MINISTRY OF SMALL SCALE INDUSTRIES AND AGRO AND RURAL INDUSTIRES

CHAPTER : XIII

National Small Industries Corporation Limited

Loan Assistance and Recovery Performance

Highlights

The National Small Industries Corporation Limited (Company), which was incorporated in February 1955 with the main objective of assisting, promoting and developing the growth of small industries in the country, earned profit till 1999-2000 but started incurring losses thereafter. However, it earned a marginal profit of Rs.1.48 crore during 2003-04. The accumulated losses as on 31 March 2004 were Rs.143.52 crore. High incidence of Non Performing Assets (NPA) was the main reason for losses.

(Paras 13.1 and 13.4)

The achievement vis-à-vis targets under four major financing activities for the years 1998-99 to 2003-04 ranged between 22 to 90 per cent (except under Raw Material Assistance and Bill Discounting for 2000-01).

(Para 13.6)

Due to poor recovery performance, the Non Performing Assets (NPA) as on 31 March 2004 were Rs.184.97 crore representing 86 per cent of the total over due of Rs.215.56 crore in respect of four activities namely Hire Purchase, Equipment Leasing, Raw Material Assistance and Bill Discounting. The Company, thus, had to avail loan from Small Industries Development Bank of India and paid avoidable interest of Rs.22.95 crore for the period from 1998-99 to 2003-04. Test check revealed deficiencies in appraisal, sanction and follow up which contributed to non-recovery of Rs.18.61 crore in 24 cases.

(Paras 13.7 and 13.8)

Revenue Recovery Certificates were issued in three states viz., Uttar Pradesh, Madhya Pradesh and Gujarat, but the Company could not collect Rs.49.75 crore in 367 cases due to ineffective action.

(Para 13.9)

The Company could not execute decrees in 816 cases involving Rs.36.51 crore due to laxity in follow up action. Besides, chances of recovery are remote in another 12 cases involving Rs.37.34 crore.

(Para 13.10)

Due to failure to monitor timely disposal of seized machinery in two regions and two branches, the Company lost Rs.1.89 crore.

(Para 13.12)

13.1 Introduction

The National Small Industries Corporation Limited (Company) was incorporated in February 1955 with a corporate mission to aid, counsel, assist, finance, protect, and promote the interest of small industries in India. The present activities of the Company are (i) financing including grant of composite term loan and machinery assistance, (ii) marketing both internal and for export of materials and machinery, (iii) promotional and (iv) setting up of Software Technology Park.

The Government of India entrusted to the Company (March 2000) the implementation of the programme of development of small and medium enterprises under Italian Line of Credit*. As per the Memorandum of Association, the Company is empowered to assist only small industries whose fixed investment in plant & machinery is upto Rs.one crore. It should be examined if an amendment to the Memorandum of Association is required for providing financial assistance (upto Rs.five crore) to medium industries under Italian line of credit.

13.2 Organisational structure

The Board of Directors of the Company consists of a Chairman-cum-Managing Director and two fulltime functional Directors, (one in charge of planning and marketing and the other for finance) apart from an Executive Director to monitor vigilance cases and Employees Provident Fund Trust. The Company has nine regional offices, 24 branch offices, 23 sub offices and two foreign offices at Johannesburg and Dubai.

13.3 Scope of Audit

The review covers the performance of the Company under major financing activities viz., Hire Purchase (HP), Equipment Leasing (EL), Raw-Material Assistance (RMA) and Bill-Discounting (BD) and Marketing Activities for the five years ending 31 March 2004. The records of five Regional Offices of the Company viz., Kolkata, Chennai, Ahmedabad, Mumbai and Noida and seven Branch Offices viz., Allahabad, Kanpur, Bangalore, Jaipur, Delhi, Indore and Ludhiana were scrutinised in respect of the cases where disbursements exceeded Rs.10 lakh.

13.4 Financial position and working results

The summarised financial position, working results and the performance of financing activities of the Company for the last five years ending March 2004 are given in Annexures 7, 8 and 9. There was a gradual decrease of the Capital employed from Rs.472.15 crore (1999-2000) to Rs.183.69 crore (2003-04). Networth also decreased from Rs.173.23 crore (1999-2000) to Rs.23.69 crore (2002-03) though slightly increased to Rs.44.46 crore (2003-04). It was observed that the Company showed profits till 1999-2000 as the provision for bad and doubtful debts was marginal. Once the provisions were raised to realistic level, the losses became visible. The Company had to make huge provision of Rs.114.29 crore for doubtful debts during the years 1999-2000 to 2001-02. The Company incurred a loss of Rs.12.36 crore during 2002-03 in spite of making no additional provision of Rs.47 crore for bad and doubtful debts as recommended by M/s. A.F.Ferguson & Co (consultant). No provision was made for doubtful debts during the year 2003-04. After incurring losses for three consecutive years the Company showed a

* ***The loan provided by the Government of Italy to be utilised for acquisition of Italian machinery and services.***

marginal profit of Rs.1.48 crore during 2003-04 and the accumulated losses stood at Rs.143.52 crore as on 31 March 2004.

13.5 Restructuring plan

M/s. A.F.Ferguson & Company, the Consultant appointed for restructuring plan, recommended (July 2002) increase in the focus of the Company on non-financial services such as setting up of sector/cluster specific groups so as to become a commercially self-sustaining organisation over a period of five years. The Government of India, while approving the restructuring plan, instructed the Company (February 2003) to earn operating profit effective from April 2004, reduce manpower from 980 to 850 and discontinue financing activities except for those related to technology upgradation from April 2007. Audit observed (July 2004) that while the nomination of Cluster Development Managers in 26 locations was completed by January 2004, there was no progress in implementation of remaining restructuring plan items such as acting as a coordinator for technology acquisition, setting up of incubation centres for emerging technology areas etc. The Management stated (July 2004) that the Company would have to earn profit from 1 April 2004 and reduce manpower to 850 by the end of March 2004. Thus, the performance could be assessed only after the close of financial year 2004-05. The Company, however, continued with 966 employees on its roll as on 31 March 2004.

13.6 Targets and achievements for disbursements:

The norms for financial assistance and procedure for sanction and disbursement including repayment period are indicated in Annexure-10. The targets (budgeted) and achievements for disbursements under four major financing activities for the last five years upto 2003-04 were as under:

(Rs. in crore)

Year	Hire Purchase and Equipment Leasing			Raw Material Assistance and Bill Discounting		
	Target	Achieve-ment	Percentage	Target	Achieve-ment	Percentage
1999-00	50.00	26.55	53	974.52	786.03	81
2000-01	55.00	26.07	47	779.75	778.66	100
2001-02	55.35	20.91	38	779.75	703.79	90
2002-03	55.00	13.95	25	740.00	516.44	70
2003-04*	35.20	7.73	22	346.50	184.25	53

*The targets for 2003-04 are as per restructuring plan.

(i) In respect of Hire Purchase and Equipment Leasing, the percentage of achievement ranged between 53 (1999-00) and 22 (2003-04). The main reason for non-achievement of the targets was incidence of high default in various schemes coupled with high interest rates charged by the Company compared to other financial institutions.

(ii) In respect of Raw Material Assistance and Bill Discounting, the Company reduced the target in all the years and accorded it low priority. The achievement declined during 2001-02 (90 per cent) to 2003-04 (53 per cent). The Management stated (July 2004) that the performance was poor due to incidence of high default and discontinuance of Bill Discounting scheme and the interest rates of other financial institutions were not strictly comparable because they offer a range of integrated services. Audit, however, noticed that discontinuance of Bill Discounting scheme was due to failure to obtain security and lack of monitoring.

Assisted units took undue advantage resulting in blockage of huge funds of the Company. The Company reduced its disbursement to 24 per cent in 2003-04 in comparison to 1999-2000 to check the increase in non-performing assets (as discussed in para 13.8) and accumulation of overdues for long periods (as discussed in para 13.7).

Review in Audit further showed that the Company had been extending financial assistance to various types of industries. Though it had maintained a database relating to Sector/Region/State/District upto 2001-02, it was not utilised during sanction and appraisal to ensure that industries, which had adequate potential, could be given higher assistance. Further, the Company should have maintained industry wise databank of defaulters for fixing limits for financial assistance based on recovery performance of assisted units.

The Management stated (July 2004) that branches were being once again advised to keep in view the exposure norm• for each sector while sanctioning the applications for assistance.

13.7 Recovery performance

Timely and effective recovery of dues is the most critical component for any financing company for sustaining its capacity to finance and reduce risks on its debts. The Company had no system of assessing the recovery performance of each branch till April 2004, when each branch was declared an independent profit centre.

The table below indicates the recovery performance of the Company in respect of four major activities for the year 2003-04:

(Rs. in crore)

	Hire purchase	**Equipment leasing**	**Raw material assistance**	**Bill discounting**	**Total**
(a) Amount due at the beginning of the year	86.13	14.07	122.72	31.94	254.86
(b) Fallen due during the year	17.18	2.28	110.58	0.75	130.79
(c) Total recoverable (a + b)	103.31	16.35	233.30	32.69	385.65
(d) Old dues recovered	5.75	1.81	26.26	8.49	42.31
(e) Current dues recovered	11.98	1.54	96.80	0.48	110.80
(f) Amount due at the end of the year (c-d-e)	85.58	13.00	110.24	23.72	232.54
(g) Old dues recovered as a percentage of amount due at the beginning of the year	6.7	12.9	21.4	26.6	16.6
(h) Current dues recovered as a percentage of amount fallen due during the year	69.7	67.5	87.5	64	84.7

The Company fixed a target for recovery at 80 per cent and 20 per cent in respect of current dues and old dues respectively. The target of recovery of current dues could not be achieved for Hire-Purchase, Equipment Leasing and Bill Discounting and target for recovery of old dues could not be achieved for Hire-Purchase and Equipment Leasing.

• ***financial limit and other factors***

This led to accumulation of overdues (Rs.232.54 crore) affecting the cashflow for advancing new loans.

An analysis of region-wise performance of recovery revealed that except in North I and South I regions, the recovery percentage was less than 50 in every region. The lowest recovery percentage was noticed in Head Office Marketing division where it was only six per cent. Further analysis indicated that out of 30 cases pending for recovery (Rs.17.48 crore) in Head Office Marketing division, four cases (Rs.11.33 crore) were referred to the Central Bureau of Investigation (CBI) for investigation and 23 cases (Rs.5.91 crore) were pending at various stages in courts (November 2004).

Audit noticed (May 2004) that the Company had not ascertained the dues recovered under each activity against total dues recoverable including arrears. Further, principal and interest components were not being maintained separately by the Company at the Corporate Office. An attempt was made in audit to ascertain the trend/status of recovery of dues under four major activities in five Regional Offices and seven Branch Offices upto the period 2002-03 (Annexure-11). The trend analysis of recovery of dues in audit indicates that recovery under Hire Purchase scheme ranged between 11.9 and 15.3 per cent. Under Equipment Leasing, the recovery was between 24 and 44 per cent only which indicates failure of the Company to effectively recover its dues.

Age-wise details of overdues as on 31 March 2004 indicated that no timely action for recovery was initiated as the period of overdues exceeded the repayment period (five years for HP and EL and 90 days for RMA and BD) for each activity as follows.

(Rs. in crore)

Period	**HP**	**EL**	**RMA**	**BD**	**Total***	**Percent**
Up to 100 days	--	--	16.48	--	16.48	7.6
Below one year	5.36	0.54	8.21	--	14.11	6.5
One to three years	5.97	1.16	3.56	2.26	12.95	6.0
Three to five years	5.40	2.69	93.27#	20.40#	121.76	56.5
Above five years	45.17	5.09	N.A.	N.A.	50.26	23.4
Total	**61.90**	**9.48**	**121.52**	**22.66**	**215.56****	**100.0**

*Figures are provisional

** Variation of Rs.16.98 crore between this figure (Rs.215.56 crore) and figure shown in table in sub para 2 (Rs.232.54 crore) which was yet to be reconciled by the Management.

Includes above five years also**.**

Of the above, dues amounting to Rs.89.69 crore (RMA and BD) were not backed by any security, a pointer towards non-observance of pre-sanction appraisal procedures. In Ahmedabad region the Company obtained security worth Rs.4.29 crore by way of shares from four of the assisted units which could not fetch any value against the dues of Rs.6.26 crore. Even under the secured category where the Company had obtained collateral securities in the form of land and buildings etc. amounting to Rs.19.49 crore, it had not assessed the realisable value of securities held.

The poor recovery performance of the Company created cash crunch situation. Consequently as the credit limit available from commercial banks had been exhausted, it had to increase its loan component from the Small Industries Development Bank of India (SIDBI) from Rs.20 crore in February 1998 to Rs.70 crore in December 2000. This resulted in payment of interest of Rs.22.95 crore from 1998-99 to 2003-04. The loan was repaid in March 2004.

The Management, while accepting (July 2004) that recovery performance was poor in respect of Hire Purchase, maintained that it had achieved overall recovery of 102 per cent for the period from 1998-99 to 2002-03 for total amount recovered against current and old dues during the year as a percentage of amount fallen due for current dues during the year. The Management further stated that the debts that remained unrecovered for a long period were due to filing of suits against the defaulters in courts. The Company had constituted a recovery cell in the Corporate Office (July 2003) which was updating the data on the overdues as on 31 March 2003. Contrary to management assertions, the overall recovery percentage considering the amount due at the beginning of the year and fallen due during 2001-02 to 2003-04 got reduced from 57 to 51 in 2002-03 and 40 in 2003-04. Since the performance of recoveries is critical to its overall financial health, the company needs to focus on its recovery mechanism to improve its performance.

13.8 Non-performing assets, deficiencies in appraisal, sanction and ineffective post-disbursement follow-up

An asset becomes a Non-Performing Asset (NPA) when it ceases to generate income for an institution. Loan assets can be classified into Standard, Sub-Standard, Doubtful and Loss Assets. The loan assets falling under the categories other than standard are NPA.

The Company identified NPA worth Rs.259.21 crore in April 2001 for dues upto March 2001, constituting 71 per cent of the total overdues (Rs.362.56 crore).

Scrutiny in Audit revealed (May 2004) that out of 71 per cent of NPA, 59 per cent (Rs.215.15 crore) fell in the category of Doubtful and Loss assets indicating remote possibility of recovery. In two regions (Ahmedabad and the Head Office Marketing division) the NPA was as high as 100 per cent of the total overdue outstanding in these regions. There was high incidence of NPA in respect of 51 cases in six regions/branches due to irregular grant of assistance such as absence of inspection of units before disbursement, defective pre-sanction appraisal and failure to obtain securities under raw material assistance and bill discounting schemes. These 51 cases (Rs.64.31 crore) were referred to CBI.

The Company did not make any attempt to identify NPA subsequent to April 2001. Based on the agewise details of overdues (Rs.215.56 crore) in respect of four activities as on 31 March 2004 (as discussed in para 13.7), NPA stood at Rs.184.97 crore and this worked out to 86 per cent, indicating poor credit risk management.

A test check of 60 cases by Audit in six regions revealed that in respect of 16 cases (Hire-Purchase and Equipment Leasing) for which assistance of Rs.6.54 crore was extended and eight cases (Raw Material Assistance/Bill Discounting) where assistance of Rs.13.94 crore was extended during the period 1998-99 to 2002-03, default occurred within a short span of three years during November 1999 to April 2003 resulting in overdues amounting to Rs.18.61 crore as NPA. The reasons were deficiencies in appraisal, sanction and ineffective post-disbursement follow-up such as viability of the project not ascertained, lack of working capital, failure to obtain bank guarantee, failure to inspect the unit, delay in seizure of machines etc as detailed below:

(Rs. in lakh)

Name of the unit	**Month of disbur-sement**	**Amt. of assist-ance**	**Month of default**	**Amount overdue (March 2004)**	**Audit findings**
Hire Purchase					
1. Shiva Poly Pax (P) Ltd., Noida	2/1999 to 7/1999	132.00	3/2000	64.26	Failure to ascertain the availability of working capital arrangements. The Company failed to obtain proper security. NRI promoter expired and unit had been closed. No action taken to invoke personal guarantee of other directors.
2. Moira Wire Ltd., Indore	8/1998 & 11/1998	85.04	2/2000	71.42	Failure to ascertain the fact of assistance provided by other institutions resulted in seizure and selling of machines by them. Inordinate delay in seizure of machines and non-disposal of mortgaged land.
3. Viknesh Knits, Coimbatore	8/2002	93.28	3/2003	17.92	Failure to ascertain the viability of the project and market potential, as the unit failed for want of job orders.
4. Ally Packaging Allahabad	5/1999 to 8/1999	24.32	9/2000	38.73	Failure to obtain collateral security before disbursement of loan. Non-verification of misrepresentation about the working capital arrangements.
5.Hanuman Bricks (P) Ltd., Agra	3/1999 & 7/1999	38.02	12/1999	23.92	Failure to ascertain the availability of working capital and managerial skill of the directors, failure to verify the valuation of the collateral security (overvalued by Rs.10.86 lakh) and non-seizure of machines.
6. Kirubha Graphic Systems,Chennai	12/2000	29.04	12/2002	9.78	Failure to ascertain market potential and the competition.
7.A.T.Traders Delhi	8/1999	30.09	3/2000	24.22	Failure to take possession of the machinery and to invoke personal guarantee and delay of three years in filing suit. The Court remarked that the interests of the Company were not safeguarded while sanctioning the loan.
8. Kleenmart Chennai	2/1999	24.60	9/1999	21.43	Failure to ascertain the viability of the project leading to change in the status of unit from sole proprietorship to

					partnership and subsequent failure of the unit. Seized machinery still lying undisposed.
9. Eureka Enterprises, Coimbatore	9/1999 to 2/2000	36.68	5/2002	6.14	Dispute among partners and delayed issue (July 2003) of notice for seizure of machines by more than a year. The unit on the contrary filed a writ in the High Court not to seize the machines contesting the action of the Company as arbitrary.
10.Raghavendra Industries Madurai	5/1999	56.60	6/2000	17.10	Failure to ascertain the excessive borrowings and financial credential of the promoter. Failure to monitor the misutilisation of funds. The Unit is presently under liquidation.
11. Foto Fast Studio Ratlam. (Indore)	10/1998	16.80	3/2000	8.20	Disbursing assistance for defective machinery without verifying/inspecting the same before disbursement.
12. Angala Parameshwari Industries, Chennai	3/1999	21.72	6/2000	12.59	Failure to ascertain the financial background of the promoters as they availed loans from other financial institutions and are not traceable.
13. Richie Enterprises, Chennai	4/2002	15.76	4/2003	8.36	Failure to ascertain the market potential, availability of continuous power supply/ working capital and restrictions imposed by pollution control board.
14. Shiva Food Products Noida	10/1998 and 11/1998	13.53	5/1999	7.22	Failure to ascertain the viability of the project, as the unit could not even pay rent and electricity charges and promoter not traceable. Seized machinery still undisposed.
Equipment Leasing					
15. S.S. Computers, Indore	5/1999	18.79	3/2000	17.91	Failure to verify the correctness of supply of computer and software with the order placed before disbursement. Subsequent inspection revealed non-availability of computers (July 2002).
16. Sarvodaya Labs Mumbai	12/1998	18.15	12/1999	23.19	Failure to seize the machine in November 2000 as the unit was subsequently taken over by the unit's bankers (March 2004) and the case is referred to Debt Recovery Tribunal by Bankers.

Raw Material Assistance					
17. 14 SSI units Kolkatta	1998	837.00	1998-99	949.71	Non-concurrence to change of Bank for Discounting of Bills, (Kerala State Electricity Board), failure to ensure supply of material and to pursue for payment with Electricity Boards. Company's funds remain unrecovered for more than four to five years.
18. Leela Apparels Coimbatore	9/1998	50.00	11/2000	40.60	Failure to ascertain the viability of the project, as the unit failed to obtain orders. Even the availability of working capital was not ascertained.
19. Hanung Toys Noida	11/1996	75.00	6/1999	50.03	Failure to verify the genuineness of import documents and ascertain the managerial skill of the promoter as the unit could not get orders.
Bill discounting					
20. Seven SSI units Jaipur	7/1999	200.0	12/1999	200.03	Providing assistance in excess of bank guarantee as a concession but no precaution was taken to recover while extending concession.
21. Mohan Conductors Bangalore	5/1998 to 7/1998	100.00	5/1998	50.45	Disbursement made without collecting necessary documents towards Letter of Credit. Later on bankers refused payment due to inadequate documentation.
22. Fidelity Industries, Chennai	7/1999	40.00	10/1999	40.94	Failure to ascertain creditworthiness of the promoter. Failure to obtain Bank guarantee as required.
23. Astral Cables Noida	10/1999 to 7/2000	54.46	10/2000	111.09	Failed to ascertain the supply position before discounting of bills and before releasing payment. Bank guarantee not extended and expired.
24. RSL Industries Chennai	7/1999	37.85	4/2002	45.79	Excessive borrowing by the unit.
Total				**Rs.18.61 crore**	

Out of 24 cases, three cases of default were due to non availability of working capital, four cases due to non-seizure of machinery, seven cases due to non-viability of project and six cases due to failure to obtain bank guarantee.

The Management admitted (July 2004) that the Company would have to strengthen its pre-disbursal mechanism, post-disbursal follow-up and monitoring and recovery mechanism for effective repayment of dues from the units. The Management further stated (July 2004) that it had initiated several corrective steps and strengthened the pre-sanction appraisal norms. The field offices were being directed to follow up with the defaulting units vigorously to ensure that default was minimised.

13.9 Recovery through Revenue Recovery Certificates

As per procedure, the Company needs to be empowered by the respective State Government for recovering dues under the respective State Revenue Recovery Act as land revenue authority through notification. It was observed that the Company initiated action for recovery of dues under Revenue Recovery Act in only three States viz. Uttar Pradesh, Gujarat and Madhya Pradesh. Even in these States, the pursuance of the Revenue Recovery Certificates (RRC) issued by the Company was negligible. Against the 367 Recovery Certificates amounting to Rs.50.03 crore, the Company could recover only Rs.28.43 lakh which worked out to a meagre 0.57 per cent of the total recovery due under RRC.

It was further noticed in Audit (May 2004) that the Company approached (December 2003) the Gujarat High Court to direct the State Government to expedite recovery of the RRC issued by it. The Government of Gujarat is required to comply with court's directions. Similar steps were not initiated by the Company in other two States to expedite recovery of RRCs.

The Management stated (July 2004) that the matter of non-compliance by the Government of Gujarat was again being taken up with the High Court. As regards Uttar Pradesh and Madhya Pradesh regions, the matter was still under consideration of the Company.

13.10 Loss due to ineffective follow up in legal cases

Upto March 2004, 2053 civil suits/petitions for recovery of dues amounting to Rs.181.66 crore were pending in various courts as tabulated below:

(Rs. in crore)

	No. of cases	**Amount**
Pending in court	1237	145.15
Decrees under execution	499	24.81
Decrees not executed	317	11.70
Total	**2053**	**181.66**

Scrutiny in Audit revealed the following (May 2004):

(i) Year-wise details of cases pending in courts were not maintained in branches/regions/corporate office.

(ii) Where agreements were terminated under Hire Purchase scheme, suits for recovery were to be filed within a period of three years. Review in Audit revealed (May 2004) that the Company lost an amount of Rs.53.18 lakh as on 31 March 2004 as it failed to file suits within the prescribed time limit.

The Management stated (July 2004) that it was exploring the possibility of initiating legal action under Article 112 of the Limitation Act, 1963 wherein the limitation was available for 30 years.

(iii) The Company could not initiate execution proceedings for decrees obtained between April 1995 and August 2002 in 17 cases (Ludhiana branch) involving Rs.51.12 lakh due to failure to obtain "Transfer Certificate" from the District Courts, Delhi.

(iv) There was a delay of two to three years in respect of 21 cases amounting to Rs.12.82 crore in filing civil suits filed between April 1998 and August 1999 in Ahmedabad region for the defaults in 1995-96 to 1996-97.

(v) Audit further observed that in 12 cases of Noida, Ahmedabad, Mumbai and Chennai regions, an amount of Rs.37.34 crore was in default. Chances of recovery in these cases were remote for reasons detailed below against each case.

(Rupees in crore)

Name of the unit	**Activity**	**Overdue amount**	**Audit Observation**
Cases pending in courts:			
Morghan Technologies Noida	R.M.A.	1.14	Providing assistance in excess of bank guarantee and failure to obtain proof of materials received. Default occurred in March 1999. Revenue Recovery Certificate issued in January 2001 and suit filed in April 2002.
Parshwa Engineering Group Nagpur	R.M.A.	1.36	Providing assistance in excess of the limits sanctioned. Not referring the case to vigilance department as directed by CMD in May 2001.
Bassein Metals (P) Ltd., Mumbai	R.M.A.	3.68	Failure to obtain security and providing assistance in excess of limit sanctioned. Initiated winding up petition (8/2001) of the assisted unit against legal opinion. Court declared the unit wound up (April 2002).
M.M.Corporation Hong Kong. Moti Industries (P) Ltd Kamal Traders Mumbai (under same group)	Export R.M.A. R.M.A.	5.50	Failure to verify the details of the foreign purchaser. Delay in submitting the claims leading to rejection of claim by Export Credit Guarantee Corporation of India. Suit filed in Hongkong (November 2002) and the chances of recovery were remote as per the legal counsel.
Siddharth Pharma- Chem New Delhi	R.M.A.	0.89	Suit filed (October 2000) but notice could not be served upto March 2003. Promoter expired (March 2003).
Miracle Plast Hinglaj Plast Karishma Plastic Super Pack Plast (under same group)	R.M.A.	3.17 3.04 2.93 2.63	The court discharged (August 2000) the notice of motion and listed under "long cause cases" due to non attendance of the legal counsel depriving the Company of the chance to initiate restraint proceeding against the disposal of promoters' personal properties.
SSI Products Marketing Organisation Ltd.,New Delhi	B.D.	0.37	Suit filed in August 1999. The assistance was without security. Other dues could not be included in the suit for non-availability of details of the amount to be recovered.
Equipment Conductors & Cables Ltd., New Delhi	B.D.	9.11	Failure to assess the viability at any point of time during the grant of assistance (September 1994 to November 1999). In spite of default in November 1999, suit filed only in November 2000.
Earnest Health Care Mumbai	B.D.	0.32	Failure to file suit immediately on default (1996). Case was filed only in 1999. Meanwhile, the unit's bankers filed a winding up petition (1997).

Pamban Oil Chennai	B.D.	0.24	Failure to ascertain the availability of raw material. Unit was closed. (September 1997). Failed to initiate steps to expedite recovery.
Triple Pack Noida	E.L.	1.08	Failed to withdraw assistance under RMA immediately on default (April 1997) under HP. Unit also went into liquidation.
Shristi Auto Engineering, Delhi	H.P.	1.88	Failure to contest the case properly in terms of agreement conditions for the grant of loan against the contention of charging high rate of interest by the assisted unit and inability to get the stay vacated (more than three years) till date.
Total		**37.34**	
Note: R.M.A. = Raw Material Assistance E.L. = Equipment Leasing			B.D. = Bill Discounting H.P. = Hire Purchase

(vi) In two cases viz., Kingston Electronics, New Delhi (Rs.2.44 crore) and U Pack, Ahmedabad (Rs.5.78 crore) the Company suffered a loss of Rs.8.22 crore as in both the cases decrees were obtained but could not be executed as the promoters were not traceable.

(vii) Besides, the Company could not recover Rs.28.29 crore in 814 cases even after spending about Rs.1.41 crore towards court fees.

The deficiencies in appraisal and failure in follow-up thus resulted in non-recovery of Rs.73.85 crore in 828 cases.

The Management stated (July 2004) that they had introduced a system for proper follow-up and monitoring of the cases by implementing card system and monthly development report, (since July 2004) the results of which would be known in future.

13.11 Failure to initiate action to recover dues under other Acts.

As per the provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993, any other institution as notified by the Central Government would be empowered to approach Debt Recovery Tribunal (DRT). It was noticed that the Company did not explore the possibility of notification by the Central Government empowering the Company to approach the DRT or a notification under the Securitisation & Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 to enhance its powers to enforce recovery against its borrowers.

The Management stated (July 2004) that the Company was neither a financial corporation nor a non-banking financial institution and hence it did not come within the purview of the provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993. Since the Company proposed to enlist itself under Debt Recovery Tribunal (January 2002), it could have also taken up the matter with the Government for notifying itself as a public financial institution under the relevant Acts so that it could seek more powers to enforce speedy recovery.

13.12 Loss due to delay in disposal of repossessed machinery

As on 31 March 2004, the Company had seized machinery worth Rs.2.81 crore[*] in eight regions. No details were, however, available at the Corporate office about the status of its

[*] ***under hire purchase Rs.65 lakh and equipment leasing Rs.2.16 crore***

disposal. Review in Audit of the details collected from two regions[#] and two branches[#] revealed that the Company had not disposed of the 69 seized machines (reserve price Rs.32.63 lakh) against which it had to realise an amount of Rs.2.15 crore from the assisted units. Of the 69 seized machines, 47 (reserve price Rs.21.22 lakh) were held for a period exceeding five years.

The Company did not have a system of ascertaining the market value of the seized machinery. It fixed the reserve price by merely taking into account the depreciated value on the date of seizure.

Thus, failure of the Company to monitor the timely disposal of the seized machinery resulted in a loss of Rs.1.89*[*]crore.

The Management stated (July 2004) that introduction of fresh policy for expeditious sale of seized machinery was under process.

13.13 Risk management

The Company had not designed any effective policy to identify, assess and monitor credit, market and operational risks in order to achieve financial soundness and profitability.

A very high level of NPA (86 per cent as on 31 March 2004) indicates that the Company failed to evolve a system of addressing its most significant risk, namely, credit risk. Further, the high incidence of cases (51 cases involving Rs.64.31 crore) referred to the CBI is an indication that it failed to identify operational risk.

The Management stated (July 2004) that it had strengthened the appraisal system. As the recovery performance continued to be poor even during 2003-04 effective action is required to be taken to reduce the risks.

13.14 Internal Audit

The statutory auditors in their reports for the years 1999-2000 to 2002-2003 had commented about the inadequacy of internal audit and emphasised in the report for the year 2003-04 that it needed to be strengthened. Further, the auditors had stated that transactions of many of the regional/branch offices were not covered every year and there were arrears in conduct of audit. Due to arrears in coverage of internal audit, the Company failed to detect the continued assistance (Rs.3.33 crore) provided (1999-2000) under Bill Discounting scheme to a Jaipur firm, which received payment from the State Electricity Board on the bills which were already discounted with the Company. The Company noticed this fraudulent case in February 2002 after a lapse of more than two years. Had internal audit been carried out either in 1999-2000 or 2000-2001, the Company could have noticed the fraud and taken remedial measure to strengthen the system of financing.

The Management stated that it had strengthened the internal audit to cover all the offices from 2003-04 (July 2004). However, arrears in internal audit continued to prevail. The internal audit reports, which are submitted to the Audit sub-committee, also need to be placed before the Board of Directors.

[#] ***Mumbai and Ahmedabad regions; Indore and Ludhiana branches***

*[*] ***Rs.2.15 crore minus reserve price of Rs. 33 lakh plus rent Rs. 7 lakh.***

13.15 Conclusions

The Company was incorporated to provide financial assistance to small industrial units for industrial development of the country. However, due to the deficiencies in pre-sanction appraisals and weak recovery mechanism, a very large percentage of its debts have become bad and doubtful. The Company is saddled with a large number of court cases, effective pursuance of which was found wanting. Efforts to enforce recovery through Revenue Recovery Certificates are also inadequate and have not yielded tangible results. As a result, the financial position of the Company shows a declining trend and the Non Performing Assets are growing at an alarming pace, requiring urgent remedial steps.

13.16 Recommendations

It is recommended that the Company should initiate urgent corrective measures and focus on:

(a) Revamping its pre-sanction appraisals mechanism and adhering to procedures before sanction and disbursement of loans.

(b) Maintaining and utilising industry wise data in each region for fixation of exposure limits against each industry/activity to reduce credit risk.

(c) Improving the recovery performance and reducing the high ratio of Non Performing Assets through regular follow-up of dues by conducting periodical inspections and taking prompt action against defaulters.

(d) Maintaining year-wise data of legal/RRC cases to keep track of the status of each case and arrest delays in pursuance of legal/RRC cases.

(e) Exploring the possibility of enhancing the scope for initiating action for the recovery of dues under other Acts by getting itself notified as a public financial institution.

The Ministry stated (December 2004) that the review mentions about the various problems and shortcomings in sanction and disbursement of loans, their follow up and recoveries which pertained to the period prior to the assuming of office by the new management in July 2002. After the new management took office, there was complete review and revamping of the operations of the Company and system and procedures were tightened, security norms for financing strengthened and delegation of powers pruned down. As these measures have been taken during 2003-04 and 2004-05, the results of these will be known only in future.