CHAPTER VII : MINISTRY OF FINANCE

Department of Disinvestment

7.1 Sale of HCI hotels in Mumbai

Sale transactions of two hotels, Juhu Centaur and Airport Centaur were finalised on the basis of single bids without the benefit of competition. Assumptions made during valuation of the properties and fixation of reserve price of Airport Centaur were not consistent with the practice followed by the Ministry in other cases. Repeated extensions and relaxations were allowed to the bidder of Juhu Centaur to facilitate the sale.

Hotel Corporation of India (HCI), a wholly owned subsidiary of Air India, operated two five star hotels in Mumbai, Juhu Centaur and Airport Centaur. Disinvestment Commission appointed by the Ministry of Disinvestment recommended sale of these hotels in December 1997, which was accepted by Air India in July 1998.

The sale process encompassed valuation of the properties to arrive at the reserve price; invitation of Expression of Interest for acquiring the hotels; short listing the firms on the basis of their Expression of Interest package; executing confidentiality agreement by the short-listed firms, carrying out due diligence exercise[•]; submission of the financial bids and selection of the successful bidder.

The sale process of the two hotels was started by Air India, who appointed the Global Advisor[1] in February 2000 and Asset Valuer[2] in June 2001.The sale process was managed by the Sub-committee constituted by Air India. Invitation of Expression of Interest for acquiring the hotels on a 'going concern'[♠]basis, short listing of bidders and the due diligence exercise were completed by May 2001.

In September 2001, based on a Government decision, the Ministry of Disinvestment took over the sale process. Ministry constituted an Evaluation Committee headed by the Joint Secretary and Financial Advisor of the

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[•] Task of carefully confirming all critical assumptions and facts presented to assess the desirability, value and potential of the business.

[1] Ms Jardine Fleming Pvt Ltd.

[2] Ms Kanti Karamsay & Co.

[♠] Going concern envisages continuance of operation of the business by infusion of superior technical and managerial skills besides additional capital

Ministry of Civil Aviation and comprising senior officers of Ministry of Disinvestment, Ministry of Finance, Department of Public Enterprises and Ministry of Civil Aviation and Managing Directors of Air India and HCI, for managing the process with the following channel of approvals:

Evaluation Committee

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Inter-Ministerial Group headed by Secretary, Disinvestment

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Core Group of Secretaries on Disinvestment

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Cabinet Committee on Disinvestment

Expressions of Interest were received in October 2000 from 20 parties for Juhu Centaur and 21 parties for Airport Centaur. In case of Juhu Centaur, three parties were disqualified, 16 withdrew leaving a solitary bidder, M/s Tulip Hospitality Services Private Ltd. in fray. In case of Airport Centaur, four were disqualified, 13 withdrew and the remaining four carried out due diligence exercise. However, only one bidder, M/s Batra Hospitality Private Ltd., submitted the financial bid. Thus, from the point of financial bidding, both sales finally turned out as single bidder transactions.

The sale of Juhu Centaur was concluded in March 2002 realising Rs. 153 crore. Airport Centaur was sold in April 2002 at Rs. 83 crore. Audit of the transactions disclosed the following:

Limited Competition

In cases of disinvestments, competition cannot be relied upon to emerge unless positive steps are taken by the seller to encourage bidders to come forward. Audit could not check the adequacy of the competition generated, as the efforts of the Government in generating adequate competition and maintaining the competitive tension were not evident from records. Log of contacts, communication with the bidders and reasons for withdrawal of sixteen parties in case of Juhu Centaur and thirteen parties in case of Airport Centaur without carrying out due diligence were not documented. The Ministry in its reply in January 2005 stated that the decision of interested parties to withdraw from the process was their own commercial decision and the Global Advisor was not able to positively influence such decisions beyond a point. Even then repeated efforts were made *verbally* by the Global Advisor to keep their interests alive. Ministry further stated that in future it would be ensured that all Advisors maintain uniformity by documenting communications with prospective purchasers, maintaining a log of all contacts and other communications. The reply does not address the concern of Audit regarding evidence of Government's involvement and specific efforts to deal with limited competition throughout the sale process.

Inconsistencies in assumptions made for valuation of hotels

> **DCF method**: The DCF method expresses the present value of a business as a function of its future earning capacity. Future cash flows are discounted at an appropriate discount factor. Annual cash flows are obtained by deducting the annual tax outflow inclusive of the tax shield enjoyed on account of debt service, incremental amount invested in working capital and capital expenditure from the year's profit before depreciation and tax. The discount factor is a function of the debt-equity ratio, cost of debt and cost of equity. Assumption of higher cost of debt and equity will increase the discount factor leading to under valuation.

The Global Advisor valued both the properties in November 2001 using four approved valuation methodologies, Discounted Cash Flow (DCF) method, Peer Group Comparables method, Balance Sheet method and Asset Valuation method to enable fixation of reserve price for the sale. Of the four methodologies, the Evaluation Committee fixed the reserve price based on the DCF method.

Using the DCF method, the Global Advisor arrived at a range of values from Rs. 81.70 crore to Rs. 121.60 crore for Juhu Centaur and Rs. 63.20 crore to Rs.88.90 crore for Airport Centaur. Audit noticed inconsistencies in assumptions underlying the valuation process, which lowered the enterprise value of the properties.

(i) *Assumption of higher cost of debt*: For the valuation of both hotels, the Evaluation Committee accepted Global Advisor's assumption of a flat corporate tax rate, ignoring surcharge on income tax. Assumption of lower tax rate increased the cost of debt to 8.45 *per cent*. Had surcharge at two *per cent* (the rate of surcharge in 2002-03) been considered, the cost of debt would have been lower at 8.36 *per cent*. Assumption of higher cost of debt resulted in lower valuation of both the properties at Juhu and Airport Centaur.

Ministry stated that while the basic corporate tax rate (35 *per cent*) had remained constant, the surcharge had changed and hence was deliberately ignored. However, audit noted that during February 2001 to January 2002, in valuation of several other cases of disinvestment of Bharat Aluminium Company Ltd., Indo Burma Petroleum Company

Ltd., Computer Maintenance Corporation Ltd. and Hindustan Teleprinters Ltd., surcharge of two *per cent* or more was reckoned for valuation and this was accepted by the Ministry. Ministry's approach was thus inconsistent. Further, surcharge had been a near constant addition to corporate tax. Over a ten-year period 1995-2005, surcharge was levied for eight years, the highest being 15 *per cent* and the lowest being two *per cent*. Thus prudence demanded that in view of continuance of surcharge year to year, its impact be taken into account in the valuation of the business.

(ii) *Assumption of higher cost of equity*: The Evaluation Committee accepted the Global Advisor's assumption of risk free rate[♣] on the basis of yield over 25 years in case of both the hotels, against ten years considered for other cases of disinvestments of Bharat Aluminium Company Ltd., Indo Burma Petroleum Company Ltd., Videsh Sanchar Nigam Ltd., Computer Maintenance Corporation Ltd. and Hindustan Teleprinters Ltd. With consideration of longer period, the risk free rate was reckoned higher at 9.9 *per cent* against 9.3 *per cent* for 10-year period. With assumption of longer period, the cost of equity[♦] increased, which depressed the value of the property.

Ministry stated in June 2004 that equity has an indefinite maturity and since government bonds of indefinite maturity do not exist, a GOI bond of a long duration of 25 years was taken.

Ministry further stated in January 2005 that these assumptions and methodology could differ from one expert to another. The reply is not tenable as while experts may differ on valuation methodology, it is essential for the Ministry to ensure consistency in the internal assumptions made during valuation in any one methodology. This assumes further significance in the event of a single bidder case where valuation is the only benchmark for evaluation of the bid.

Airport Centaur: Inconsistent approach in fixing the reserve price

Following valuation, the Evaluation Committee fixed the reserve price. Audit noted inconsistency in fixing the reserve price for Airport Centaur as discussed below:

[♣] Risk free rate is the yield to maturity on GOI securities based on current traded value over a long term tenor beyond the forecast period.

[♦] Cost of equity = Risk free rate + (equity risk premium x β), where β (beta) of a company reflects the underlying risk of a business over and above the stock market risk.

The valuation ranges for Airport Centaur arrived at by the Global Advisor was Rs. 63.20 crore to Rs. 88.90 crore with a base case value♥ of Rs. 76.20 crore. The Evaluation Committee in November 2001 fixed the reserve price at the base case value of Rs. 76.20 crore. Financial bid received from the sole bidder was Rs. 65.00 crore; lower than the reserve price. Hence the bid was not accepted in November 2001.

In December 2001, to secure better response from prospective bidders, the Cabinet Committee on Disinvestment approved reduction of turnover levy payable to Airport Authority of India (AAI) from six to two *per cent*. The reduction of the turnover levy had the impact of raising the value of the property.

The Global Advisor valued the property afresh in January 2002 with the lower turnover levy⊕ and arrived at a higher valuation range of Rs. 78.30 crore to Rs. 105.70 crore with a base case value of Rs. 92 crore. The Evaluation Committee, however, in January 2002, fixed the reserve price at the minimum of the range at Rs. 78.30 crore instead of at the base case value of Rs. 92 crore. By deviating from the earlier practice, the reserve price got depressed by Rs. 13.70 crore. The bids were invited from the four Qualified Interested Parties of the earlier round and the same bidder submitted the sole bid of Rs. 83 crore, which was Rs nine crore lower than the base case value though higher than the minimum value.

The Evaluation Committee had fixed the reserve price at the base case value not only for Airport Centaur in the first round but also for the other hotel, Juhu Centaur. The same committee chose to fix the reserve price at lower than the base case value in the second round for Airport Centaur. The Ministry's inconsistent approach, which resulted in a lower reserve price, appears peculiar.

The Evaluation Committee justified (January 2002) lowering the reserve price on the grounds that

- The Global advisor had adopted higher occupancy of airport hotels compared to industry average in valuation despite the fact that there had been significant increase in hotel room capacity in Mumbai,

♥ Base case value is the median of a range of values arrived at under DCF method.

⊕ Amount on turnover to be paid to Airport Authority of India as turnover levy.

- significant capital expenditure would be required in order to upgrade the rooms besides aggressive marketing, to reach the assumed level of occupancy,
- depressed condition prevailed in the hotel, tourism and aviation industry after the events of September 11, 2001.

The contention that higher occupancy had been adopted is questionable, as historically airport hotels in Mumbai had enjoyed higher occupancy than the industry average. Further, the Global Advisor had assumed the occupancy rate on the basis of CRIS INFAC Report 2001 and had already considered decline in occupancy rates during 2003 and 2004 due to excess supply of rooms. The other assumption that higher capital expenditure was required to maintain the occupancy level is also not tenable, as Global Advisor had already assumed a significantly higher cost of renovation of rooms at Rs. 7.5 lakh per room against Rs. 4.30 lakh to Rs. 5.50 lakh estimated in the capital budget of HCI for the years 2001-02 and 2000-01 respectively. The post September-11 depressed condition in the industry was a transient feature. Assuming existence of a short-term condition over a long period was questionable.

Ministry in January 2005 justified fixing of reserve price at minimum of the range on the ground that all the members of the Evaluation Committee were well conversant with hotel/ tourism industry and prevailing physical/ financial situation of the hotel. After considering the pros and cons, they had arrived at the decision on both the occasions. It further stated that the land/ building of the hotel was transferred to the purchaser on lease for 29 years and Rs. 81.25 crore would be received by the AAI over the period of lease.

Ministry's response is not tenable considering that all factors remaining the same, even the bidder had revised the bid upwards from Rs.65 crore to Rs.83 crore, an increase of Rs.18 crore. The Evaluation Committee, however, changed its approach in the second round, which resulted in only Rs. 2 crore being added to the earlier reserve price even after lowering of the turnover levy. The effect of the reduction of turnover levy on the revenues of Airport Authority of India has already been commented upon in the report of the Comptroller and Auditor General, Union Government- Commercial (Public Sector Undertakings) No. 3 of 2004.

Juhu Centaur: Relaxations in the transaction

Audit noted certain inconsistencies in the relaxations/ deviations that were offered to the sole bidder of Juhu Centaur hotel. These are discussed below.

(i) *The scrutiny of the financial strength of the bidder was inadequate*: The bidder at the Expression of Interest stage in October 2000 had furnished uncertified accounts of M/s Cox and Kings Travels and Finance Ltd. (renamed M/s Tulip Star Hotels Ltd.) for two years instead of three years, as required to be furnished in the Expression of Interest package for assessment of their financial strength. However while submitting the financial bid in November 2001, the bidder indicated that a company incorporated in September 2000, named M/s Tulip Hospitality Services Private Ltd. with an issued and paid up capital of Rs. 2000 would be used by M/s Tulip Star Hotels Ltd as a special purpose vehicle for acquiring the Juhu Centaur property. Further, as per the requirement of the financial bid package, the bidder had indicated the source of funds for acquisition as from a bank registered in a small island country in the north pacific region. It was indicated that the said bank had agreed for conditional approval to finance the deal subject to certain active compliances required from the bidder. With conditional approval for finance, the availability of funds was rendered uncertain. Thus, accepting the financial bid of the bidder without a clear indication of source of funds necessary to finance the deal was against the prescribed requirements of the financial bid package.

(ii) *Repeated extensions granted to the bidder*: As per the decision of the government, the bidder was required to deposit the entire purchase consideration and execute the Agreement to Sell and Escrow Agreement by 22 December 2001. However, three extensions between 22 December 2001 and 10 March 2002 including several other relaxations as detailed below were allowed to the bidder.

Unable to arrange for funds, the bidder requested (December 2001) and the Ministry granted extension upto 31 January 2002. A condition of the extension was that the bidder would deposit Rs. 15.30 crore by 31 December 2001and Ministry would charge interest on the balance for the extension period. The rate of interest was however not specified. The bidder contended on 26 December 2001 that interest was not leviable, as they had sought extension for valid reasons, which Ministry had granted on merits. Accepting the bidder's arguments, Ministry did not charge interest. The bidder deposited a conditional cheque of Rs. 15.30 crore on 31 December 2001, which could be encashed only if the bidder entered into an Agreement to Sell. As

Agreement to Sell was to be signed only at the close of the transaction, it in effect meant that the cheque could not be encashed.

At the end of the revised extended period of 31 January 2002, the bidder again requested for extension upto 9 March 2002 to complete the transaction. Ministry conceded and revised the schedule for payment in February 2002.

(iii) *Bank guarantee not encashed despite breach of terms and conditions*: The Ministry did not encash the bank guarantee of Rs. five crore submitted by the bidder with the financial bid when the first deadline of 31 January 2002 was not adhered to. The bidder also defaulted in the payment of the first installment of Rs.5.30 crore on 15 February 2002, the date agreed to in the second revised payment schedule. The Ministry, this time, contemplated invoking the bank guarantee and communicated the same to the bidder. However, following a meeting with the bidder on 23 February 2002, the guarantee was not encashed this time also.

(iv) *Ministry did not charge interest on delayed payment*: The sale transaction was completed on 11 March 2002. The interest chargeable on the delayed payment @ 10.48 *per cent* (the then average rate of GOI borrowing) for the period from 22 December 2001 to 11 March 2002 was Rs. 3.12 crore. The Ministry allowed extensions without charging interest on delayed payment by acceding to the request of the bidder.

(v) *Ministry intervened to facilitate financing of the deal*: As per the financial bid, the source of funds was a foreign bank, which was subsequently changed by the bidder to the consortium of Public Sector and Private Sector banks in February 2002. One of the Public Sector banks had imposed a condition that the Agreement to Sell with HCI should be signed before making disbursement towards financing the deal. On the request of the bidder, the Ministry intervened in January 2002 with this bank, which not only agreed to relax the condition imposed by it earlier but also became the lead banker for the deal subsequently in February 2002. On 23 February 2002, the Ministry again had a meeting with the consortium of banks, in which it was decided that the banks would sign the loan agreements with the bidder and deposit their respective commitments with the lead banker, on 9 March 2002. The Ministry also agreed to change the Escrow Agent at the request of the bidder, appointing the lead financer of the bidder as the agent in place of the existing agent. The change violated the premise of the draft Escrow Agreement that the Escrow Agent should not have an interest in the outstanding purchase price deposited in the Escrow Account. With the change in Escrow agent, the afore-mentioned clause of the agreement was also deleted.

Ministry stated in January 2005 that in several other cases, Department of Disinvestment permitted that share capital of the company could be acquired and held either through an investment vehicle (SPV) or through direct holding in the company so long as the parent company undertook to fulfill the obligations. However, the Ministry's reply is silent on the issues relating to inadequate assessment of financial strength of the bidder.

Further Ministry justified the extensions and relaxations granted to the bidder on the following grounds:

- completion of sale of Juhu Centaur at a price Rs. 153 crore that was well above the determined reserve price of Rs. 101.60 crore was desirable as the process would have to be started de novo involving considerable loss of time and effort and in the post- September 2001 hospitality industry environment, likelihood of fetching the higher price was uncertain.

- the hotel had started incurring losses and its turnover and occupancy rate were also falling.

- the meeting in Ministry of Disinvestment was held on the request of the bidder to provide an opportunity to demonstrate its intent to close the deal.

- the government's interest was protected, as the bank guarantee of Rs. 5 crore was valid till 31 March 2002 and the government had retained its right to invoke the bank guarantee in the event of the bidder failing to comply with its obligations.

- the banks provide the finance after carefully appraising the proposal and satisfying through their due diligence process that the proposal conforms to the prudential norms, prescribed financing limits and had approval of the Board of Directors.

The reply of the Ministry has to be viewed in the light of the fact that Juhu Centaur was making profits until the decision to sell was taken in 1998. Its financial condition deteriorated after the disinvestment process started and its future status became uncertain, a large part of the hotel was under major renovation and this unit of HCI was in possession of potential tangible assets. It also has to be kept in mind that in this case even the adjusted asset value of the hotel was Rs. 134 crore, i.e. Rs.32.40 crore higher than the reserve price. The fact remains that due to inadequate initial scrutiny of financial strength of the bidder, the Ministry had to relax several conditions and make interventions at a later stage to ensure conclusion of the sale, which cannot be viewed as good practice.

Conclusion:

Thus, both transactions became sole bidder cases without the benefit of competition. In the absence of operation of the market effectively, the issue becomes central. It was observed that valuation of the properties and fixation of reserve price were not consistent with the practice followed by the Ministry in other cases. Various relaxations allowed to the bidder and interventions by the Ministry to facilitate the sale, indicated inadequate efforts to mitigate the risk of transaction in a limited competition scenario. The efforts made to balance the need and urgency to sell the properties and to obtain the best possible price from the sale were also not evident.

Ministry should adequately and transparently document every stage of the disinvestment process and adopt a consistent approach with regard to the assumptions made during valuation and fixation of reserve price, in the light of previous experiences.

Department of Economic Affairs

7.2 Unauthorised expenditure on media campaign

Ministry of Finance did not obtain the approval of the Parliament before incurring an expenditure of Rs. 63.23 crore on media campaign. The Ministry incurred the expenditure through diversion of funds although this activity was not contemplated in the annual budget and was, therefore, a New Service/New Instrument of Service.

The Constitution of India stipulates that no money should be withdrawn from the Consolidated Fund of India except under appropriation made by law. When need for expenditure on a new service not contemplated in the annual budget arises, a supplementary demand for grant should be placed before the

Parliament for approval. No expenditure can thus be incurred from the Consolidated Fund of India on a 'New Service'/ 'New instrument of Service' without the approval of the Parliament.

The Ministry of Finance, in consultation with the Comptroller and Auditor General of India and with the approval of Public Accounts Committee had issued necessary guidelines in April 1982 in this regard. The powers of the Ministries/Departments to re-appropriate savings available under a sub-head in a Grant for meeting additional requirement under other sub-heads within that Grant are, inter-alia, subject to the condition that the expenditure involved is not on a 'New Service' or 'New Instrument of Service' or new activity which was not brought to the notice of the Parliament earlier.

The Ministry mooted in September 2002 a proposal for launching a media campaign for highlighting the benefits of economic reforms, creating awareness and developing broad constituency among common people in favour of these reforms. Since this activity was a New Instrument of Service, Ministry was required to bring it to the notice of the Parliament before incurring any expenditure on this activity. Ministry, however, failed to make any budget provision in 2003-04.

The Empowered Sub-Group set up in September 2003 under the chairmanship of Chief Economic Advisor, Ministry of Finance for overseeing the implementation of the publicity programme decided that a full-fledged media campaign be launched and the expenditure met with sponsorship from various stakeholders in the economic reforms i.e. banks, financial institutions and the corporate sector. A comprehensive media campaign plan for audio-visual and print media was drawn and offers were invited from various agencies for production of publicity material. Campaign material of two advertisement agencies styled as 'India Shining' were approved in October 2003 for release to various newspapers and TV channels in three phases, in October 2003 (Phase-I), December 2003 – January 2004 (Phase-II) and February 2004 or till the model code of conduct for Parliamentary elections came into effect (Phase-III). An expenditure of Rs. 63.23 crore was incurred during this period on the programme by re-appropriating Rs. 68 crore from the sub-head 'Co-operation with other countries' to a sub-head 'Other Expenditure' under Major Head 3605 in Demand No. 31- Department of Economic Affairs for 2003-04. The action of the Ministry in not obtaining prior approval of the Parliament before incurring expenditure on the said activity, which was a 'New Service/New Instrument of Service', was unauthorised.

The Ministry stated in October 2004 that the notes below Demand No. 31 (Major Head 3605) mentioned that the provision was to support an overall, general and imaginative promotion of India, its trade and foster techno-economic and intellectual progress with other countries and as such it did not attract the limitations of 'New Service/New Instrument of Service'. The reply is not tenable in view of the constitutional requirements regarding appropriation. Further, the nature and purpose of the campaign did not fit in under this Major Head, which covered various promotional activities in relation to ties with other countries. The entire expenditure incurred thus constituted 'New Service/New Instrument of Service' and needed regularisation.

7.3 Idling of funds and short-recovery of penal interest

Release of Rs. 4.86 crore by the Ministry to Securities and Exchange Board of India (SEBI) in the last month of the financial year 1998-99 for being spent in that very year without proper assessment of the requirement of SEBI resulted in idling of Rs. 2.93 crore for 28 months. The Ministry also short recovered Rs. 35.85 lakh towards penal interest.

The Ministry decided in November 1997 to bring 'collective investment schemes' under the regulatory framework of Securities and Exchange Board of India (SEBI). With a view to get a better understanding of the 'Collective Investment Schemes' before framing appropriate regulations for these schemes, SEBI decided to carry out special audit appraisal of top 100 entities in terms of mobilization of investment from public and submitted (March 1998) an estimate of Rs. 4.86 crore to the Ministry. The Ministry released (March 1999) a grant of Rs. 4.86 crore to SEBI subject to the condition that it would refund the unspent amount to the Government. SEBI requested for extension of the time limit for utilising the grant from time to time on grounds of lack of cooperation and non-production of records by the companies. Extensions for utilisation of the grant were granted by the Ministry till September 2000. The request for further extension beyond September 2000 was turned down in March 2001. Out of Rs. 4.86 crore, SEBI could utilise Rs. 1.93 crore only by September 2000. However, it refunded the unspent amount of Rs. 2.93 crore only in July 2001. Penal interest @ six *per cent per annum* amounting to Rs. 5.17 lakh was charged by the Ministry under Notes 2, 3 and 4 below Rule 149 of General Financial Rules (GFRs) from SEBI on the unspent amount of grant for the period from 1 April 2001 to 16 July 2001.

Releasing Rs. 4.86 crore by the Ministry in the last month of the financial year, for being spent in that year itself, is indicative of funds being released without proper assessment of the anticipated expenditure. Only Rs. 1.93 crore was spent, leaving Rs. 2.93 crore, idle from 16 March 1999 to 16 July 2001. During this period the Government borrowed funds at interest rates ranging between 9.30 *per cent* to 10.30 *per cent per annum*. The cost of Rs. 2.93 crore which idled with SEBI outside the Government account for over 28 months amounted to Rs. 68.54 lakh. Further, although the Ministry had refused SEBI's proposal for extension of time for utilising the amount beyond 30 September 2000, it charged SEBI penal interest of Rs. 5.17 lakh @ six *per cent* not from the date of release but for the period 1 April 2001 to 16 July 2001 on the ground that the refusal was communicated to SEBI only in March 2001. The action of the Ministry was against the provision contained under Notes 2 and 3 below GFRs, which provides that six *per cent* penal interest is chargeable on the unutilised grant from the date of release till the date of recovery. Accordingly, penal interest of Rs. 41.02 lakh was recoverable from SEBI for the period March 1999 to July 2001. Thus, Ministry short recovered the penal interest by Rs. 35.85 lakh.

On the matter being pointed out by audit, the Ministry simply forwarded SEBI's communication of May 2004 through which the latter had clarified that they had spent Rs. 4 crore out of the grant of Rs. 4.86 crore up to September 2003 but the Government had disallowed expenditure on certain items such as payment of salary, travelling allowance, conveyance allowance etc. on the grounds that these did not conform to the purpose for which the grant was intended.

The clarification provided by SEBI indicates that the Ministry had released funds in a rush without proper assessment of the requirement of SEBI.