Board's Conditions and Miscellaneous Charges for Supply of Electrical Energy, the Board shall collect SD amount which shall be equivalent to one month's average billing for HT consumers, two months average billing for urban domestic consumers and three months average billing for LT agricultural category *etc.*

Short recovery of SD of Rs.31.66 crore resulted in interest loss of Rs.3.48 crore per annum.

Audit observed that O&M circles/divisions were not collecting additional SD when there was increase in average billed charges. The non recovery of additional SD of Rs.31.66 crore during 2002-03 in respect of nine units[□] resulted in loss of interest of Rs.3.48 crore[◇] in one year besides increasing the risk of bad debts in the event of default by consumers.

The Board stated (July 2004) that the procedure has been streamlined by issuing circular in August 2001. Audit scrutiny, however, revealed that implementation of the directives even after issue of circular was far from satisfactory and there was short collection in 2002-03 also.

[◇] Thane, Vashi and Kalwa divisions.

*After adjustment of SD rupees two lakh and commission Rs.4.34 lakh.

[□]Pen circle-Rs.5.35 crore; Kalyan circle-Rs.92.77 lakh; Aurangabad urban circle-Rs.1.46 crore; Aurangabad rural circle-Rs.5.20 crore; Parbhani circle-Rs.2.99 crore; Jalna circle-Rs.5.06 crore; Kalwa division-Rs.7.26 crore; Pune division-Rs.3.05 crore; and Pune Rajgurunagar division-Rs.35.9 lakh.

[◇]Interest at the rate of 14.5 *per cent* as being interest rate of cash credit availed by the Board during 2002-03 *less* 3.5 *per cent* interest payable on SD.

Short collection from consumers for outright contribution works

The Board is yet to recover Rs.4.95 crore from consumers for ORC works.

3.1.20 The Board guidelines for outright contribution (ORC) works provides that works executed by O&M divisions on behalf of consumers should be fully funded by the consumers (as per departmental circular (Commercial) No. 521 dated 20 October 1993). Audit observed that divisions were not recovering the actual expenditure incurred from consumers. A test check of O&M divisions revealed that Rs.4.95 crore was recoverable from consumers (1998-2003) in respect of seven circles/divisions.* Interest loss for one year works out to Rs.71.77 lakh.

Delay in realisation of claims

The Board suffered interest loss of Rs.30.94 crore per year due to delay in realisation of railway claims.

3.1.21 It is necessary that claims receivable should be pursued promptly so that outstanding dues are realised early.

- Railway claims receivable on account of missing wagons were Rs.213.39 crore as on 31 March 2004. Of this, Rs.188.09 crore is pending for more than three years. The non-settlement of claims has resulted in blocking of funds and loss of interest of Rs.30.94 crore^o per year.
- Audit scrutiny revealed that on account of non-submission of requisite documents for claims (April 1999 to July 2003), the Board is yet (March 2004) to receive from WCL Rs.3.57 crore relating to compensation for shales and stones in respect of all the seven TPSs. This includes claims of Rs.2.40 crore which were not settled due to non submission of documents as per fuel supply agreement (FSA) and Rs.1.17 crore due to non existence of FSA during June 2002-July 2003. The Board stated (July 2004) that the documents have been submitted to WCL. The reply of the Board is not consistent with the letter from WCL (March 2004) pointing out insufficient documentation. The matter needs to be sorted out early.
- Audit noticed that 30 field offices of the Board paid tax of Rs.1.52 crore on sale of electricity for the calendar year 2000 (up to September 2000) in respect of 251 consumers. As the energy sold in respect of HT consumers did not exceed the specified limit of 2 million units, the tax was not leviable. The refund has not been obtained so far.

The Board stated (July 2004) that the matter regarding refund/adjustment has been taken up with State Government.

*Ahmednagar circle (three divisions)-Rs.16.27 lakh; Thane/Wagle Estate division-Rs.59.18 lakh; Bhandup division-Rs.55.40 lakh; Kalwa division-Rs.2.47 crore; Nagpur Rural circle (three divisions)-Rs.87.19 lakh; Malegaon division-Rs.5.6 lakh Goregaon division-Rs.24.65 lakh.

^o Calculated at the rate of 14.5 per cent per annum.

Payments

3.1.22 The major payments of the Board include payments for purchase of power, fuel and capital assets, repayment of loans, interest on loans, establishment expenses and operation and maintenance expenses.

Non availment of the peak rate of rebate offered by National Thermal Power Corporation

3.1.23 As per GOI's instructions of April 1997, National Thermal Power Corporation (NTPC) was to allow a rebate of 2.5 *per cent* on the amount paid through LC on presentation of bills to bank, 1.5 *per cent* up to 20th day and one *per cent* up to one month from the date of billing.

Failure to take full advantage of rebate led to loss of Rs.7.34 crore.

A scrutiny of payments to NTPC revealed that peak rate of rebate was not availed of. The benefit foregone worked out to Rs.7.34 crore (2003-04) after allowing interest payment and LC charges on availing cash credit for making timely payments to NTPC.

The Board stated (July 2004) that due to uncertain and inconsistent repatriation of funds during the first week of the month coupled with unavoidable scheduled payments to other agencies, it was not able to avail full peak rebate offered by NTPC. The reply is not tenable as the Board has not utilised the option of cash credit. Reduction in outstandings relating to energy charges would have also facilitated the Board to avail of the maximum rebate.

Non recovery/adjustment of interest free advances to suppliers/contractors

3.1.24 As on 31 March 2004, the year-wise position of outstanding interest free advances given by the Board to suppliers and contractors for supply of materials was as under:

(Rupees in crore)

| Year | Advances to suppliers/contractors | | |
|---------------|-----------------------------------|---------------------------|---------------|
| | Capital | Operation and maintenance | Total |
| Up to 2000-01 | 1.59 | 5.06 | 6.65 |
| 2001-02 | 5.33 | 4.30 | 9.63 |
| 2002-03 | 10.01 | 7.89 | 17.90 |
| 2003-04 | 22.57 | 59.48 | 82.05 |
| Total | 39.50 | 76.73 | 116.23 |

Advances of Rs.116.23 crore to suppliers/contractors remained unrecovered/unadjusted.

Above table indicates that Rs.116.23 crore paid as advances to suppliers/contractors was lying unadjusted and unrecovered as on 31 March 2004. Of this, advances of Rs.6.65 crore remained unadjusted for more than three years. Out of the capital advances of Rs.39.50 crore, more than 59 *per cent* (Rs.23.13 crore) pertain to extra high voltage construction zone, Pune. There is a need for early adjustment to ascertain balance amounts recoverable as the advances are interest free.

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| Management of loan transactions |
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3.1.25 The table below summarises the loans received by the Board during 1999-2004 from Government and other financial institutions:

(Rupees in crore)

| Source of Loan | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 (provisional) |
|----------------|-----------------|-----------------|-----------------|-----------------|--------------------------|
| Government | 347.24 | 231.40 | 522.29 | 179.64 | 60.57 |
| LIC | 84.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| IDBI | 267.73 | 117.36 | 73.79 | 123.66 | 72.13 |
| REC | 392.00 | 758.59 | 558.02 | 654.24 | 495.80 |
| PFC | 373.91 | 140.93 | 348.83 | 338.29 | 688.63 |
| Others | 502.56 | 730.19 | 299.62 | 203.49 | 416.92 |
| Total | 1,967.44 | 2,003.91 | 1,802.55 | 1,500.88 | 1,734.05 |

Non redemption of costly loans

3.1.26 One of the important functions of a fund manager is to avail loans at cheaper rates and prepay costlier loans already taken. The Board was sanctioned loans of Rs.10 crore by Chandrapur District Central Co-operative Bank (DCC bank) in February 1999 and Rs.20 crore by Sindhudurg DCC Bank in August 1999 at the interest rate of 14.5 *per cent* per annum. Subsequently, in December 1999 the interest rate in the market declined to less than 13 *per cent* per annum but the Board did not borrow to prepay the costlier loans. The interest benefit foregone was Rs.1.52 crore up to September 2003.

The Board stated (July 2004) that it was not able to prepay the loans due to difficulty in tie-up for finance. Had the Board been effective in recovery of the outstandings, the borrowings at high cost could have been avoided. The Board should have rescheduled the interest rate from December 1999. Only at a belated stage in October 2003 the rate was got reduced.

Avoidable payment of commitment charges to Power Finance Corporation

3.1.27 During 1999-2003, Power Finance Corporation (PFC) sanctioned loans of Rs.1,482.41 crore to the Board. The Board drew only Rs.775.53 crore (52.31 *per cent*). The terms and conditions of loans sanctioned by PFC *inter alia* stipulated that failure to adhere to the loan drawal schedule would attract levy of commitment charges at the rate of one *per cent* per annum on the amount scheduled to be drawn in each quarter/year till the date of actual drawal of the amount. Audit observed that during 1999-2004, the Board had not drawn loans as per the schedule in 109 out of 138 loan cases (79 *per cent*) and therefore, it had to pay commitment charges of Rs.8.45 crore.

Failure to redeem costly loans led to additional interest payment of Rs.1.52 crore.

The Board paid commitment charges of Rs.8.45 crore due to non adherence to drawal schedule in 79 *per cent* cases.

The Board stated (July 2004) that the delay in execution of projects led to delay in drawal of funds. The reply is not tenable as the Board failed to adhere to the schedule in 79 *per cent* cases. Given the penalty for delay in drawal of funds, the Board should have completed the project as per schedule.

Lapses in restructuring of debt from PFC

The Board incurred extra interest burden of Rs.6.76 crore due to erroneous computation of interest.

3.1.28 The Board was given an opportunity (May 2002) to reduce its interest burden when PFC agreed to restructure its costlier outstanding loans. There was an error in computing the interest payable to PFC on restructured loans. The Board paid excess interest of Rs.6.76 crore due to application of rate higher than the applicable rate (by 0.5 *per cent*) on 14 loans amounting to Rs.359.20 crore (20 *per cent* of total loans).

The Board stated (July 2004) that the issue was taken up with PFC in July 2004.

Payment of penal interest on loans from Rural Electrification Corporation Limited

3.1.29 Correct estimation of fund requirement is an important task of a fund manager. The Board obtains loans from Rural Electrification Corporation Limited (REC) for implementing its different schemes. Out of loans of Rs.161.15 crore sanctioned by REC during 1996-2000, the Board has drawn only Rs.23.70 crore (15 *per cent*) up to July 2002. In respect of 64 schemes of different categories,[◇] the Board has drawn only first and second instalments. The Board is liable to pay penal interest of Rs.75.11 lakh for the period 2001-04 on the amounts not drawn in respect of 50 schemes.

The Board stated (July 2004) that REC was requested to waive the penalty. The request of the Board for waiver of penal interest has not been accepted by REC so far (July 2004).

Conclusion

There was deterioration in collection of revenue. The Board is lax in initiating legal action for recovery of arrears. Delayed remittances by banks, unnecessary retention of large balances in collection accounts and delay in realisation of revenue on inter-state sales resulted in loss of interest. Inadequate security deposits from private collection agents facilitated fraud. Non redemption of costlier loans, payment of commitment charges and penal interest on undrawn loans contributed to higher cost of borrowing. The Board failed to optimise the benefits of rebates on payments offered by suppliers.

[◇] System improvement, intensive electrification and pumpset energization.

The Board should take effective remedial measures to recover its dues promptly, ensure early transfer of funds by banks, redeem its costlier loans and avoid payment of commitment charges by timely implementation of projects through proper planning.

3.2 Implementation of information technology in the Integrated Bus Reservation System in Maharashtra State Road Transport Corporation

Highlights

The Corporation did not invite open tenders for procurement of hardware.

(Paragraph 3.2.5)

There was under realisation of revenue of Rs.16.50 crore due to incorporation of unauthorised computation rules.

(Paragraph 3.2.6)

Database was not designed to capture critical data and appropriate validation checks were not incorporated.

(Paragraphs 3.2.7-3.2.8)

A concession of Rs.52.88 lakh was granted under an unauthorised miscellaneous concession code.

(Paragraph 3.2.9)

Due to non-incorporation of audit trails, unauthorised access, modification of data and programs cannot be detected.

(Paragraph 3.2.11)

Assignment of common identity for all users instead of having a unique identity for each user rendered the system vulnerable to misuse.

(Paragraph 3.2.14)

Frequent breakdowns of leased lines resulted in unwarranted expenditure of Rs.15.05 lakh.

(Paragraph 3.2.16)

Due to absence of business continuity plan and standby system, the integrated bus reservation system is vulnerable to serious disruption.

(Paragraph 3.2.17)

Introduction

3.2.1 Maharashtra State Road Transport Corporation (Corporation) was established in 1961 under the State Road Transport Corporations (SRTC) Act, 1950. To facilitate passenger reservation, the Corporation has an online passenger reservation system known as Integrated Bus Reservation System (IBRS).

Organisational set up

3.2.2 The information technology (IT) needs of the Corporation are overseen by the electronic data processing (EDP) Centre at Head Office, Mumbai. EDP is headed by a Deputy General Manager (EDP) who is assisted by Senior Programmers, Junior Programmers and Data Processing Officers. The EDP Centre is responsible for the implementation and maintenance of the IBRS which functions under the Financial Adviser and Chief Accounts Officer.

Scope and methodology of Audit

3.2.3 During October 2003 to April 2004, audit reviewed general IT controls that control the design, security and use of computer programs in the Corporation and IT application controls specific to computerised IBRS and evaluated the effectiveness of the system in achieving organisational objectives. Taking into account various policy guidelines, circulars, tariff rules, fare revision, concessions offered *etc.*, business logic queries were developed which were converted into Structured Query Language (SQL) and run on data of the IBRS pertaining to the period November 2001 to December 2003 with the assistance of authorised EDP staff of the Corporation.

Integrated Bus Reservation System

3.2.4 The online reservation system (IBRS) was first implemented through a proprietary¹ mainframe system in 1988 using Cobol^o platform, which was reengineered during 1996-97 using Oracle RDBMS* platform as back end and Forms Library as front end. The IBRS facility is available for all the buses originating from Mumbai (including Thane) and Pune. The database is maintained in a server at one location each in Mumbai and Pune respectively. While terminals installed at Mumbai centre are connected to the server using local terminal server (LTS), the terminals installed at six reservation centres²

¹ ICIM 6080

^o Cobol – Common business oriented language.

* RDBMS - Relational data base management system.

² Parel, Kurla, Dadar, Borivali, Vashi and Thane.

are connected to the Mumbai server through dedicated leased data circuit lines. In addition, reservation facilities have been provided through dial up telephone lines to four private booking agents³ situated in suburban areas at Mumbai. Similar arrangements exist at Pune with five reservation centres⁴ and six private booking agents⁵ in suburban areas. The Pune and Mumbai servers are connected to each other through dedicated leased lines.

Audit observations on IBRS

System acquisition, development and implementation

3.2.5 The Corporation, violating the transparency requirements of open tenders, invited limited tenders only from two vendors M/s. International Computers Indian Manufacture Limited (ICIM) and M/s. CMS Computer Private Limited. A purchase order (April 1996) for supply of hardware⁶ was placed with ICIM, Mumbai for Rs.35.02 lakh even though their past performance was not satisfactory as there were slippages in development of software in an earlier order. A purchase order for development of application software in RDBMS platform and work group server was placed at a cost of Rs.14.57 lakh with M/s. Neo Computers, a subcontractor of ICIM. Though there was a delay of 13 months in the delivery of software, the Corporation did not impose any penalty.

The Corporation stated that Rs.2.52 lakh was withheld by not paying annual maintenance charges. The reply is not tenable as no penalty was charged as per terms of contract.

Audit also observed that systematic phase wise testing and stage wise check off were not done to enable proper evaluation of each stage of system development and no documentation was maintained.

The Corporation stated (August 2004) that proper care would be taken in future.

Unauthorised computation rules

3.2.6 The fare to be collected from a passenger is dependent on the number of stages travelled. Given a starting point and a destination, the number of stages are decided on the basis of one stage for every six kms to be stretched up to next 0.7 km for in between stops and maximum of next 1.3 kms for ultimate destination.

Audit noticed that this was not implemented in practice and the number of stages for which a passenger is charged is generally lower than the number of stages actually travelled. Using SQL, Audit noticed that in respect of long

³ Vile Parle, Goregaon, Kandivali and Malad.

⁴ Swargate, Shivajinagar, Pune Station, Pimpri Chinchwad, and Deccan.

⁵ Aundh, Singhad Road, Kothrud, Nigdi, Paud Road and Bhusari Colony.

⁶ Team server with SCO Unix operating system.

Phase wise testing was not done; certification from competent authority was not obtained.

There was under realisation of revenue of Rs.16.50 crore due to incorporation of unauthorised computation rules.

distance (LD) and middle long distance (MLD) services departing from Mumbai Central and Pune, there was shortfall in fixing of chargeable stages in respect of 12,157 bus stops for the period January 2001 to December 2003. This resulted in under charging of fares and consequent loss of revenue of Rs.16.50 crore⁷.

The Corporation while confirming the above facts stated (August 2004) that stretching of stages may be necessitated by many factors such as (a) bifurcating of route from state/national highway to interior routes, (b) coinciding of stages point of various routes, (c) considering important alighting/boarding stops, villages, towns *etc.* The reply was not tenable, as the Corporation did not furnish any authority such as Government/Board of Directors' resolution, circulars permitting the stretching of stages beyond prescribed limits stated above.

The Corporation also stated that detailed examination of these issues will be taken up and necessary action will be taken accordingly.

Defective table design

3.2.7 The Corporation offers 100 *per cent* concessional fare to freedom fighters, Dalit Mitras,[♦] authorised press reporters, employees *etc.* Audit observed that the number of passengers who availed the above concessions between January 2001 and December 2003 was 1,33,526 and the monetary value of the concessions so availed was Rs.2.18 crore. Audit also observed that the database was not designed to capture data such as identity number, pass number, date of issue, validity period of pass, authorisation details, family details of employees, depot where passes were issued *etc.* In the absence of above data, the system was prone to misuse.

Database was not designed to capture critical data.

Audit also observed that the 'name' field accepted numeric characters. It was evident that user requirements were not properly assessed while designing the table structure. In view of the large number of passengers and the money value involved, capture of important data is critical for information as well as for analysis of the concessional scheme.

The Corporation, while confirming the above facts and figures stated (September 2004) that necessary action would be taken to capture such critical data in the new system.

Lack of preventive validation checks/controls

3.2.8 Audit observed that important validation checks/controls, which are necessary to prevent misuse of the system, were not incorporated in the application as is evident from the following examples:

⁷ Based on a conservative 50 *per cent* load factor for the number of days the bus services were operated during the period November 2001 to March 2004.

[♦]The persons who have received Dalit Mitra (friend of backward person) award from State Government.

Appropriate validation checks were not incorporated.

- Passengers whose age was less than 60 years (*i.e.* date of birth after 1943) and minors (*i.e.* age <15 years) were granted 100 *per cent* concession in fare as freedom fighters.
- As per business rules, a Dalit Mitra is eligible for only one escort. Audit, however, observed that often more than two persons were allowed to travel on the same ticket.

It is evident that preventive validation checks were neither incorporated in the IBRS system nor exercised by the booking clerks at the booking centres.

The Corporation stated that necessary validation checks would be provided in the software and instructions would also be issued to the booking clerks.

Unauthorised 'MS' code used for grant of concession

A concession of Rs.52.88 lakh was granted under an unauthorised code.

3.2.9 Audit noticed that a miscellaneous concession code (MS) was created in the concession table wherein 100 *per cent* concession was granted and 34,543 passengers availed 100 *per cent* concession aggregating Rs.52.88 lakh under this category for the period November 2001 to December 2003. However, there was no authorisation for creation of this code for grant of 100 *per cent* concession and consequently no eligibility criteria was fixed for grant of such concessions by the Corporation. The grant of above concession was left entirely to the discretion of the data entry clerk at the reservation counter without any validation checks. Thus, it is clear that the IBRS database was vulnerable to manipulation, which, in the absence of any logs and trails cannot be traced.

Feedback from user department was not obtained for changes carried out.

The Corporation stated that the matter of deletion of the said concession code would be taken up with the traffic department. Moreover, critical information system such as IBRS requires a sound change management procedure for recording and performing changes. It was also observed that EDP officials interpreted the various circulars and incorporated the required changes in the IBRS system without formally involving the user department responsible for the implementation of Board's directives. Although sample cases of major changes were sent to the user department there was no system of formal certification from the user department for proper feedback.

The Corporation stated that such formal certification from user department would be obtained in future.

Lack of supplementary checks

3.2.10 Audit noticed that, apart from the deficiencies in the application software as stated above, even manual supplementary checks were lacking as seen from the following examples:

- Employees were permitted to book tickets without pass or beyond expiry date of pass. The Corporation stated that necessary validation checks would be incorporated.

- During travel, conductors are required to verify the identity and authenticity of the concession holders by verifying the identity card, pass/coupon number issued by the respective depots and enter such details in the way bills for further check at the depot level. Audit, however, observed that the above details were not entered in 1,095 waybills verified. The Corporation stated (September 2004) that instructions for recording the details of concessions on the waybill have been issued vide department circular No.25/2004 dated 2 September 2004.
- Family members of employees are eligible for free travel passes. As the employee is not mandatorily required to travel with the family and the pass is valid for travel anywhere in Maharashtra for one month, the present practice of not issuing family identity cards is not foolproof. No photo identity cards are issued. In the absence of such photo identity cards for families, it is not clear as to how the Corporation ensures that only bonafide family members avail of this concession. Audit further observed that conductors did not enter travel details in the pass. In the absence of such details, the Corporation will not be able to restrict travel to the prescribed limit. The Corporation stated (August 2004) that it would examine the possibility of issuing photo identity cards. It also stated that necessary instructions would be issued to the conductors for recording the details of travel in the pass.

Family photo identity cards were not issued and hence passes were vulnerable to misuse.

Audit trails not incorporated

3.2.11 As per the system requirement specifications (SRS) and terms of contract, the vendor was to incorporate Master Audit Trail Reports and Other Transaction Reports in the application software. Audit observed that audit/system logs were not incorporated in the software. In the absence of audit trails and system logs, unauthorised access, modification to data, programs, table structure cannot be detected and the person responsible for such unauthorised access and modification cannot be identified.

Unauthorised access, modification of data/ programmes cannot be detected due to non-incorporation of audit trails.

The Corporation stated (August 2004) that audit trails were not incorporated, as it would affect the response time resulting in delay in issue of tickets to the passengers as well as limited hard disk capacity. The reply is not satisfactory as audit trails are an important and integral part of any IT application and the system response time criterion should have been met without compromising on the audit trail. Creation and maintenance of audit trails is relevant in the view of unauthorised creation of code wherein 100 *per cent* concession of Rs.52.88 lakh was granted, as detailed in paragraph 3.2.9.

The Corporation stated (August 2004) that such audit trails will be incorporated in the new software under development.

Private booking agents

3.2.12 To safeguard the Corporation's financial interests, booking by private agents is to be restricted to the extent of security deposit held by the Corporation. Audit noticed that proper validation checks were not incorporated to limit ticket booking by private agents to the extent of security

There was lack of system controls on booking by private agents.

deposit held by the Corporation. Consequently, it could not prevent overbooking by four private agents who subsequently defaulted in paying Rs.6.46 lakh. The Corporation accepted (August 2004) that at present there is no provision in the IBRS to check the amount receivable from private booking agents and stated that necessary checks would be incorporated in consultation with user departments. It also stated that it had recovered Rs.5.65 lakh (principal Rs.4.98, interest Rs.0.67 lakh) and balance principal of Rs.1.48 lakh was yet to be recovered.

Non generation of report on balance fare to be collected

3.2.13 The IBRS system did not provide for generation of critical information on the balance fare to be collected whenever fare is revised from the passengers who had availed advance reservation facility prior to revision of fares. A query to generate the above information revealed that 1,47,754 passengers availed advance reservation through the IBRS system and money value of differential fares to be collected was Rs.11.04 lakh as per IBRS system. In the absence of such reports, there is no mechanism to verify whether conductors have collected the balance fare.

The Corporation stated (August 2004) that necessary care would be taken to generate such reports in the future.

System security

3.2.14 Lack of segregation of duties, password, operating and application security controls

IBRS was vulnerable to unauthorised access/modification.

- General users such as punch operators, programmers, computer operators were also granted roles as Data Base Administrator/Divisional Traffic Officer (DBA/DTO). This arrangement is not in conformity with the need for segregation of duties. The user ID was the same for all the booking centres.

The Corporation stated (August 2004) that such logins were maintained for effective operation of the system. The reply is not acceptable as this practice adversely affected the security in a revenue generating application.

- Unix login for access to the IBRS source code was too generic and all persons having access to the source code shared the same password. Persons who had resigned/transferred to another department continued to have user access as DBA/DTO. Even the software vendor who developed the software in 1997 continued to have user access. The Corporation stated (August 2004) that necessary action would be taken.
- Even single character was accepted as password. Normal password control procedures of automatic lapse of password after a predefined period to facilitate periodic change of passwords were non-existent. In the absence of system logs, security breaches cannot be detected. The

Corporation while confirming the above facts stated (August 2004) that it would do the needful.

- Audit observed that the IBRS system lacked physical security as the main server was placed at the entrance of a common room in the EDP centre where visitors and staff of other departments had easy access. The Corporation stated (August 2004) that necessary care would be taken to place the server in a separate room.

Deficiencies in networking security

3.2.15 Audit observed that:

No firewalls, intrusion detection system were installed.

- No firewalls, intrusion detection system, network management software to support fault management, traffic management/monitoring, access control management and security management *etc.* were installed in the IBRS. The Corporation stated (August 2004) that the same would be provided in future.

IBRS was vulnerable to unauthorised access through dial up modem due to inadequate security features.

- The current dial up facility requires dialling in the telephone number and password only. There was no procedure for dial back *i.e.* terminal/token-based authentication system provided to private booking agents. The system is thus vulnerable to unauthorised access as any person even with little IT skills and utilities can access the database of IBRS system from anywhere through dial up modem. This vulnerability was further compounded as the data is transmitted in the network in unencrypted form. The Corporation while confirming the above facts stated (August 2004) that necessary care would be taken in the new system.

Breakdown of networking equipments

3.2.16 Breakdown of networking equipments results in denial of services. Audit observed that the service level agreement for networking did not specify any benchmark for the frequency of breakdowns and the maximum time within which the system was to be restored failing which penalty was to be levied. Due to frequent breakdowns of leased lines, connectivity had to be established through dial up facility resulting in unwarranted expenditure of Rs.15.05 lakh.

Frequent breakdowns of leased lines resulted in unwarranted expenditure of Rs.15.05 lakh.

The Corporation while confirming the above facts stated (August 2004) that no service level agreement was entered into with the service provider, MTNL/BSNL being Government agencies. The reply is not tenable as service level agreement should have been entered into to ensure better service.

Absence of business continuity plan

3.2.17 The Corporation had not documented 'disaster recovery and business continuity plan' outlining the action to be undertaken immediately after a disaster and to effectively ensure that information processing capability can

be resumed at the earliest. Emergency hot sites, correct/current version of system software *etc.*, important for recovery from disaster, were not identified and documented. Audit noticed that there is no standby system. Consequently, when there was a data crash in October 2001, back up data since inception up to October 2001 could not be recovered. Subsequently, *i.e.* even after the crash, Audit observed that although backups of IBRS data were being taken at periodic intervals, there was no practice of offsite storage of backups. Further, there was no formal policy regarding the frequency of testing the backups or maintaining logs to verify any such tests. Though there was an annual maintenance contract worth Rs.3.00 lakh for the period June 1999 to January 2002 with the software developer (M/s. Neo Computers), there was no formal commitment for Oracle support. In the absence of formal commitment, M/s. Neo Computers could not be legally bound.

The matter was reported to the Government (May 2004); their reply had not been received (December 2004).

Conclusion

The Integrated Bus Reservation System, an online wide area networking system, had poor networking, operating, application and database security features and was hence vulnerable to unauthorised access and data/source code modification. These deficiencies had security implications in the absence of audit trails, system logs. Unauthorised business rule having bearing on the revenues of the Corporation was incorporated in the software. The database was not designed to capture critical data for grant of various concessions and validation checks were inadequate.

There is an urgent need to improve networking, operating, application and data base security features of the system.

3.3 Maharashtra State Financial Corporation

Defaults and recovery performance

Highlights

Maharashtra State Financial Corporation was established in August 1962 under the State Financial Corporations Act, 1951. Its main objective is to accelerate industrial growth by providing financial assistance to small and medium scale industries.

(Paragraph 3.3.1)

The Corporation incurred losses continuously during 1999-2004 mainly due to slackness in recovery of its dues leading to reduction in income. Net worth of the Corporation was negative since 2000-01. As on 31 March 2004, accumulated losses of Rs.570.70 crore exceeded the paid-up capital and reserves by Rs.466.33 crore.

(Paragraph 3.3.4)

Due to slackness in recovery of its dues, the Corporation's ability to finance units was seriously impaired and disbursement of loans declined from Rs.46.66 crore in 1999-2000 to Rs.1.57 crore in 2003-04.

(Paragraph 3.3.6)

The Corporation sanctioned loans to unviable projects. Compliance with vital conditions necessary to safeguard the Corporation's interest was not ensured before disbursement of loan.

(Paragraphs 3.3.7 to 3.3.14)

There was no effective post disbursement inspection and monitoring of the units assisted to identify the units that were likely to turn unviable.

(Paragraph 3.3.16)

There was increase in outstanding dues from Rs.734.98 crore in 1999-2000 to Rs.1,109.04 crore in 2003-04 due to slackness in effecting recoveries.

(Paragraph 3.3.17)

There was frequent dishonour of cheques in 412 live loan accounts. But, cases under Section 138 of Negotiable Instruments Act were not filed in 356 accounts with overdues of Rs.283.17 crore.

(Paragraph 3.3.19)

There were 1,066 cases under the category of non-performing assets for more than two years. But, the Corporation did not invoke Section 29 of State Financial Corporations Act to take over possession of assets of the defaulters. The outstanding dues in these cases were Rs.365.76 crore. In 119 out of 210 cases involving dues of Rs.78.74 crore, the Corporation did not invoke personal guarantees obtained from promoters/directors.

(Paragraph 3.3.20)

Introduction

3.3.1 Maharashtra State Financial Corporation (Corporation) was established in August 1962 under the State Financial Corporations Act (SFC Act), 1951. The main objective of the Corporation is to accelerate industrial growth in Maharashtra, Goa, Daman and Diu by providing financial assistance to small and medium scale industries having net worth (paid-up capital *plus* reserves) up to Rs.10 crore. Presently, the activities of the Corporation are confined to providing term loans up to Rs.2.40 crore per unit for acquiring capital assets such as land, buildings, plant and machinery *etc.*

Organisational set up

3.3.2 The management of the Corporation is vested with a Board of Directors constituted as per Section 10 of SFC Act. As on 31 March 2004, there were eight directors (three nominated by the State Government, two by the Small Industries Development Bank of India and three by other shareholders). The Managing Director appointed by the State Government is the chief executive of the Corporation and is assisted by one General Manager, three Deputy General Managers and nine Regional* Managers. During 1999-2004, four Managing Directors headed the Corporation; their tenure ranged from four to 38 months.

Scope of Audit

3.3.3 Defaults and recovery performance was reviewed in audit and results thereof were included in the Report of the Comptroller and Auditor General of

* At Amravati, Aurangabad, Kolhapur, Nasik, Nagpur, Panaji (Goa), Pune, Mumbai-Konkan and Thane-Daman-Diu

India for the year ended 31 March 1996 (Commercial), Government of Maharashtra. Committee on Public Undertakings (COPU) in its 14th report (1998-99) recommended that the State Government should issue suitable directives to the Corporation regarding the manner in which speedy recovery should be done. Audit observed that the State Government did not furnish any Action Taken Note to the COPU in this regard. Action taken by the Corporation with regard to recovery has been commented upon in the review.

The present review, conducted during January-April 2004, covers defaults and recovery performance during 1999-2004 through test check of records at head office and five[^] out of nine regional offices. Data analysis of defaults and recoveries and detailed study of sample cases (25 *per cent* of overdue less than Rs.50 lakh and 50 *per cent* of overdue above Rs.50 lakh) was carried out.

The audit findings were reported to Government/Corporation in May 2004 with the request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting of ARCPSE was held on 16 July 2004, which was attended by two Deputy General Managers of the Corporation and a representative of the Industries department of Government of Maharashtra. The review has been finalised after taking into consideration replies of the Corporation and deliberations of ARCPSE.

Financial position and working results

The Corporation incurred losses continuously during 1999-2004. Net worth was negative since 2000-01.

3.3.4 Financial position and working results of the Corporation during 1999-2004 are given in **Annexure-11**. The Corporation made provision of Rs.315.44 crore during 2001-04 towards doubtful recoveries (non performing assets). The Corporation incurred losses continuously during 1999-2004 mainly due to slackness in recovery leading to reduction in income. Net worth was negative since 2000-01. As on 31 March 2004, accumulated losses of Rs.570.70 crore exceeded the paid-up capital and reserves (Rs.104.37 crore) by Rs.466.33 crore.

Procedure for financial assistance

3.3.5 As per Manual for project appraisal (1991), the Corporation is to give financial assistance to eligible units on receipt of application accompanied by detailed project report subject to evaluation of techno-economic viability. Such evaluation is put up to competent authority through a detailed appraisal memorandum. The appraisal memorandum deals with promoter's background, product, raw material availability, marketability, financial projections, financial and managerial capabilities of promoters and margin money to be brought in by promoters. Loan amount up to Rs.25 lakh is sanctioned by Committee headed by Regional Manager; Rs.26 to 50 lakh by Committee

[^]Mumbai-Konkan, Thane-Daman-Diu, Nagpur, Aurangabad and Panaji.

headed by General Manager; Rs.51 to 75 lakh by Committee of senior officers headed by Managing Director; Rs.76 to 125 lakh by Executive Committee (committee of directors headed by Managing Director) and full powers to the Board beyond Rs.1.25 crore. Disbursement of loan is to be made after compliance with all the terms of sanction letter and on the basis of progress of implementation of the project.

Sanction and disbursement of loan

3.3.6 A comparative statement showing the receipt of applications, sanctions and disbursement of term loans during 1999-2004 is given below:

(Rupees in crore)

| Particulars | 1999-2000 | | 2000-01 | | 2001-02 | | 2002-03 | | 2003-04 | |
|--|-----------|--------|---------|--------|---------|--------|---------|--------|---------|--------|
| | No. | Amount | No. | Amount | No. | Amount | No. | Amount | No. | Amount |
| Loan applications pending at beginning of the year | 27 | 15.65 | 21 | 11.50 | 28 | 21.16 | 11 | 6.85 | 2 | 3.40 |
| Add: applications received | 267 | 76.18 | 396 | 116.01 | 193 | 34.83 | 3 | 0.30 | 10 | 5.02 |
| Less: Applications rejected/withdrawn | 46 | 24.34 | 69 | 28.07 | 54 | 25.52 | 11 | 3.57 | 3 | 3.61 |
| Net balance | 248 | 67.49 | 348 | 99.44 | 167 | 30.47 | 3 | 3.58 | 9 | 4.81 |
| Loans sanctioned | 227 | 55.99 | 320 | 78.28 | 156 | 23.62 | 1 | 0.20 | 6 | 2.49 |
| Loan applications pending at the end of the year | 21 | 11.50 | 28 | 21.16 | 11 | 6.85 | 2 | 3.40 | 3 | 2.32 |
| Loans disbursed | | 46.66 | | 50.49 | | 30.35 | | 5.55 | | 1.57 |

The Corporation's ability to finance units was seriously impaired due to slackness in recovery.

Disbursement of loans declined sharply from Rs.46.66 crore in 1999-2000 to Rs.1.57 crore in 2003-04. This was due to slackness in recovery leading to accumulation of non-performing assets which seriously impaired the Corporation's ability to finance units.

Audit observed the following deficiencies in the disbursement of loan:

- The Corporation provided financial assistance to units, which were unviable at the appraisal stage.
- To safeguard the Corporation's interest and to weed out non-serious promoters, the Corporation failed to ensure that the promoters had invested their contribution before disbursement of any part of loan. The certificates furnished by chartered accountants were faulty but no action was taken against them, which could have acted as a deterrent. The inspections carried out before disbursements were also ineffective.
- The Corporation did not have a suitable mechanism for creating and updating data bank of physical and financial achievements of units financed *vis-à-vis* projections considered at the time of sanction of loan.

- Appraisal memorandum shows details of immovable properties of promoters/directors and market value as furnished by them in the loan application. However, vital documents such as title deeds, valuation reports *etc.* were not obtained and verified before accepting personal guarantee.

A few cases where deficiencies in sanction and disbursement of loans were noticed are discussed in the succeeding paragraphs.

Loan to a holiday resort

3.3.7 Shubhangi Holiday Resort & Club Limited (SHRCL) sought (December 1997) loan of Rs.1.15 crore towards escalation in cost of setting up a holiday resort at Panvel. The Corporation sanctioned (July 1999) loan of Rs.86.50 lakh and disbursed Rs.76 lakh during September 1999 to December 2000.

Audit observed the following:

Loan of Rs.76 lakh was disbursed to a unit which had defaulted in repayment of an earlier loan.

- The loan of Rs.76 lakh should not have been disbursed, as SHRCL was a defaulter since May 1997 in respect of an earlier loan of Rs.90 lakh.
- In addition to adjustment of overdue interest of Rs.49.22 lakh against earlier loan, further disbursement of Rs.26.78 lakh was made to the defaulter leading to delayed action for recovery.
- Managing Director of the Corporation visited SHRCL in February 2001 and commented that the assets created did not appear to be as reported and considered for loan. The Corporation should have immediately investigated the matter and ascertained the exact value of assets created. In the event of expenditure certificate not being true, action should have been taken against the chartered accountant who had furnished (June 1999) the expenditure certificate and against the officers who had inspected (September 1999) the site before disbursement of loan.
- Despite the fact that SHRCL was a chronic defaulter with outstanding dues of Rs.2.18 crore including interest of Rs.80.10 lakh (as on 31 March 2004), the Corporation had not recovered its dues by invoking Section 29 of SFC Act. The Corporation had also not invoked personal guarantees of directors.

Loan to an oil unit

3.3.8 The Corporation disbursed (February 1998 to February 1999) loan of Rs.1.79 crore to Precious Oil Products Private Limited (POPPL) for manufacture of non-edible oil. POPPL surrendered the assets in January 2001 stating that the unit was not viable in view of competition from imports. The Corporation sold (August 2001) the assets for rupees one crore. The outstanding dues as on 31 March 2004, after sale of assets, amounted to Rs.1.15 crore including interest of Rs.36 lakh. Action for sale of collateral security in the form of residential flat (estimated value: Rs 45 lakh) was in progress (July 2004).

Loan was given despite knowledge of adverse effects of stiff competition from imports and downward trend in market.

The Corporation stated (July 2004) that though there was increasing competition it thought that POPPL might not face difficulty in achieving estimated turnover. Sanction of loan to POPPL was not justified in view of the following:

- Even at the time of sanction, there was stiff competition from imports due to liberalised import policy of the Government of India.
- The Corporation had earlier financed (1987/1995) similar units (Umred Agro Complex Limited and Narendra Dada Agro Industries) and was thus aware of the downward trend in market.

Loan to a restaurant

3.3.9 The Corporation sanctioned (January 1999) and disbursed (August 1999 to March 2000) loan of Rs.1.25 crore to Oriental Estate and Properties Private Limited (OEPPL) for setting up a restaurant at Matheran near Mumbai. The loan was repayable in 13 six monthly instalments during August 2001 to August 2007. The sanction letter stipulated that OEPPL shall invest Rs.1.25 crore being 50 *per cent* of the total project cost before disbursement of any part of loan. OEPPL was a defaulter since August 2001 with outstanding dues of Rs.1.40 crore including interest of Rs.15.42 lakh (March 2004). The Corporation had not taken over (July 2004) the assets of OEPPL including collateral security (estimated value : Rs.50 lakh).

The Corporation stated (July 2004) that OEPPL had recently submitted a proposal for repayment of dues, which was being examined.

Audit observed the following:

- The Corporation disbursed the loan relying on the certificate of a chartered accountant (M/s Rajesh B Gosar). This certificate turned out to be false. From the annual accounts (2001-02) of OEPPL, Audit observed that actual gross fixed assets were only Rs.1.78 crore as against fixed assets of Rs.2.30 crore certified by the chartered accountant. Thus, the contribution of the promoters of OEPPL was only Rs.53 lakh* instead of Rs.1.25 crore.
- The Corporation did not take any action against the chartered accountant for the incorrect certificate issued and the unit for submission of certificate containing false information.

No action was taken against the Chartered Accountant for issuing false certificate.

Loan to a pipe manufacturing unit

3.3.10 The Corporation disbursed (July 1999 to June 2000) loan of Rs.64.15 lakh to Mahalaxmi Extrusion Products Private Limited (MEPL) for setting up a pipe manufacturing unit at Palghar. The promoters of MEPL were already engaged in manufacture of pipes through Mukesh Industries Limited (MIL) located at Palghar. MEPL defaulted in payment of dues since

* Rs.1.78 crore less Rs.1.25 crore. Percentage of promoters contribution (Rs.53 lakh) to actual gross fixed assets (Rs.1.78 crore).

August 2000 and owed to the Corporation Rs.1.05 crore including interest of Rs.41.23 lakh (March 2004).

Audit observed that the Corporation extended following undue favours to MEPL:

- MEPL sought funds to manufacture pipes with brass connections. As its sister concern MIL was already manufacturing pipes, the Corporation initially rejected (November 1997) the application unless the applicant was agreeable to purchase the pipes from MIL and fit only brass connections as manufacture of pipes by MEPL would entail duplication of infrastructure and consequent higher requirement of fund. But, subsequently the Corporation sanctioned (May 1999) the loan without insisting on the above condition.
- Three cheques for Rs.1.50 lakh given by MEPL in March 2002 were dishonoured on the ground that the account was closed. Machinery valuing Rs.7.37 lakh were found missing at the time of takeover of assets in April 2002. The Corporation still accepted six post dated cheques for rupees three lakh and returned possession of assets in May 2002. These cheques were also dishonoured.
- Return of assets enabled MEPL to divert further machinery. Two more items valuing Rs.26 lakh were found missing on inspection by the Corporation in November 2002.

The Corporation extended benefits to a party which had removed machinery and submitted cheques which were dishonoured.

The Corporation stated (July 2004) that a criminal complaint against director of MEPL for diversion of machinery was filed in November 2002. The Corporation had not taken action against its officials for the above lapses.

The Corporation had neither taken over (July 2004) the assets of MEPL nor invoked personal guarantees of directors to recover its dues of Rs.1.05 crore (including interest of Rs.41.23 lakh).

Loan to an industrial gas unit

3.3.11 The Corporation disbursed (May-November 1999) loan of Rs.68.60 lakh to Maharashtra Air Products Private Limited (MAPPL) for setting up a unit for manufacture of industrial gases. MAPPL was a defaulter since August 1999. The outstanding dues was Rs.1.02 crore including interest of Rs.31.01 lakh (March 2004). The Corporation stated (July 2004) that orders of Debt Recovery Tribunal for attachment of collateral security in the form of two residential buildings (estimated value: Rs.55 lakh) were obtained (February 2004).

Audit observed the following:

- The promoters of MAPPL were already engaged in trading in industrial gases. The terms of sanction stipulated that MAPPL was to invest Rs.1.45 crore (Rs.89 lakh towards purchase of 2,100 cylinders and Rs.56 lakh on other assets). No disbursement should have been made without this condition being fulfilled.

The Corporation disbursed loan despite non-fulfilment of vital conditions imposed in sanction letter.

- The Corporation accepted Rs.56.28 lakh as new investment towards 600 cylinders and equipment, which MAPPL already possessed.
- Certificate of chartered accountant submitted by MAPPL for claiming disbursement showed that the equipment was already purchased one year before sanction of loan. Thus, the promoters did not raise and invest additional fund as per terms and conditions of sanction.
- Despite non-fulfilment of vital conditions imposed in sanction letter, the Corporation disbursed the loan.

The Corporation had neither taken over (July 2004) the assets of MAPPL nor sold the collateral security to recover its dues of Rs.1.02 crore (including interest of Rs.31.01 lakh).

Loan to a ginning unit

3.3.12 The Corporation sanctioned (November 2000) loan of Rs.46 lakh to Khatri Cotton Ginning Pressing Industries (KCGPI) for setting up a cotton ginning and pressing factory at Wadner in Wardha district and disbursed loan of Rs.44.77 lakh during March 2001 to March 2002.

The Corporation disbursed loan without ensuring that the unit could obtain cotton from Federation.

The viability of the project was directly linked to assured supply of raw cotton from Maharashtra State Co-operative Cotton Growers Marketing Federation (Federation). KCGPI started defaulting in payment of dues since June 2002 because it could not obtain cotton from the Federation. The outstanding dues was Rs.51.92 lakh including interest of Rs.7.17 lakh (March 2004). The Corporation stated (July 2004) that loan was disbursed assuming the supply of raw cotton by the Federation.

The reply was not tenable as the proposed factory was to be set up in pursuance of an offer (August 2000) from the Federation. The offer of Federation stipulated that the proposed factory should be set up by December 2000 failing which supply of raw cotton would be made to others. The Corporation should not have disbursed the loan after this date without ensuring revised offer for supply of raw cotton from the Federation.

Loan to a paperboard unit

3.3.13 Yash Papers Limited (YPL) sought a loan for setting up a unit to manufacture paperboards. The Corporation disbursed (February 1998 to June 2000) loan of Rs.13.99 lakh. Availability of sufficient water was critical to the success of the unit. The requirement of water was 20,000 litres per day for manufacturing. YPL did not commence production for want of sufficient water and started defaulting in payment of dues since February 2000. YPL owed Rs.27.17 lakh including interest of Rs.13.15 lakh (March 2004).

The Corporation stated (July 2004) that report of site inspection done before disbursement mentioned that water would be available from nearby well and borewell at site. However, subsequent technical inspection (July 2000) revealed non-availability of sufficient water at the site. The reply is not tenable. The

matter should have been investigated as to whether initial inspection was properly carried out. The promoters did not also make alternative arrangements for supply of water.

The Corporation failed to take over assets including collateral security to recover its dues.

The Corporation had neither invoked Section 29 of SFC Act to take over the assets including collateral security (estimated value: Rs.25.70 lakh) nor invoked personal guarantee of proprietor to recover its dues.

Loan to a hotel

3.3.14 Hotel Pinak (HP), a proprietorship concern, was operating a restaurant 12 Km away from Khed on Goa-Mumbai route. HP sought (August 1999) loan of Rs.14 lakh for expansion. The Corporation, without proper assessment of the viability of the project, disbursed the same during November 1999 to May 2000. HP started defaulting in payment of dues since August 2000. The outstanding dues as on 31 March 2004 was Rs.17.55 lakh including interest of Rs.3.55 lakh.

The Corporation stated (July 2004) that the viability of the project was assessed on the basis of projected profitability and cash flow. It disbursed the loan on the basis of assets created.

The reply was not tenable in view of the following:

The Corporation disbursed loan to an unviable project.

- Against estimated investment of Rs.28.02 lakh, the projected annual turnover of the restaurant was only Rs.25.90 lakh. The internal rate of return (IRR) as assessed in the project appraisal note was only 13.78 *per cent* which was less than the interest rate of 15.5 *per cent* applicable for this loan. Thus, the project was not viable.
- HP had already incurred expenditure of Rs.24.34 lakh on the project. The additional investment involved was only Rs.2.70 lakh. So, the disbursement of Rs.14 lakh should not have been done. The extra disbursement facilitated the proprietor to recoup investment of Rs.11.30 lakh already made.
- Disbursement of loan to an unviable scheme resulted in merely shifting the burden of a bad investment from the proprietor to the Corporation.

The Corporation had not recovered its dues by invoking Section 29 of SFC Act to take over prime and collateral security (estimated value: Rs.25 lakh).

Recovery performance

Procedure

3.3.15 The term loans are repayable, along with interest, in quarterly instalments within a maximum period of eight years with moratorium of two years. Regional offices are responsible for monitoring and recovery of dues. The loans granted by the Corporation are secured by mortgage of the fixed assets of the units financed. The Corporation also obtains collateral security

in the form of land, residential/office premises *etc.* and/or personal guarantee of promoters/directors.

SFC Act, *inter-alia*, stipulates that the Corporation may appoint one or more nominee directors on the board of directors of assisted unit and also impose such conditions in the sanction letter as may be necessary to protect its financial interests. The sanction letter stipulates submission of audited annual accounts, yearly progress report on physical/financial performance, insurance policy along with premium receipts for each renewal of insurance cover for assets mortgaged to the Corporation and the right of the Corporation to carry out periodical inspection of the unit assisted.

In the event of default, SFC Act empowers the Corporation to recall the entire loan before the expiry of agreed period (Section 30), to take over management/possession of security offered and to realise the dues by sale/transfer/lease (Section 29), to enforce personal guarantee offered by promoters/directors (Section 31aa) and to recover the dues as arrears of land revenue through State Government (Section 32G).

Post disbursement inspection and monitoring

3.3.16 Post disbursement inspection (PDI) of units financed including monitoring of physical and financial performance is of vital importance. The Corporation has to ensure that the funds granted are used for specified purposes only and not diverted for other purposes. The Corporation should monitor physical/financial performance of units assisted to evaluate whether it is in line with projections made.

Audit noticed the following deficiencies in PDI and monitoring:

- The Corporation did not appoint nominee director during 1999-2004 on the board of directors of any of the units assisted.

The Corporation while accepting the above facts stated (July 2004) that nominee directors were not appointed due to its experience in the past of assisted units not extending full co-operation to the nominee directors. The reply was not acceptable. The Corporation should have insisted on obtaining all necessary feed back through nominee directors to safeguard its financial interests and should have enforced its right under SFC Act to recall the entire loan in the event of non-compliance.

- The Corporation was not receiving audited annual accounts and progress report on physical/financial performance. No efforts were made to ensure submission of these documents necessary for monitoring the performance of units assisted.
- PDI is important in identifying units that are likely to become unviable in near future as well as units that had become unviable for taking immediate remedial measures. Reports of periodical inspection of units were furnished by Nagpur region for only one year (2001-02). Periodical inspection was not carried out at other regions.

There was no effective post disbursement inspection and monitoring of units assisted.

- The format of inspection report as prescribed by the Corporation deals with important issues such as extent, details and adequacy of working capital, operational performance for last three years, factors affecting growth and overall performance of unit. But, scrutiny by Audit of 40 inspection reports at Nagpur pertaining to units financed after April 1998 showed that the reports were deficient as they did not provide full data as per the format prescribed. Thus, PDI reports failed to analyse the operational performance and point out cases of recovery likely to become doubtful.

The Corporation stated (July 2004) that very often the executive/promoter concerned was not present during the inspection and as such it could not collect relevant data. This plea is not acceptable as collection of data was vital for proper post disbursement monitoring. The Corporation should have insisted on obtaining the full data.

- The computerised loan accounting system provided for entry of details relating to expiry of insurance cover and generation of report relating to insurance policies due for renewal. However, the Corporation failed to utilise this reporting facility to ensure that the assets were insured by the borrowers.

The Corporation while admitting the fact stated (July 2004) that the borrowers did not show interest in insuring the assets.

Defaults and recoveries

3.3.17 The details of term loans due for recovery, target fixed for recovery, amount recovered and recovery performance are given below:

(Rupees in crore)

| Particulars | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 (Provisional) |
|--|-----------------|-----------------|-----------------|-----------------|--------------------------|
| Amount due for recovery | | | | | |
| Arrears at the beginning of the year | 607.03 | 734.98 | 876.90 | 1,007.80 | 1,162.59 |
| Amount due during the year | 419.36 | 374.99 | 336.46 | 306.11 | 287.15 |
| Total recoverable | 1,026.39 | 1,109.97 | 1,213.36 | 1,313.91 | 1,449.74 |
| Amount rescheduled /waived/written-off | 33.19 | 30.85 | 31.17 | 27.58 | 235.68 |
| Net amount recoverable | 993.20 | 1,079.12 | 1,182.19 | 1,286.33 | 1,214.06 |
| Target for recovery | 431.80 | 367.65 | 320.00 | *320.00 | 350.00 |
| Percentage of target to amount recoverable | 43.5 | 34.1 | 27.1 | 24.9 | 28.8 |
| Recovery against | | | | | |
| Old dues | 107.49 | 81.70 | 85.14 | 68.27 | 63.16 |
| Current year demand | 150.73 | 120.52 | 89.25 | 55.47 | 41.86 |
| Total recovery | 258.22 | 202.22 | 174.39 | 123.74 | 105.02 |
| Amount in arrears | 734.98 | 876.90 | 1,007.80 | 1,162.59 | 1,109.04 |
| Percentage of recovery against | | | | | |
| Target | 59.8 | 55.0 | 54.5 | 38.7 | 30.0 |
| Old dues(beginning of year) | 17.7 | 11.1 | 9.7 | 6.8 | 5.4 |
| Current year demand | 35.9 | 32.1 | 26.5 | 18.1 | 14.6 |
| Net amount recoverable | 26.0 | 18.7 | 14.7 | 9.6 | 8.7 |

*Target not fixed for 2002-03 hence assumed as target for 2001-02.

There was increase in outstanding dues from Rs.734.98 crore as on 31 March 2000 to Rs.1,109.04 crore as on 31 March 2004.

The Corporation did not take effective measures for recovery. Audit observed that 100 out of 210 units financed since April 1999 were defaulters with outstanding dues of Rs.7.93 crore. The target fixed for recovery was only 28.8 *per cent* in 2003-04 as against 43.5 *per cent* in 1999-2000. The Corporation could not achieve even the reduced targets relating to recovery. Consequently, the outstanding dues including interest increased from Rs.734.98 crore as on 31 March 2000 to Rs.1,109.04 crore as on 31 March 2004.

Due to slackness in recovery of dues, non performing assets have also increased from 65.53 to 91.41 *per cent* during 1999-2004. Details of loans (principal) classified as per SIDBI/RBI guidelines are given below:

(Rupees in crore)

| Classification | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 (Provisional) |
|--------------------------------------|---------------|---------------|---------------|---------------|--------------------------|
| Standard Assets* | 279.21 | 222.38 | 154.19 | 138.89 | 44.51 |
| Non Performing Assets (NPA)** | | | | | |
| Sub-standard | 217.84 | 97.15 | 80.35 | 57.06 | 44.28 |
| Doubtful | 241.86 | 334.84 | 307.68 | 227.09 | 218.54 |
| Loss | 71.15 | 74.91 | 105.08 | 135.05 | 210.85 |
| Total NPA | 530.85 | 506.90 | 493.11 | 419.20 | 473.67 |
| Total dues | 810.06 | 729.28 | 647.30 | 558.09 | 518.18 |
| Percentage of NPA to total dues | 65.53 | 69.51 | 76.18 | 75.11 | 91.41 |

The Corporation stated (July 2004) that concerted efforts were made for maximisation of recoveries. Audit observed that the Corporation failed to enforce recovery by invoking provisions of SFC Act to take over the assets financed including collateral security and to enforce personal guarantees given by promoters/directors (discussed in paragraph 3.3.20).

* Standard assets are those loans with overdues up to 180 days.
 ** NPAs are those loans with overdues more than 180 days.

Deficiencies in recovery

Case study

3.3.18 Cases of loans under default test checked in audit revealed that there were deficiencies in recovery as discussed below. The lacunae found at the disbursement stage have also been brought out in the table.

| Sl. no. | Name of the borrower | Amount (Rupees in crore) | | Deficiencies in recovery | Further observations relating to lacunae at the disbursement stage |
|---------|------------------------------------|--------------------------|--|--|---|
| | | Disbursed | Outstanding including interest as on 31 March 2004 | | |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | Ashwini Developers Private Limited | 1.09 | 4.25 | <ul style="list-style-type: none"> Section 29 of SFC Act was not invoked. Personal guarantee of promoters/directors was not invoked. | <ul style="list-style-type: none"> Office premises already sold were mortgaged to the Corporation as collateral security. The Corporation did not file criminal case against the director of the unit. |
| 2 | Vinar Ispat Limited | 2.25 | 7.27 | <ul style="list-style-type: none"> Section 29 of SFC Act was not invoked. Personal guarantee of promoters/directors was not invoked. | <ul style="list-style-type: none"> Disbursement was made without ensuring that promoters had invested their share. The Corporation stated that disbursement was made on the basis of chartered accountant's certificate. A critical examination would have revealed that the borrower had not mobilised additional funds but merely diverted existing working capital. |
| 3 | Laxmi Resorts Private Limited | 1.34 | 4.42 | <ul style="list-style-type: none"> Section 29 of SFC Act was not invoked. Personal guarantee of promoters/directors was not invoked. | <ul style="list-style-type: none"> The Corporation disbursed the loan without opening of ESCROW account as required in sanction letter. |
| 4 | Top Syringe Manufacturing company. | 0.90 | 3.94 | <ul style="list-style-type: none"> Section 29 of SFC Act was not invoked. Personal guarantee of promoters/directors was not invoked. | <ul style="list-style-type: none"> Though a new product (plastic syringe) had already entered the market, loan was given for glass syringe project. |
| 5 | Govinda Steel Rolling Mill | 0.46 | 1.86 | <ul style="list-style-type: none"> Section 29 of SFC Act was not invoked. Personal guarantee of promoters/directors was not invoked. | <ul style="list-style-type: none"> The Corporation disbursed the loan without ensuring arrangement for working capital as per terms of sanction. |
| 6 | Chaitanya Papers Private Limited | 0.30 | 1.29 | <ul style="list-style-type: none"> Section 29 of SFC Act was not invoked. Personal guarantee of promoters/directors was not invoked. | <ul style="list-style-type: none"> The Corporation sanctioned loan despite knowing that market conditions were unfavourable. |

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| 1 | 2 | 3 | 4 | 5 | 6 |
|----|---|------|------|---|--|
| 7 | Raitex Mills Private Limited | 0.21 | 0.39 | <ul style="list-style-type: none"> • Section 29 of SFC Act was not invoked. • Personal guarantee of promoters/ directors was not invoked. | <ul style="list-style-type: none"> ▪ Loan was sanctioned although the Corporation's appraisal found the project unviable. |
| 8 | Prakash Agro Industries | 0.09 | 0.27 | <ul style="list-style-type: none"> • Section 29 of SFC Act was not invoked. • Personal guarantee of promoters/ directors was not invoked. | <ul style="list-style-type: none"> • Viability of project was evaluated based on trading turnover of sister concern instead of the existing unit. |
| 9 | Bhagirath Hospitality Private Limited | 0.70 | 1.97 | <ul style="list-style-type: none"> • Assets taken over were not sold even after three years. • Personal guarantee of promoters/ directors was not invoked. | <ul style="list-style-type: none"> • The Corporation disbursed the loan despite knowing that the location of hotel was near slum area with no proper approach road. |
| 10 | Raj & Yash Alloy Private Limited | 0.48 | 0.77 | Decree against guarantor was not executed even after 27 months though property worth Rs.70 lakh existed | <ul style="list-style-type: none"> • The Corporation sanctioned loan although the scheme for expansion of capacity to manufacture steel ingots was not viable as concessional tariff for power was withdrawn before sanction of loan. |
| 11 | Silent Real Estate Developers (India) Private Limited | 1.96 | 2.61 | <ul style="list-style-type: none"> • Assets taken over were returned in lieu of postdated cheques, which were subsequently dishonoured. • The Corporation should not have returned the assets knowing the dishonest nature of the borrower. | <ul style="list-style-type: none"> • Part of the assets mortgaged as securities were already encumbered. • The Corporation in its reply stated that all the securities offered to the Corporation were free from encumbrances. Criminal case should have been lodged against the borrowers for mortgaging to the Corporation properties which were already sold. |
| 12 | Parca Paper Industries Limited | 1.76 | 3.66 | Personal guarantee of promoters/ directors was not invoked. | <ul style="list-style-type: none"> • The Corporation disbursed the loan without ensuring that promoters had invested their share. |

Dishonour of cheques

3.3.19 As per Section 138 of Negotiable Instruments (NI) Act, 1881 dishonour of cheques shall constitute an offence liable for punishment with imprisonment up to one year and/or fine up to twice the amount of cheque. The case is to be filed within one month from the return of dishonoured cheque by the bank. Timely action was therefore necessary. The Corporation did not maintain proper records showing details of cheques dishonoured, legal notices issued and court cases filed to take prompt follow up action.

The Corporation failed to take legal action in respect of dishonoured cheques.

The Corporation agreed (July 2004) to maintain proper records.

Audit analysis in respect of Thane region revealed that there was dishonour of cheques in 412 (Rs.57.19 crore) out of 735 live loan accounts. The outstanding dues in these 412 loan accounts were Rs.322.78 crore but Thane region had not filed cases under Section 138 in 356 accounts with overdue of Rs.283.17 crore.

The Corporation confirmed (July 2004) that action under Section 138 of NI Act was taken only in respect of few cases.

Non-invoking provisions of SFC Act

3.3.20 In the event of default, SFC Act empowers the Corporation to recall the entire loan before the expiry of agreed period (Section 30), to take over management/possession of security offered and to realise the dues by sale/transfer/lease (Section 29), to enforce personal guarantees offered by the promoters/directors (Section 31aa) and to recover the dues as arrears of land revenue through State Government (Section 32G).

Invoking Section 29 of SFC Act and prompt takeover of prime and collateral securities in cases of defaults is essential:

- to compel wilful defaulters to repay;
- to prevent defaulters from continuing to derive revenue from the use of assets; and
- to prevent shifting/disposal of securities by the assisted units.

Audit observed the following:

The Corporation did not take over assets even after two years of accounts becoming NPA.

- The Corporation had not taken over possession of fixed assets in 1,066 cases, which were under the category of NPA for more than two years. The outstanding dues in these 1,066 cases were Rs.365.76 crore (March 2004). Collateral securities valuing Rs.6.04 crore in 78 cases with outstanding dues of Rs.39.81 crore (March 2004) were also not taken over.

- The Corporation had also not invoked personal guarantees in 119 out of 210 cases, involving dues of Rs.78.74 crore.

Performance of the Corporation in recovery of its dues even after obtaining decree was poor.

- The performance of the Corporation in recovering its dues even after obtaining decree was poor. Though decree was obtained in 77 cases in favour of the Corporation for Rs.4.59 crore, the recovery by the Corporation was a meagre Rs.22.46 lakh.

The Corporation stated (July 2004) that it has adopted a cautious approach in taking over collateral securities as agricultural land offered as collateral can be sold only for agriculture purpose, it was difficult to evict occupants of residential flats and collateral securities are often sold without the knowledge of the Corporation. The reply was not acceptable in view of the following:

- The Corporation should not have accepted agriculture land as collateral security in view of difficulties in their takeover and sale;
- the difficulties in eviction of tenants should not be an excuse for not initiating action; and
- the reply was silent as to whether any criminal case was filed against the borrowers for sale of collateral securities without the knowledge of the Corporation.

The Corporation further stated (July 2004) that details of personal properties owned by guarantors and documentary evidence thereof were yet to be ascertained. The reply was not acceptable as the Corporation should have obtained such details and documents before accepting guarantee.

The failure on the part of the Corporation to invoke the provisions of SFC Act has severely hampered its efforts to make recoveries and its ability to finance other units.

Conclusion

Loans were sanctioned to unviable projects. Disbursements were made without ensuring compliance with vital conditions necessary to safeguard the Corporation's interests. Effective post disbursement inspection and monitoring to identify units that were likely to turn unviable was not done. The Corporation did not safeguard its interests by invoking Section 29 of SFC Act and personal guarantees of promoters/directors. The Corporation incurred losses continuously mainly due to slackness in recovery. There was accumulation of non-performing assets. The Corporation's failure to recover its dues seriously impaired its ability to finance units.

The Corporation should ensure that loans are disbursed only for viable projects and there is no compromise with vital conditions necessary to safeguard its interest. There is an urgent need for effective post disbursement inspection and monitoring of the units and to invoke legal safeguards for recovery of its dues.