(12)

ANDHRA PRADESH LEGISLATURE

(Ninth Legislative Assembly)

THIRTIETH REPORT

OF

COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

ON

THE AUDIT PARAGRAPHS CONTAINED IN THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31ST MARCH, 1992 (COMMERCIAL) ON ANDHRA PRADESH STATE FINANCIAL CORPORATION

(Presented to the Legislature on 31st March, 1994)

ANDHRA PRADESH LEGISLATURE (ASSEMBLY) SECRETARIAT

PUBLIC GARDENS, HYDERABAD - 500 486.

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COMMITTEE ON PUBLIC UNDERTAKINGS

(1993-94)

(Constituted on the 26th March, 1993)

Chairman :

1. Sri P. Narasimha Reddy

Members :

2. Sri P.V. Raghavulu
3. Sri P. Ravindra Reddy
4. Sri Thota Venkatachalam
5. Sri N. Venkataratnam Naidu
6. Sri P. Purushotham Rao
7. Smt. Eti Vijayalakshmi
8. Dr. G. Chinna Reddy
9. Sri M.K. Baig*

   Sri G. Atchuta Kumar (w.e.f. 27-12-1993)
10. Sri N.K. Ramakrishna Reddy
11. Sri N. Ramakishan Rao
12. Sri N. Sivaramakrishna Prasad
13. Sri P. Kanaka Sundara Rao
14. Sri S. Venkateswara Rao
15. Sri. Ibrahim Bin Abdullah Masquathi

Legislature Secretariat :

1. Sri A.V.G. Krishnamurthy, Secretary
2. Sri A.D. Bhaskara Reddy, Deputy Secretary
3. Sri M.H. Kesava Rao, Assistant Secretary
4. Sri J.S.R. Murthy, Section Officer.

Accountant General's Office :

1. Smt. Sabita Gopal, Accountant General (Audit)II
2. Sri B. Narayana, Deputy Accountant General
3. Sri V. Balakrishna Murty, Sr. Audit Officer
4. Sri V.V. Leeladhar, Asst. Audit Officer.

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* Appointed as Minister w.e.f. 8-9-1993.

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INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (1993-94) having been authorised by the Committee present this Report on Andhra Pradesh State Financial Corporation.

The Committee held one sitting to record the oral evidence.

The Committee met on 28th March 1994, considered and approved the Draft Report.

The Committee wishes to express their thanks to the Principal Secretary to Government, Industries & Commerce Department, the Managing Director and other officials of Andhra Pradesh State Financial Corporation for the co-operation they have extended.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant General (Audit) II, Andhra Pradesh, the Deputy Accountant General and other officers and staff of the Accountant General's office.

The Committee also places on record their appreciation of the assistance rendered to the Committee by the Secretary to Legislature, the other officers and staff of Legislature Secretariat in the examination of the general working and audit paras relating to Andhra Pradesh State Financial Corporation and in preparation of this Report.

Hyderabad,

Dated : 28-3-1994.

P. NARASIMHA REDDY,
Chairman,
Committee on Public Undertakings.

RECOMMENDATIONS OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
(9TH LEGISLATIVE ASSEMBLY)

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDING 31ST MARCH, 1992 (COMMERCIAL) ANDHRA PRADESH STATE FINANCIAL CORPORATION

Introduction:

The Andhra Pradesh State Financial Corporation was established on 1st November 1956 under Section 3(1) of the State Financial Corporations Act, 1951, by amalgamating the erstwhile Andhra State Financial Corporation and Hyderabad State Financial Corporation, with the main object of overall industrial development in the State.

2. Organisational study.

2.1 M/s S.B. Billimoria and Company (SBBC), to whom the Corporation assigned the study of its organisation in March 1989, finalised the Report in January 1992 duly recommending (i) an organisational structure with nine executive levels and eleven departments, as against eleven executive levels with fifteen departments existing, (ii) classification of branches into A, B and C based on volume of operations and number of accounts, (iii) five functional committees, five Regional Offices, (iv) uniform span of control among the GMs, (v) fixation of job contents with responsibility, (vi) delegation and authority, (vii) adoption of scientific industrial engineering norms for review of cadre strength etc. However, the Management Committee opined in April 1992 that except training functions and formation of Screening Committees, other recommendations cannot be implemented for the present and sidelined the delegation of responsibility, power and authority.

(Para 3B.4.2).

2.2 In its explanatory notes, the Corporation stated that substantive recommendations made by SBBC with regard to reorganisation of departments, setting up of zonal offices, decentralisation of responsibilities together with authority etc. were already implemented.

2.3 In his oral evidence, the Managing Director of the Corporation (MD) stated that the Board has discussed the recommendations of SBBC and a decision has to be taken in restructuring the Corporation.

2.4 *The Committee would like to have a detailed report from the Corporation/Government on implementation of all the recommendations of SBBC.*

3. Cadre strength.

3.1 The cadre strength of the Corporation as in February 1989 was 921 and proposals submitted by the Corporation in February 1990 for further increasing the cadre strength were not accepted by the Government. Audit observed that (i) the Corporation gave up the practice of revising cadre strength based on number of live accounts after 1979 and did not follow scientific norms of review of cadre strength, (ii) the percentage of officers to total strength had risen from 14 in 1980 to 51.44 in 1993 (iii) SBBC recommended in December 1989 a cadre strength of only 550, against which the Corporation had 921 as on that date and that (iv) the Corporation has not obtained the approval of IDBI for the cadre revision, despite a directive from the Government to that effect in November 1987. (Paragraph 3B.4.3).

3.2 In its explanatory notes, the Corporation confirmed the factual position without furnishing specific replies to the observations made by Audit in the Paragraph.

3.3 *The Committee would like to have a specific reply as to why it had not adopted scientific norms for review of cadre strength despite recommendations by various Committees. The Committee feels that the percentage of officers to total staff, which is 51.44 is on high side compared to the position prevailing in other Government deparments and sister undertakings and therefore, directs the Corporation to examine the matter and take suitable steps to reduce the administrative overheads by reducing the staff to a reasonable level.*

3.4 In his oral evidence, the MD stated that for the last 10 years, the Corporation did not have any additional or extra staff.

3.5 The Committee observed that the statement of the MD was not fully correct. The Corporation recruited about 37 employees for implementation of the Self Employment Scheme, but only after the scheme was suspended in June, 1991, as discussed in Paragraph 11 infra.

3.6 *The Committee would like to know the extent of surplus staff as on 31st March 1994 based on the norms adopted by SBBC and proposals of the Corporation for deploying the surplus staff gainfully.*

3.7 Regarding officer staff ratio, the MD explained in his oral evidence that the Corporation is presently an officer-oriented organisation mainly because of total computerisation.

3.8 *The Committee desires to have a report from the Corporation justifying the officer staff ratio at more than 50 in view of computerisation. The Committee desires further that the Corporation may work out the overall*

requirement of officers and others considering the norms prescribed by SBBC and also the later development of total computerisation and keep the Committee appraised of the results of such analysis.

3.9 *The Committee would also like to know whether the Corporation obtained the approval of IDBI for the revision of cadre strength, a requirement directed by the Government in November 1987. If the approval has not been obtained, reasons for the same may be specified.*

4. Non-sanction of refinance :

4.1 According to the SFC Act 1951, the Corporation can extend financial assistance to the extent of Rs. 30 lakhs to Companies/Co-operative Societies and Rs. 15 lakhs to partnership firms and other concerns. These limits were raised to Rs. 60 lakhs and Rs. 30 lakhs respectively in SFC (Amendment) Act, 1985. Further, in pursuance of section 26(1)(i) IBID, IDBI authorised the Financial Corporations, which meet the prescribed financial criteria, to provide loan assistance upto Rs. 90 lakhs for projects costing upto Rs. 500 lakhs. Accordingly, the Corporation has been sanctioning loan assistance upto Rs. 90 lakhs.

The financial criteria relate to debt service coverage ratio of 1:1 and arrears ratio of not more than 30 per cent with 5 per cent relaxation at the entry point. However, the actual arrears ratio for the years 1990-91 and 1991-92 worked out to 70.66 per cent and 49.82 per cent respectively. IDBI stated in May 1992 that while examining the eligibility criteria for the financial year 1992-93 on the basis of annual accounts for 1990-91, it was observed that the arrears ratio was more than 30 per cent and that the Corporation would not therefore be eligible until further review for refinance assistance in respect of (i) projects costing between Rs. 300 lakhs and Rs. 500 lakhs and (ii) loan assistance above Rs. 60 lakhs. Because of poor recovery performance and hgih arrear ratio, not only the loan assistance was reduced to Rs. 60 lakhs from Rs. 90 lakhs by IDBI but also the Corporation was denied refinance from IDBI in respect of financial assistance of Rs. 60 lakhs and above already sanctioned by it to seven units during April 1991 to May 1992 and also additional loans sanctioned to six sick units under rehabilitation scheme as the total loan assistance was more than Rs. 60 lakhs. (Paragraph 3B.5.2.2).

4.2 In its written statement the Corporation stated that the arrears ratio was at higher level during 1990-91 primarily owing to the fact that as per the policy there was deferment of collections in respect of RSR and BIFR cases etc. In May 1992, IDBI reduced the Corporation's sanctioning powers from Rs. 90 lakhs to Rs. 60 lakhs. The performance of the Corporation during the next year was however satisfactory and that most of the cases in the pipe line were sanctioned refinance.

4.3 *The Committee would like to know the comparative position of recovery of loans for the years 1992-93 and 1993-94.*

4.4 The Committee observed that in respect of two units viz., Kakatiya Textiles and Haritha Cables, loans of Rs. 70 lakhs and Rs. 90 lakhs sanctioned earlier were reduced to Rs. 47 lakhs and Rs. 60 lakhs respectively. The Committee wonders whether these loans were reduced subsequently due to the fact that IDBI did not allow refinance.

4.5 *The Committee desires to have a Report from the Corporation detailing the circumstances under which loans in these two cases were subsequently reduced.*

4.6 The Corporation stated in written statement that in respect of two units viz., M/s. Shine Well Granites and M/s. Nagarjuna Hospitals, to whom additional loans of Rs. 15 lakhs and Rs. 30 lakhs respectively were sanctioned, the matters were still being pursued with IDBI for sanction of refinance.

4.7 *The Committee would like to be appraised of further developments in these two cases.*

5. Excess payment of brokerage on issue of bonds :

5.1 As a part of raising funds for extending term loans to industries, the Corporation issues bonds, with the permission of IDBI/SIDBI. While permitting the Corporation to issue bonds, the Development Banks stipulate that the issue shall be subject to the guidelines issued by the Reserve Bank of India (RBI) and the guarantees issued by the State Government.

RBI issued certain guidelines in June 1988 regarding the payment of brokerage/underwriting commission by the Bond issuing corporations to the subscribing banks/financial institutions, etc., at Re. 0.12 per Rs. 100 subscribed, in respect of brokerage and @ Re. 0.38 per Rs. 100 subscribed, in respect of underwriting commission. Further, an agreement is to be entered into by the Bond issuing Corporation with the subcribing bank before such payments are made. It was noticed that agreements were not entred into by the Corporation with the subcribing banks before payment of brokerage/commission in respect of any of the bonds issued by it.

In respect of the bond series 50 to 54 issued during October 1990 to February 1992, the Corporation paid brokerage @ Re. 0.50 per Rs. 100 to SBI, the Vysya Bank Ltd., State Bank of Patiala and Visakhapatnam Steel Plant as against Re. 0.12 per Rs. 100 prescribed by the RBI, which resulted in an excess payment of Rs. 6.82 lakhs.

Thus, the Corporation incurred an avoidable extra expenditure of

Rs. 6.82 lakhs on payment of brokerage, in contravention of the guidelines issued by RBI. (Paragraph 3B.5.3.1).

5.2 The Corporation in its writen statement stated that the Corporation has to mobilise funds within a period of just 15 to 20 days and virtually the bankers are dictating terms as regards the quantum of brokerage and underwriting commission and also the period of short term deposits. The Corporation also stated that entering into agreement with the subscribing baner is not feasible in view of the fact that the decision to subscribe to the issue is usually taken by institutions at the last minute depending on their SLR position and other factors. It was further stated that in the case of State Bank of India, State Bank of Patiala, Vysya Bank and Visakhapatnam Steel Plant, the Corporation paid underwriting commission as well as brokerage at the rates approved by Reserve Bank of India only.

5.3 The Committee is not convinced with the reply. Underwriting commission is payble only when an institution undertakes to underwrite or subscribe to the extent of bonds not subscribed by the public and not otherwise. In the present case, since the four institutions were direct subscribers to the bonds, there is no question of their undertaking the underwriting and hence the Committee feels that payment of underwriting commission was not justified. The Committee also feels that payment of underwriting commission was in violation of RBI guidelines.

5.4 The Committee feels that the Corporation should have given the institutions adequate time to take a decision so that the Corporation could have time to enter into agreements with them. The Committee is of the view that the Corporation should have entered into agreements atleast before making payment as entrusting the bonds and payment of brokerage without entering into any agreement was in violation of RBI guidelines.

5.5 *The Committee, therefore, recommends that in future issue of bonds etc., the Corporation should enter into agreements with the Banks before floating the bonds and also not to pay underwriting commission unless there is an enabling clause in the agreement for such payment.*

6. Loss of interest in keeping funds in short-term deposits :

6.1 With a view to supplement the resources of the Corporation, IDBI allows the Corporation to float bonds for subcription by Banks, LIC, PF Trust etc. These bonds are guaranteed by the Government for repayment of principal and payment of intrest under Section 7(1) of the SFC Act, for which the Corporation pays one time commission of two percent to the Government. During the period from 1988-89 to 1991-92, the Corporation issued 12 series of bonds aggregating Rs. 146.03 crores

carrying 11.5 per cent interest.

The following observations are made:

(1) The Banks subcribed to the bonds with a condition that a part of the amount subscribed must be kept with them as short-term deposit (STD) for periods ranging from 15 to 91 days. By complying with this condition, the Corporation enabled the subcribing Banks to plough back the cast at a lesser rate of interest for their banking and other activities and at the same time the Corporation was required to pay higher interest on the subcriptions. During the period from 1988-89 to 1990-91, the Corporation placed in STD, amounts either partly or in full, ranging from Rs. 5 lakhs to Rs. 1066 lakhs in various banks for varying periods. While the borrowing rate of funds was 13.5 per cent (including two per-cent towards guarantee commission payable to Government), the interest earned on STD was only 8 per cent (for less than one year). This resulted in an additional interest burden to the extent of Rs. 72.37 lakhs at the differential rate of interest of 5.5 percent.

(2) It was also observed in audit in July 1991 that in order to meet its working capital requirements, the Corporation was raising loans against such short-term deposits to the extent of 75 per cent of such deposits at 10 per cent. This resulted in additional interest burden to the extent of Rs. 11.40 lakhs at the differential rate of interest of two per cent during the period from July 1988 to May 1991. (Paragraph 3B.6.3).

6.2 The Corporation in its written statement stated that the Corporation was at the receiving end and was after the banks for subscriptions. The Corporation earns substantial profits by employing these funds and earning interest at higher rate for the remaining period of 19 years. It was stated that all subscriptions of SLR bonds floated by the Corporation were only conditional subscriptions and the Corporation was constrained to keep part of the amount in short-term deposits for a short period and that in this matter the Corporation has no other choice but to accede to the requirements/stipulations made by the banks. It was also stated that in order to honour its commitments for release of funds to the units already sanctioned, the Corporation was constrained to raise borrowings against the short-term deposits, as the only other option would be to make the parties wait for lack of funds.

6.3 The Committee observed that the Corporation pays 11.5 percent interest on bonds, receives 8 per cent on short-term deposits and pays 10 percent on loans taken against short term deposits; net effect being payment of 13.5 per cent interest. The Committee also observed that the average lending rate of the Corporation was only 12.5 per cent and in effect the Corporation was loosing one per cent. The Committee further noticed that since the recovery performance of the Corporation

was less than 30 per cent, the Corporation was recovering only 30 per cent of the interest paid by it. The Committee further noticed that the Corporation was paying interest from its resources initially, recovering the same over the next 19 to 20 years thereby suffering loss on account of this defective cash management.

6.4 *The Committee desires that the Corporation may submit a note detailing the economics of the present cash management system, duly considering the recovery performance at 30 per cent, in support of its statement that the Corporation earns substantial profits by employing the funds and earning interest at higher rate for the remaining period of 19 years.*

7. Reserve for Bad and doubtful debts :

7.1 Reserve for Bad and doubtful debts - Rs. 6.85 crores

This does not include reserve in respect of 101 units, whose assets were sold and there was shortfall in realisation to the extent of Rs. 2.85 crores after adjusting the sale proceeds. Further in respect of 11 units where a part of the assets were sold and an amount of Rs. 0.32 crore was yet to be realised, no reserve was created by assessing the market value of balance of assets available.

No reserve was also created in respect of 284 units seized, from whom Rs. 41. 56 crores was outstanding. In many of these cases there was no response for the advertisement issued by the Corporation for sale of assets. (Paragraph 3B.6.4(1))

7.2 The Corporation in its written statement stated that RBDD was created onlyin respect of those accounts for which realisable value was less than the amount outstanding and for which all the recovery avenues including proceeding against the personal property of the borrower and co-obligators are exhausted. The RBDD was created only out of available surplus for the financial year and the reserve to be created in a year cannot exceed the surplus available for the year in terms of provisions of the SFC Act 1951.

7.3 The Committee feels that the reply of the Corporation is not tenable. The Committee fails to understand as to why the Coporation is not making provision in respect of certain amounts recommended by branch offices since the branch office was in a better position to assess the realisability or otherwise of the amounts.

7.4 *The Committee would like to know in how many cases the Corporation was able to successfully recover the amounts by proceeding against the personal property of the borrower and co-obligators. The Committee directs the Corporation to submit a detailed Note, showing*

the details of amounts due, amount recovered there against by proceeding against the personal properties of the borrowers and co-obligators during the past five years up to 1993-94.

7.5 *The Committee desires to know the specific provision of SFC Act according to which the RBDD created in a year cannot exceed the surplus available for the year. The Committee opines that the surplus is arrived at only after providing for the required doubtful debts etc.*

7.6 In his oral evidence the General Manager of the Corporation stated that necessary guidelines about the provisions to be made, norms to be followd were being issued by IDBI, which would be bindig on all the SFCs, and taking into account those guidelines the Corporation could provide for adequate amount as RBDD. The Managing Director stated that there was lot of procedure to be followed and unless the entire recovery means are exhausted provision cannot be mde. The Managing Director further stated that the profit after tax was Rs. 2 crores and there is no point in showing Rs. 40 crores as the provision and that the money that was left after tax was only available for provision.

7.7 While disagreeing with the view of the Corporation, the Committee feels that adequate provision needs to be created for bad and doubtful debts irrespective of the availability or otherwise of surplus.

7.8 *The Committee would like to know whether the IDBI guidelines were received and, if so, a copy of the same may be furnished to the Committee together with details such as the amount of provision towards RBDD to be created for 1993-94 as per the IDBI guidelines and how the Corporation is going to create such provision.*

8. Pending applications :

8.1 There were 296 applications for loans aggregating Rs. 48.52 crores pending in Head Office, out of which 81 applications were pending for more than six months and 67 applications were pending for more than 12 months. The Corporation has not furnished the agewise break up of loan applications pending sanction at branches. (Paragraph 3B.7.3)

8.2 In his oral evidence the Managing Director stated that if the entrepreneurs did not turn up with details and did not show enthusiasm, the applications did not go for sanction and that the entrepreneurs were supposed to give full particulars and details and the processing commences only after furnishing of full information. The Managing Director conceded the fact that detailed analysis of the reasons for pendency and categorisation of pending applications was not done and promised that full details would be furnished.

8.3 *The Committee recommends that the Corporation may fix up time limit for the entrepreneurs for furnishing full details and cancel the applications after such time limit, after analysing/ ascertaining the reasons for the delay in furnishing full details.*

8.4 The Committee observed that the Corporation does not have at Head Office a consolidated data of applications pending at its branches, which indicates that the Head Office has not retained proper control over the branches in this respect.

8.5 *The Committee therefore, recommends that the Corporation should evolve a suitable system by which a consolidated and complete data from all the branches is also available at Head Office for proper control and monitoring.*

9. Sanction to certain industries in default :

9.1 A review of industrywise classification of sanctions, disbursements *vis-a-vis* outstandings revealed that certain industries get major share of sanctions eventhough most of the units relating to these industries have become sick and have been defaulting in repayment of principal and iterest. Nearly 47 per cent of the total sanctioned amount was made to five industries, viz., (i) Food products, (ii) Textiles and Cotton, (iii) Chemicals and Chemical Products, (iv) Non- metallic mineral products and (v) Basic Metal Industry, while the other 16 major industries got 53 per cent of the total sanctioned amount. Though there was an increase in the defaulted accounts and outstanding amount in the above five industries, year after year, the Corporation continued sanctioning and disbursing loans to these industries.

In its performance evaluation report for 1989-90 and 1990-91 made in September 1991 and January 1992 respectively, IDBI suggested to the Corporation to study the performance of these industries and arrive at a policy decsion on further assistance to such industries. The Corporation is yet to implement the suggestion (December 1992). (Paragraph 3B.7.4).

9.2 The Corporation in its explanatory notes stated that the Corporation was preparing every year a negative list of industries to be discouraged for financing. This list is finalised at the Annual Officer's Conference after taking into account the Government policy and performance of all those industries *vis-a-vis* products. This item is placed before the Board for taking a final decision. Thus, the Corporation constantly strives to identify those lines of activities to be discouraged and encouraged, thus regulating flow of assistance to industries in default.

9.3 The Committee is not convinced with the explanation of the Corporation. The Corporation continued to sanction major portion of loans

to these five industries, although these five industries are contributig more in arrears position year after year. The Committee observed that in all these three years, sanctions to these five industries was about 50 per cent of total sanctions, while 48 per cent of the total arrears were due from these five industries.

9.4 *The Committee would like to know what exactly is the function of the Annual Officer's conference and on what basis poicy decision is taken for preparing negative list etc. The Committee desires that the Corporation submits to the Committee the agenda and minutes of the latest concerence in which this particular issue was decided upon. The Committee also desires to know as to what were the recommendations of the Officers' conferene in regard to pumping of more funds to these 5 industries when the recovery position was bad.*

9.5 *The Committee desires further to know whether the Corporation conducted any specific study as suggested by IDBI before arriving at a policy decision and whether IDBI was kept informed of the results of the study and of the decision taken by the Corporation.*

10. Implementation of schemes - Self Employment Scheme for young entrepreneurs :

10.1 Government accorded approval in May 1990 the Action Plan prepared by the Corporation to implement the above scheme and deposited Rs. 500 lakhs with the Government for the purpose of re-leasing as margin money loan to the young entrepreneurs under the Scheme. However, the Government decided in June 1991 to suspend the scheme due to non- availability of funds.

Audit observed that the Corporation disbursed Rs. 403 lakhs up to 31st May 1992 leaving a balance of Rs. 97 lakhs. Audit further observed that there was no regular appraisal system relating to the implementation and performacne of the scheme enabling the Corporation to take a policy decision periodcially whether to continue the scheme or not. Details as to the schemewise arrears and recovery thereagainst were not compiled. In the absence of such a system, Audit could not analyse the performance of the Corporation in implementing the scheme. (Paragraph 3B.8.1.1).

10.2 In its explanatory notes, the Corporation stated that relying on the commitment of Rs. 12.50 crores by the Government, it had gone ahead with sanction of loans beyond Rs. 5.00 crores.

10.3 The Committee observed that the explanation submitted by the Corporation was incomplete and not relevant. The Corporation has not explained the aggregate margin money released by the Corporation so far, out of the Rs. 500 lakhs released by the Government. It has also not explained the circumstances under which the schemewise data was

not being maintained to evaluate the performance of the Corporation in implenting the scheme.

10.4 As observed by Audit, there was no regular appraisal system relating to the implementation and performance of the scheme and details of arrears and recoveries were not compiled. In the absence of this system, the Committee feels that the Corporation could not present the case properly before the Government, before it took the decision to suspend the scheme. The Committee gathers the impression that because of the poor recovery position, the Corporation sought further funds from the Government for fresh sanctions, which the Government refused and decided to suspend the scheme. The Committee is of the view that since the margin money sanctioned by the Corporation is recoverable from the entrepreneurs, the Corporation could have continued the scheme by recycling the funds of Rs. 500 lakhs deposited by the Government.

10.5 *Since the scheme has been suspended by the Government, the Committee directs the Corporation to recover the margin money loans already disbursed from the entrepreneurs and remit the amounts to Government periodically including the undisbursed amount of Rs. 97 lakhs. The Committee would like to be appraised of the status of the recoveries and remittances to the Government.*

10.6 *The Committee directs the Corporation further to submit a note covering the following aspects :*

(a) Details of total employment potential created vis-a-vis targeted.

(b) Total amount of margin money released by the Corporation so far under the scheme.

(c) Amounts outstanding and overdue as on 31st March 1994 from the entrepreneurs.

(d) Details of the units presently functioning out of the 3213 units grounded.

(e) Reasons for the failure of the remaining units and amount outstanding from these failed units, as also action proposed to be taken to recover the dues from them.

11. Utilisation of additional staff for implementation of SES :

11.1 The Corporation obtained approval of the Government in May 1990 for creation and operation of 64 posts in various cadres, but could not appoint/recruit/fill in the posts during the period when the scheme was in operation. However, the posts were filledinafter the scheme was suspended in June 1991 and such staff have been deployed for the normal work of the Corporation. (Paragraph 3B.8.1.2.)

11.2 In its explanatory notes, the Corporation stated that it had filled in only 37 posts, that the process of recruitments in a Government organisation is complex and takes substantial time and that the employees so recruited were deployed in the general operations of the Corporation.

11.3 The Committee observed that the explanation of the Corporation is incomplete and not to the point. The Committee further observed that the Corporation should have suspended the recruitment activity immediately in June 1991 when it came to know of the suspension of the scheme. Failure of the Company to do so resulted in adding to the already existing over employment situation.

11.4 *The Committee is of the view that recruitment after the suspension of the scheme, thus, lacked justification and recommends therefore, that the Corporation/Government may examine the issue and fix responsibility.*

12. Mahila Udyam Nidhi

12.1 To encourage women in setting up industries, the Corporation launched in August 1989 "Mahila Udyam Nidhi Scheme", extending benefits of working capital margin (as allowed in single window schem[illegible] and seed capital, up to 15 per cent charging 1 per cent interest. Wh[illegible] an amount of Rs. 425.46 lakhs was sanctioned to 600 entrepreneu[illegible] during the three years up to 1991-92 under Seed Capital Loan, only an amount of Rs. 206.33 lakhs (representing about 48 per cent) was disbursed to 360 entrepreneurs during the above period.

There is no system in the Corporation to evaluate the performance of the scheme to consider its further continuance. As the recoveries, arrears and outstandings are not classified scheme-wise, the performance of the scheme could not be assessed by Audit. (Paragraph 3B.8.2)

12.2 In its explanatory notes, the Corporation stated that as at present, the statistics in regard to recoveries, arrears and outstandings are not classified on scheme-wise basis and that it however, receives feed-back from its branches with regard to the general level of performance of various assisted units including units assisted under the aforesaid scheme. The Corporation also stated that in the absence of any such adverse feed-back and also in the absence of shift of emphasis made by SIDBI, it was propsed to continue the scheme.

12.3 The Committee observed that the reply of the Corporation is not convincing. Having introduced the scheme, the Corporation should have the data as to how many units were grounded, how much assistance was given so far, how many units are working well, how many units have ceased functioning and reasons, therefore, amounts due and recoveries thereagainst periodically etc.

12.4 *The Corporation should also review the overall success or failure of the scheme to take an independent decision for its continuance or otherwise. The Committee opines that it is not prudent on the part of the Corporation to infer that so long as adverse feed-back is not received, the scheme will be continued. The Corporation should strive to avoid the failure of any scheme by close monitoring etc. It is needless to impress upon the Corporation that it is better to monitor the success or failure of the scheme by Head Office, without waiting for reports from its units, in order to take corrective steps in time, instead of expressing inability to revive the failing units at a later stage. The Committee desires to have a note from the Corporation/Government with all the relevant data.*

13. Recovery performance :

13.1 Since inception of the Corporation to end of 1991-92, loans aggregating Rs. 1113.16 crores were disbursed to 47,218 entrepreneurs, out of which Rs. 876.41 crores were outstanding as on 31st March 1992. An amount of Rs. 133.22 crores were overdue towards principal (Rs. 68.81 crores) and interest (Rs. 64.41 crores) as on that date.

Audit observed that the percentage of recovery to net collectable amount decreased from 50.04 in 1989-90 to 29.34 in 1990-91 and increased to 50.18 in 1991-92. The percentage of recovery out of arrears demand ranged from 23.19 to 35.34, while the same ranged from 31.29 to 60.74 out of net current demand.

The Corporation resheduled/waived/deferred Rs. 111.98 crores, Rs. 13.04 crores and Rs. 257.92 crores during the three years 1989-90, 1990-91 and 1991-92 representing 34.87 per cent, 3.22 per cent and 49.10 per cent of the total demands, respectively during these three years. The increase in the percentage of recovery on the net collectable demand during 1991-92 (50.18) over that of the previous year (29.34) was due to heavy reschedulement/deferment/waiver of the arrears to an extent of 49.10 per cent of the total demand. Thus, the effective recovery against the total demand works out to 25.54 per cent only in 1991-92.

The overdues of Rs. 133.22 crores outstanding as on 31st March 1992 includes Rs. 71.51 crores overdue for one year to ten years. Out of Rs. 133.22 crores, Rs. 93.29 crores (70 per cent) were due from 17297 small scale units, Rs. 34.75 crores (26 per cent) were due from 454 medium scale units and remaining Rs. 5.18 crores (4 per cent) were due from other 1078 units. (Paragraph 3B.9).

13.2 In its explanatory notes, the Corporation stated: "There are several factors which affect the recovery performance of the Corporation. The main factors are:

(1) Severe credit squeeze imposed by RBI with all banks curtailing th working capital lending limits.

(2) Due to steep increase in the lending rates by IDBI and SIDBI on the refinance borrowed from them, the industrial units have not been able to service the loans of the Corporation and in the absence of the required working capital they could not run the units at optimum level of operations.

(3) Due to devaluation of Rupee, the capital costs of the Projects have gone up substantially higher leading to steep increase in the cost of the project and cost of production of the new industrial units, vis-a-vis the existing units where the per unit overheads are much lower. As such new industrial units have not been able to compete with the existing units resultingin lesser capacity utilisation of their plants.

(4) Due to steep increase in the cash margins up to 200 per cent of the value of Letters of Credit for import of raw materials and components, the industrial units which are dependant on imports have not been able to import the required materials/components to run their plants at optimum level.

(5) Due to withdrawal of capital subsidies by the Central Government to the new industrial units which are set up in the notified backward areas, the loanee concerns had to fall back on other unsecured loans carrying much higher interest rates.

However, our Corporation has been closely monitoring all the arrears affected cases and putting in best efforts to recover the overdues from the assisted units. We are confident that once the credit squeeze is lifted and the market economy is able to absorb the additional cost of production arising out of the steep increase in the lending rates both for working capital and term loans, the assisted units will be able to generate the required surplus to meet their commitments to the Corporation".

13.3 The Committee observed that the explanation offered by the Corporation is more of theoretical and general in nature and is incomplete. The Corporation has not offered specific reply to the observations regarding the disbursements to and over dues from four specific industries and regarding overdues from SSI units.

13.4 *The Committee directs the Corporation to analyse the reasons for more and more SSI units becoming defaulters and also the circumstances leading to disbursements to four core industries despite their being major defaulters.*

13.5 The Committee feels that all the reasons put forth by the Corporation in its explanatory notes, except the reason at Sl.No. (4) are applicable only to the units which are new or are under implementation. In all these four cases, old units which have already gone into production and which have already fallen in arrears will not be affected by these changed circumstances (around 40 to 50 per cent of arrears are more

than two years old). In respect of the reason at Sl.No. 4, the Committee observed that hardly one or two units only are depending upon imported raw material/components, while all other units, by and large are not concerned with imported raw material/components.

13.6 Therefore, the Committee feels that the reasons put forth by the Corporation for poor recovery performance are not tenable. The Committee strongly feels that the poor recovery performance is mainly due to the units becoming sick due to various reasons including inadequate pre- project appraisal by the Corporation and ineffective monitoring during implementation stage etc.

13.7 *The Committee, therefore, recommends that the Corporation should look at the problem in proper perspective and stream line its approach at pre-project appraisal stage and also strengthen its monitoring wing for close and critical monitoring of the units during the implementation stage and also thereafter.*

13.8 *The Committee gains the impression that the Corporation is responsible for any unit becoming sick and consequently a defaulter, since the Corporation which is supposed to be involved at all the stages of implementation of the project, has not apparently been involved itself in adequately and critically appraising the projects submitted by the entrepreneurs, in properly guiding and assisting the entrepreneurs during implementation stage and also in properly monitoring the units after implementation. If the unit faced lack of demand during or immediately after implementation, it can be construed that the entrepreneur has not done proper market survey and also that the Corporation has not given adequate thought to this aspect while appraising the project before sanctioning assistance. This lapse equally applies in the cases of defective technical know-how, defective/ imbalanced machinery, technical incapability and financial unsoundness of the entrepreneur, shortage of raw material, non availability of working capital etc. Thus, the Corporation cannot excuse itself by merely saying that these factors which led the unit to sick stage, were beyond its control.*

13.9 The Committee, therefore, recommends that the Corporation should exercise necessary vigil at pre-project stage itself and sanction loans/ assistance only in such cases which are surely not going to face any problems. The Committee hopes that with the vast experience the Corporation had earlier, it would not be difficult for the Corporation to anticipate and identify the problems likely to be faced by the prospective units. The Committee also recommends that the Corporation should bear in mind that it is the public money the Corporation is dealing with and the Corporation has no option to take a risk while investing in the units.

14. Term Loan Sovey Solvents Extractions Private Limited, Nizamabad.

14.1 A term loan of Rs. 23 lakhs and a bridge loan of Rs. 3 lakhs were sanctioned to Sovey Solvents Extractions Private Limited and were disbursed in June 1974 and May 1979 respectively; security for the loan being mortgage of land, (bearing Survey Nos. 2372, 2373 and 2374) and Plant and Machinery. After availing the loan, the Unit became a chronic defaulter in the payment of dues. The Corporation field a suit and obtained a decree from the District Court, Nizamabad in February 1987 to sell the assets of the unit. As directed by the Court, the unit was put to sale in February 1988 and the offer of an individual for Rs. 37 lakhs was accepted in March 1988. However, the bidder backed out stating that a part of the building was located on the land (Survey No. 2491) which was not offered for sale. The legal department of the Corporation opined in September 1988 that a petition be filed for taking possession of the land, alongwith the land which was not earlier mortgaged to the Corporation "as future acquisition" and to take stock of inventory afresh, as some part of the machinery was reported to have been missing. Accordingly a caveat was filed in July 1991 in the High Court of Andhra Pradesh and the matter is pending with the Court (December 1992).

Due to lack of pre-sanction and post-sanction annual inspections and lack of proper technical inspections and localisation of assets mortgaged, the Corporation was not sure as to which asset was mortgaged/seized/put to sale.

The total outstanding as on 31st December 1992 was Rs. 144.37 lakhs (principal : Rs. 21.03 lakhs and interest & others Rs. 123.34 lakhs).

(Paragraph 3B.13.1)

14.2 In its explanatory notes, the Corporation stated : "The sale of the mortgaged property (land and buildings) was finalised in the court in the open bidding for an amount of Rs. 24 lakhs and an amount of Rs. 9.75 lakhs (on loan basis) was received by the Corporation through Court towards sale consideration of plant and machinery belonging to the unit. Now the vacant possession of the land is to be handed over by the Court to the purchaser.

After handing over the assets, we are proposing to take action under section 29 of SFCs Act against the property. When it is not formally mortaged to the Corporation, it is being treated as future acquisition of the captioned unit. the revenue recrods also support the contention.

As regards localisation of the land offered for mortgage, this concept was not in vogue at that time. The extra land of 13 guntas will be seized under Section 29 and will be put to sale".

14.3 *The Corporation admitted that after availing the loan the unit became sick. The Committee, however, fails to understand whether the unit has gone into commercial production at all or whether the unit availed the loan only to become sick. The Committee desires to have the above information from the Corporation.*

14.4 *The Committee is surprised to note that the Corporation was not even aware of the fact that the entrepreneur constructed the building encroaching into the neighbouring site, till the same was pointed out by a third party. The Corporation was not also aware of the boundaries of the survey numbers which were mortgaged in its favour. In these circumstances, the Committee cannot but conclude that the Corporation did not at all monitor the implementation of the project after the loan was sanctioned and apparently, the Corporation did not inspect the unit even once, during the construction stage.*

The Committee directs the Corporation to investigate and fix responsibility on the officer who was nominated for inspection.

14.5 *The Committee desires to be appraised of the amount due as on 31st March 1994, amount available for adjustment out of the sale proceeds and balance amount left for recovery under RR Act. The Committee further desires to be informed whether the report regarding missing plant and machinery was examined by the Corporation, and if so, what was the finding.*

14.6 Incidentally the Committtee observed that although it was aware that some amount would have to be recovered under RR Act, the Corporation has not so far made any attempt to ascertain the details of personal property available in the name of the entrepreneur.

14.7 *The Committee, therefore, recommends that the Corporation may take necessary action to approach the concerned Revenue authorities and ascertain the details of personal properties available in the name of the entrepreneur etc.*

14.8 *Regarding the recovery of the balance amount of Rs. 14.25 lakhs, the Committee would like to be appraised of further developments.*

15. Term loan to Sultez Castings (P) Limited, Tirupathi :

15.1 The unit was sanctioned in June 1980, a term loan of Rs. 20.14 lakhs and the same was disbursed between December, 1980 and September, 1982. The unit went into commercial production in April, 1982. During the periodical inspection conducted in September, 1983, the branch office noticed that the unit was facing marketing problems. However, the Corporation neither analysed the reasons for the marketing problems that cropped up in less than one and half years

after the commencement of commercial production nor it helped the unit to take remedial measures in order to sort out the problem in question. Instead, the Corporation issued recall-cum-sale notice in April, 1984 to recover the defaulted amount and seized the unit in September, 1984.

In the meanwhile, Andhra Bank, which provided working capital and holding second charge, seized some machinery on 25th August, 1984 without the knowledge of the Corporation. Action was, however, not initiated by the Corporation for recovery of the seized machinery.

In response to a sale notice issued by the Corporation in November, 1985 Best & Crompton Limited, which supplied a part of machinery to the unit, informed that they had obtained an Execution Order for recovery of Rs. 1.19 lakhs due to them. The Corporation filed a counter in Novermber 1985 on the ground that the Corporation held first charge on the assets and the supplier was only an unsecured creditor. In order to settle the case, the Branch suggested to the Head Office in February,1987 that instead of waiting for the settlement of the case, the Corporation could as well deposit the amount in question in the Court and obtain clearance for sale, which was not agreed to by the Head Office in March, 1987 on the ground that the supplier was only an unsecured creditor. Finally the counter filed by the Corporation was dismissed by the Court in September 1990 on the basis of lien of unpaid seller provided in the Sale of Goods Act. The Corporation filed a revision petition before High Court in October, 1990. Further developments are awaited (December, 1992).

The very fact that the unit faced marketing problems shortly after commencing commercial production indicated that the demand in the market for the product was not adequately and properly assessed and appraised at pre-project appraisal stage. Further, the Corporation could have deposited the claim amount of Rs. 1.19 lakhs in the Court and obtained clearance for sale of the unit, rather than continuing the litigation for 7 years, so that action under Section 29 could have been taken.

The total outstanding as on 31st December, 1992 was Rs. 117.55 lakhs (principal: Rs. 20.14 lakhs, interest: Rs. 91.38 lakhs and other: Rs. 6.03 lakhs). (Paragraph 3B.13.2)

15.2 In its explanatory notes, the Corporation stated that at the time of appraisal the Corporation has taken all precautions to assist the project proposed to be manufactured by the unit and that the unit obtained in principle acceptance for getting ancillary status from M/s. Automobile Producers India Limited, Aurangabad, who are leading manufacturers of Lambretta scooters and other 3 wheelers since 1949. Basd on the hope that the unit is getting ancillary status from the reputed 2 wheelers and 3 wheeler manufacturers, apart from the expected orders from M/s.

Ashok Leyland Limited, M/s. Hindustan Motors Limited, M/s. TELCO and M/s. Enfield India Limited etc. for supply of master cylinders, press plates etc., the corporation has adequately and properly assessed the market demand collecting the required data from the promoters before finalising the proposal. The main reason for sickness is incapacity of the promoters to pursue with Automobile Products India Private Limited, for ancillary status on permanent basis and also financial problems to provide need based funds.

15.3 The Committee feels that the reply of the Corporation is not convincing. The Committee noted that the main crux of the issue lies in getting ancillary status for the proposed unit from M/s. Automobile Products India Limited, and also the expected orders from other automobile manufacturing companies, which by themselves are subject to several ups and downs. The Committee is of the opinion that the corporation failed to assesproperly the chances of getting ancillary status to the unit and the capacity of the promoters to get such status. The Committee further opines that the Corporation failed to appraise adequately the demand for the products in the market with particular reference to slump and boom in automobile industry.

15.4 *The Committee noted that apart from getting ancillary status, the unit was expected to get orders from a line of reputed automobile manufacturers like Ashok Leyland, Hindustan Motors, TELCO, Enfield etc. The Committee would like to know whether the unit received any orders from the above companies and if not what were the reasons therefor.*

15.5 The Committee is of the view that the Corporation also failed to assess the financial soundness of the promoters and their capacity to raise funds, since one of the reasons for the sickness of the unit was sated to be financial problems to provide need based funds.

15.6 The Corporation has now decided to deposit the claim amount made by the machinery suppliers M/s. Best & Cromption Limited and to get Stay Orders vacated pending in High Court to proceed with further recovery action under Section 29. The Committee fails to understand why the Corporation has not considered the suggestion of the Branch Office for depositing the claim amount and get clearance for sale of the assets of the units.

15.7 *The Committee would like to know the basis on which the Corporation decided to contest the case and the reasons for deciding to deposit the amount only after a lapse of over 7 years. The Committee is unhappy at the inordinate delay in taking proper decisions by the Corporation resulting in deterioration of the condition of the machinery and equipment and consequential reduction in the realisable value.*

15.8 The Committee recommends that the Corporation may examine the issue of delay and fix responsibility. The Committee would also like to be appraised of further developments regarding vacating Stay Orders, seizure of plant and machinery, their disposal and action taken for the recovery of the balance amount, if any.

16. Term Loan to Southern Yeasts Limited, Tirupathi :

16.1 Out of the term loan of Rs. 30 lakhs sanctioned by the Corporation in July 1984 for manufacture of bakers' yeast, the unit availed Rs. 29.86 lakhs. APIDC also sanctioned Rs. 53 lakhs as term loan. Terms of sanction, inter-alia, provide obtaining clearance from Pollution Control Board for disposal of the effluents in the drain before disbursement of any part of loan by the Corporation. Although provision was not made in the project for effluent treatment plant, the Corporation disbursed the loan amount, which proved that the project was not appraised properly.

The unit went into trial production in February 1986 and commercial production in April 1986. The unit could not attain full production capacity, since the Pollution Control Board directed the unit in March 1987 not to go into full production, until a suitable effluent treatment plant was installed and commissioned. In view of this restriction, the unit operated the plant at 10 to 15 per cent of the installed capacity and consequently, could not adhere to repayment schedule. The unit again approached the Corporation for an additional term loan of Rs. 18.68 lakhs to acquire effluent treatment plant (Rs. 13.50 lakhs) and diesel generator set (Rs. 5.18 lakhs), which was sanctioned and disbursed between February and October 1989.

The effluent treatment plant could not be commissioned till December 1990, due to non-completion of civil works in time and non-completion of electrical drawings by the unit. The unit was seized by APIDC in December 1991 and was awaiting disposal (December 1992).

Thus, the unit became a chronic defaulter due to continued low production level owing to the non-installation of the effluent treatment plant. Sanction of loan without ensuring the compliance of stipulation of Pollution Control Board lacked justification.

The total outstanding as on 31st December 1992 was Rs. 103.50 lakhs (principal : Rs. 44.62 lakhs, interest : Rs. 58.49 lakhs and others : Rs. 0.39 lakhs). (Paragraph 3B.13.3)

16.2 In its written statement the Corporation stated that while appraising the project it was expected that the unit generates 30 cubic mts. of washed water for every tonne of yeast product and the Company has to get this water treated before disposing off without affecting the ecology by availing the services available in the nearby places of Tamilnadu

district i.e., Ranipeta or Vellore. It was also felt that the cost of treating washed water at established places would be cheaper than having their own effluent plant by incurring huge capital expenditure. Hence effluent treatment plant was not provided at the time of sanction. Corporation has taken all precautions to justify the arrangements being made by the promoters for treatment of washed water and satisfied at that stage and considered release of loan amount. But the expectations made at the time of release could not be fulfilled due to factors beyond the control of the promoters. Hence additional financial assistance was considered by APIDC for installation of effluent treatment plant subsequently.

16.3 The Committee strongly feels that the reply of the Corporation is not tenable. The Committee is of the opinion that the effluent treatment is the most important element in the project and establishment of an effective and permanent effluent treatment system should be a pre-condition for sanction and release of the loan to the unit. The Committee expresses its unhappiness at releasing the loan without ensuring establishment of effluent treatment plant, in violation of the terms and conditions of the loan. The very fact that the unit was forced to continue at very low level of operation even after three years of commencing commercial production was indicative of the fact that the Corporation failed in its pre-sanction appraisal.

16.4 The Corporation has not explained why the unit could not run to full capacity even after commissioning the effluent treatment plant in December 1990. This fact indicates that the project, even with an effluent treatment plant was ab-initio not viable and pre-project appraisal by the Company was deficient to that extent.

16.5 *The Committee desires that the case be examined and responsibility fixed for the failure on the part of the officers concerned for deficient pre-project appraisal.*

16.6 *The Committee would like to know whether the unit was sold and if so what was the share of the Corporation out of the sale proceeds and whether any action is initiated for recovery of the balance dues under RR Act.*

17. Term loan to Vermell Chemicals (P) Limited, Visakhapatnam :

17.1 The unit was sanctioned in August 1984 a term loan of Rs. 30 lakhs for setting up a Sodium Sulphate plant estimated to cost Rs. 136.50 lakhs and scheduled to go into production by December 1985. APIDC which contributed Rs. 64.90 lakhs in equity (Rs. 3.90 lakhs) and term loan (Rs. 61.00 lakhs) ranked pari-passu with the Corporation in the charge.

The unit approached the Corporation in May 1987 with the revised

Project Report with an estimated cost of Rs. 204.83 lakhs and the Corporation sanctioned an additional term loan of Rs. 30 lakhs in July, 1987.

Although the initial loan was sanctioned in 1984, the Corporation nominated its director only after 3 years in December 1987. Thus, the Corporation did not associate itself in implementation stage for proper monitoring. There was no feed back from the nominee Director as to the progress of the work, throughout his tenure. As per the revised implementation plan, the commercial production was scheduled to commence from December, 1987.

While permitting the unit to draw second loan, the Corporation sent the documents to SBI Anakapalli in December, 1988 for creation of second mortgage, which have not been returned by the Bank (December, 1992). The Corporation was not aware whether the unit raised necessary loan from the Bank and it did not also pursue the matter with the Bank for getting back the documents.

The unit informed the Corporation that due to cyclone in May 1990, there was heavy damage to the machinery (assessed at 50 per cent). It is not know from the files whether any insurance cover was taken either by the unit or the Corporation for the assets of the unit.

Audit observed that due to lack of proper monitoring by the Corporation despite having a nominee director, the Corporation is also not aware whether the unit has since gone into commercial production.

The unit failed to pay the amounts due and consequently arrears as on 31st December, 1992 accumulated to Rs. 125.31 lakhs (Principal : Rs. 54.72 lakhs and interest : Rs. 71.09 lakhs).

(Paragraph 3B.13.4)

17.2 The Corporation in its explanatory notes stated that the progress of the work at the unit was being monitored through its branch office at Visakhapatnam and that the Corporation had all along been monitoring the progress of the unit.

17.3 The Committee is not convinced with the reply of the Corporation and is disheartened to note that the unit was closed even without commencing commercial production which is indicative of nothing but total lack of nomitoring and supervision.

17.4 *The Committee recommends that responsibility may be fixed on the nominee director for his failure in not submitting the feed back in time and also on the officers concerned in the branch office for their failure in monitoring the implementation.*

17.5 Regarding obtaining the documents from State Bank of India, Anakapalli, the Corporation stated that it has been following up with the Bank to return the documents and the matter is still being pursued.

17.6 The Committee is surprised to note that the documents sent to SBI, Anakapalli in December 1988 were not returned by the bank even after a lapse of five years and the matter is still being pursued.

17.7 *The Committee directs the Corporation to furnish the reasons for non-return of documents by the Bank even after a lapse of five years and also to intimate the level at which the matter is being pursued with the Bank.*

17.8 The Corporation further stated that since APIDC is the lead institution, the matter regarding insurance is being followed up by them.

17.9 The Committee is not happy at the reply of the Corporation. The Committee feels that the Corporation should also ensure that the assets of the unit are adequately covered under insurance to safeguard its own financial interests.

17.10 *The Committee directs the Corporation to ascertain from APIDC whether the assets of unit were covered under insurance and whether the insurance claim was being pursued regularly by APIDC and the stage at which the case presently stands and intimate the Committee.*

18. Term loan to Kalyani Cements (P) Limited, Piduguralla

18.1 The unit was sanctioned in January, 1984 a term loan of Rs. 28 lakhs and a special capital assistance of Rs. 2 lakhs to set up a cement plant estimated to cost Rs. 48.70 lakhs. An additional term loan of Rs. 4.40 lakhs was also sanctioned in February, 1986.

As per the detailed project report problems were not anticipated in procurement of raw materials, as the unit had entered into contracts for supply of lime stone and coke fines. The unit started its commercial production during December, 1986. As the machinery was not working properly, the Corporation did not release the retention money to the supplier, at the request of the unit in January, 1988. In the meanwhile the unit was closed in January, 1989 due to frequent break-downs of the machinery, shortage of raw material and non-availability of working capital. As the unit was in arrears, it was seized in July 1989. The Corporation could not dispose the unit as the Court case was pending against the unit and the Corporation. During October, 1989 the supplier filed a suit against the unit and the Corporation for the retention money of Rs. 1.29 lakhs.

Thus, the unit fell sick due to frequent break-downs on account of inherent defects in the machinery, shortage of raw material and

non-availability of working capital. The Corporation did not examine the circumstances under which the unit had to face the raw material problem in about an year's time, particularly when the Corporation was satisfied about the arrangements made by the unit for raw materials viz. lime stone and coke fines. This is indicative of the fact that the assessment of adequacy or otherwise of raw material was not adequately done by the Corporation at pre-project appraisal stage.

The total outstanding as on 31st December, 1992 was Rs. 90.11 lakhs (principal: Rs. 32.00 lakhs, interest: Rs. 54.50 lakhs, and others Rs. 3.61 lakhs).

(Paragraph 3B.13.5)

18.2 In its written statement, the Corporation stated that it has examined in detail the availability of arrangements made for procurement of raw materials by the unit.

18.3 The Committee feels that the reply of the Corporation is not convincing. The Committee noted that one of the reasons for sickness was shortage of raw materials.

18.4 *The Committee would like to know the reasons for such adverse situation within a period of one year when the Corporation was satisfied with the adequacy and capacity of the source of raw material.*

18.5 *The Committee may be informed of the final outcome of the action initiated for sale of the assets of the unit.*

19. Term loan to Gowtham Hotels (P) Limited, Tirupathi :

19.1 The unit was sanctioned three term loans aggregating Rs. 22.94 lakhs, of which Rs. 17.52 lakhs was disbursed between October, 1971 and February, 1979. APIDC also contributed Rs. 8.60 lakhs in the equity and sanctioned term loan of Rs. 53.37 lakhs.

Though the unit commenced implementation in 1976, the indifferent attitude of the promoter Directors during implementation led to time over run of five years. The unit which commenced operations in 1981 was closed in 1983 but was reopened in 1984. On a representation made by the unit, the Corporation accorded sanction in September, 1985 for reschedulement of loan repayment, charging of interest at net rate and a rebate of Rs. 3.46 laksh. Despite these reliefs, the unit faileld to honour its commitments. During the consortium meeting held in April, 1988, it was agreed to reschedule the loan and fund the interest but the same could not be implemented, since the unit did not furnish the cash flow statements called for. It was observed in the consortium meeting held in June, 1988 that the performance of the unit was not satisfactory as it could not face competition in the market.

During the next consortium meeting held in December, 1988 it was again agreed to fund interest amounting to Rs. 40.51 lakhs and to extend further loan of Rs. 3 lakhs which was sanctioned by the Corporation. Follow-up action was not taken by the Corporation, as could be seen from their records.

The following observations are made :

(1) The Corporation did not at any time monitor the implementation of the project. It had neither conducted periodical inspection nor nominated its directors to ascertain the status of implementation.

(2) The Corporation did not ascertain the reasons for time overrun in completion of the project as also for its closure in 1983 and revival in 1984.

(3) Though nominee directors were appointed subsequently there was no feed back from them on the affairs of the unit.

(4) Even after identifying the problem of competition in the market after 7 years, the Corporation did not take initiative to help the unit in overcoming the problem.

The total outstanding as on 31st December, 1992 was Rs. 86.97 lakhs (principal: Rs. 17.52 lakhs and interest and others: Rs.69.45 lakhs) (Paragraph 3B.13.7)

19.2 The Corporation in its explanatory notes stated that steps were taken to upgrade the standard of the hotel and to secure good business and considered sanction by additional term loans.

19.3 *The Committee directs the Corporation to inform the latest position on the performance of the hotel and the total amounts due from the unit, amounts repaid, if any, and balance outstanding etc.*

20. Term loan to Sathavahana Sea Foods (P) Limited, Visakhapatnam

20.1 The unit was sanctioned in March, 1987 a term loan of Rs. 48.60 lakhs to acquire two mini deep sea fishing trawlers. Orders were placed on Unique Enterprises, Cochin for purchase of two trawlers and one trawler was acquired during November/December 1988, while the second trawler has not been taken delivery (August, 1992).

The following observations are made :

(1) The Corporation released Rs. 42.83 lakhs to the unit for acquiring two trawlers. But the unit acquired only one trawler in November/December, 1988. The unit expressed its inability in September, 1990 to acquire the second trawler which was ready for delivery due to unviable operating conditions prevailing in the industry. Steps were

not taken by the Corporation to insist on the unit for taking delivery or otherwise disposing off the second trawler.

(2) Though the first trawler was put to operation, the unit has not paid the instalments regularly. The reasons stated by the unit for non-payment of instalments were non-generation of sufficient funds to pay the arrears. The Corporation has not initiated any action to recover the dues.

(3) The first trawler sank in November, 1991. The unit expressed its inability to take up the salvage operations due to lack of funds and the insurance company did not agree to pay advance for salvage operations, while their surveyor stated that unless the trawler was sent to dockyard, assessment of extent of damage could not be arrived at and, therefore, advised to take up the salvage operations immediately to avoid further diterioration of machinery on account of corrosive nature of sea water. The request of the unit for advance to arrange for salvage operations was not agreed to by the Corporation.

The arrears as at 31st December, 1992, were Rs. 75.11 lakhs (principal: Rs. 25.40 lakhs, interest and others: Rs. 49.71 lakhs).

(Paragraph 3B.13.8)

20.2 The Corporation in its explanatory notes stated that immediately after completion of salvage operations, it will take up the matter with the Insurance Company to settle the claim for the first trawler and as regards, the second trawler steps are being taken to identify suitable party for sale of the same. The Corporation is also in the process of initiating action to sell the collateral security offered by the Company for the arrears overdue.

20.3 *The Committee directs the Corporation to inform the final results of the issue.*

21. Term loan to Balaji Tin Containers, Nagari.

21.1 The unit was sanctioned three term loans in January/August 1981 aggregating Rs. 26.25 lakhs for manufacturing Tin containers. Although the machinery was installed by April, 1983, the unit went into commercial production in 1984 only after getting power supply. However, the unit could not go into full production due to non-availability of raw material indigenously and delay in obtaining licence to import required raw materials, Consequently the unit became sick and a chronic defaulter since 1984.

The Corporation did not make any attempt to help the unit either in procurement of indigenous raw material or in importing the same in time in order to save the unit from becoming sick.

Audit observed that after continued inaction for 8 years, the Corporation seized the unit in February, 1992 and sold the same in August, 1992 for Rs. 14 lakhs.

The total outstanding as on 31st December, 1992 was Rs. 79.79 lakhs (principal: Rs. 24.87 lakhs, interest: Rs. 52.59 lakhs and others Rs. 2.33 lakhs).

The fact remains that the Corporation did not analyse the sources of availability of raw material at the pre-project appraisal stage adequately.

(Paragraph 3B.13.9)

21.2 The Corporation explained that it was expected that the promoters with their background and wide contacts would be able to manage in getting the required licences for allotment of raw materials quota from SAIL.

21.3 The Committee feels that the Corporation grossly failed in assessing the issues related to availability and economics of raw materials at pro- sanction appraisal stage.

21.4 *The Committee may be informed of the final outcome of the action initiated under Section 29 of the SFC Act.*

22. Term Loan to Bhagyalakshmi Cements Limited - Nalgonda.

22.1 The unit was sanctioned in December, 1986, a term loan of Rs. 60 lakhs for setting up a Cement plant estimated to cost Rs. 269 lakhs and was scheduled to commence commercial production in October, 1987. The implementation of the project was delayed abnormally by five years which resulted in the cost over run by Rs. 46 lakhs.

The Corporation identified the following factors that led to delay in implementation:

(1) Disputes among promoter directors who failed to contribute their shares of capital.

(2) Refusal by the directors to sign the documents to complete the legal formalities with APIDC.

(3) Delay in selecting the suppliers of the plant and machinery and delay in their supply.

Consequently the unit approached the Corporation for an additional term loan of Rs. 30 lakhs which was sanctioned in February, 1991.

The Following observations are made:

(1) The nominee director was appointed on the Board of the unit

only during December, 1991 i.e., after 5 years from the date of sanction of first loan and there were no feed back reports from the nominee director and thus the Corporation could not properly exercise control over the unit.

(2) The unit which was scheduled to have gone into commercial production in November, 1987 had not commenced its operations (December 1992).

(3) Though the branch is finally responsible to monitor and recover the loans, it has no information as to the details/minutes of the consortium meetings held and concessions/reschedulements considered and approved in respect of this unit, with the result that the branch is not able to furnish the latest status of the unit.

(4) Audit observed that promoter directors did not have industrial background which was one of the main reasons for the delay in implementation and consequent cost overrun.

Although the unit has been a continuous defaulter, the Corporation has not taken any action for recovery of the dues. The unit has not paid the instalments and interest. At the end of December, 1992, the unit was in arrears to an extent of Rs. 132.99 lakhs. (Paragraph 3B.13.10)

22.2 The Corporation in its explanatory notes stated that it was true that there was certain delay in appointing nominee director on the Board of this Company by the Corporation but it is submitted that by the time the nominee director was on the Board on 17.1.1990 less than 50 per cent of the total loan sanctioned were disbursed. It is thus not uncommon for the Corporation to appoint a nominee director on the Board of the Company during midway of implementation of the scheme.

The nominee Director's report is not the only tool to monitor the activities of a unit. The progress in implementation is verified by inspection of the unit by officials of the Corporation.

The delay in commercial production is basically due to factors that the Audit has already identified like disputes among the promoters. The other factors are delay in getting ISI registration, delay in getting No Objection Certificate from Pollution Control Board etc.

As APIDC is lead institution for this unit, the Consortium meetings were convened by them and minutes forwarded to the participants. As the Branch Manager was not required to attend consortium meetings, a copy of the minutes was sent to Branch Office. The Branch is normally sent a copy of the reschedulement letter.

It is submitted that though the promoter directors did not have the industrial background this was not the main reason for the delay in

implementation and consequent cost over runs. Various other factors like disputes among directors, delay in getting approvals etc. have also caused the delay in implementation.

As on 31.12.1992, the unit was in arrears of Rs. 61.20 lakhs to the Corporation and not Rs. 132.99 lakhs as stated. As APSFC is not the lead institution it has to follow the course of action suggested by the lead institution. Finally, the consortium has decided to invoke Section 29 of SFCs Act and accordingly APIDC has issued Recall-Cum-Sale Notice on 10.09.1993 and as even RCS had no positive effect, Corporation has requested APIDC to seize and advertise the unit for sale.

22.3 The reply of the Corporation is not convincing. Factors such as failure to contribute their share of capital by promoter directors, delay in selecting the suppliers of the plant and machinery and disputes among promotor directors clearly indicate lapses in pre- sanction appraisal. The Committee also feels that over looking the fact of lack of industrial background to the promoter directors, who came up with the proposal of an industrial project, expected to cost Rs. 269 lakhs, was not justified.

22.4 *The final result of action initiated under Section 29 may be informed to the Committee.*

SUMMARY OF RECOMMENDATIONS

1. The Committee would like to have a detailed report from the Corporation/Government on implementation of all the recommendations of SBCC. (Paragraph 2.4).

2. The Committee would like to have a specific reply as to why it had not adopted scientific norms for review of cadre strength despite recommendations by various Committees. The Committee feels that the percentage of officers to total staff, which is 51.44 is on high side compared to the position prevailing in other Government departments and sister undertakings and therefore, directs the Corporation to examine the matter and take suitable steps to reduce the administrative overheads by reducing the staff to a reasonable level. (Paragraph 3.3).

3. The Committee would like to know the extent of surplus staff as on 31st March 1994 based on the norms adopted by SBBC and proposals of the Corporation for deploying the surplus staff gainfully. (Paragraph 3.6).

4. The Committee desires to have a report from the Corporation justifying the officer staff ratio at more than 50 in view of computerisation. The Committee desires further that the Corporation may work out the overall requirement of officers and others considering the norms prescribed by SBBC and also the later development of total computerisation and keep the Committee appraised of the results of such analysis. (Paragraph 3.8).

5. The Committee would also like to know whether the Corporation obtained the approval of IDBI for the revision of cadre strength, a requirement directeed by the Government in November 1987. If the approval has not been obtained, reasons for the same may be specified. (Paragraph 3.9).

6. The Committee would like to know the comparative position of recovery of loans for the years 1992-93 and 1993-94. (Paragraph 4.3).

7. The Committee desires to have a Report from the Corporation detailing the circumstances under which loans in these two cases were subsequently reduced. (Paragraph 4.5)

8. The Committee would like to be appraised of further development in these two cases. (Paragraph 4.7)

9. The Committee, therefore, recommends that in future issue of bonds etc., the Corporation should enter into agreements with the Banks before floating the bonds and also not to pay underwriting commission unless there is an enabling clause in the agreement for such payment. (Paragraph 5.5).

10. The Committee desires that the Corporation may submit a note detailing the economics of the present cash management system, duly considering the recovery performance at 30 per cent, in support of its statement that the Corporation earns substantial profits by employing the funds and earning interest at higher rate for the remaining period of 19 years. (Paragraph 6.4)

11. The Committee would like to know in how many cases the Corporation was able to successfully recover the amounts by proceeding against the personal property of the borrower and co-obligators. The Commitee directs the Corporation to submit a detailed Note, showing the details of amounts due, amount recovered there against by proceeding against the personal properties of the borrowers and co-obligators during the past five years up to 1993-94. (Paragraph 7.4).

12. The Committee desires to know the specific provision of SFC Act according to which the RBDD created in a year cannot exceed the surplus available for the year. The Committee opines that the surplus is arrived at only after providing for the required doubtful debts etc. (Paragraph 7.5)

13. The Committee would like to know whether the IDBI guidelines were received and, if so, a copy of the same may be furnished to the Committee together with details such as the amount of provision towards RBDD to be created for 1993-94 as per the IDBI guidelines and how the Corporation is going to create such provision. (Paragraph 7.8).

14. The Committee recommends that the Corporation may fix up time limit for the enterpreneurs for furnishing full details and cancel the applications after such time limit. after analysing/ascertaining the reasons for the delay in furnishing full details. (Paragraph 8.3)

15. The Committee therefore, recommends that the Corporation should evolve a suitable system by which a consolidated and complete data from all the branches is also available at Head Office for proper control and monitoring. (Paragraph 8.5)

16. The Committee would like to know what exactly is the function of the Annual officer's conference and on what basis policy decision is taken for preparing negative list etc. The Committee desires that the Corporation submits to the Committee the agenda and minutes of the latest conference in which this particular issue was decided upon. The

Committee also desires to know as to what were the recommendations of the Officers' conference in regard to pumping of more funds to these 5 industries when the recovery position was bad. (Paragraph 9.4)

17. The Committee desires further to know whether the Corporation conducted any specific study as suggested by IDBI before arriving at a policy decision and whether IDBI was kept informed of the results of the study and of the decision taken by the Corporation. (Paragraph 9.5)

18. Since the scheme has been suspended by the Government, the Committee directs the Corporation to recover the margin money loans already disbursed from the entrepreneurs and remit the amounts to Government periodically including the undisbursed amount of Rs. 97 lakhs. The Committee would like to be appraised of the status of the recoveries and remittances to the Government. (Paragraph 10.4)

19. The Committee directs the Corporation further to submit a note covering the following aspects:

(a) Details of total employment potential created vis-a-vis targeted.

(b) Total amount of margin money released by the Corporation so far under the scheme.

(c) Amounts outstanding and overdue as on 31st March 1994 from the entrepreneurs.

(d) Details of the units presently functioning out of the 3213 units grounded.

(e) Reasons for the failure of the remaining units and amount outstanding from these failed units, as also action proposed to be taken to recover the dues from them. (Paragraph 10.5)

20. The Committee is of the view that recruitment after the suspension of the scheme, thus, lacked justification and recommends therefore, that the Corporation/Government may examine the issue and fix responsibility. (Paragraph 11.4)

21. The Corporation should also review the overall success or failure of the scheme to take an independent decision for its continuance or otherwise. The Committee opines that it is not prudent on the part of the Corporation to infer that so long as adverse feed-back is not received, the scheme will be continued. The Corporation should strive to avoid the failure of any scheme by close monitoring etc. It is needless to impress upon the Corporation that it is better to monitor the success or failure of the scheme by Head office, without waiting for reports from its units, in order to take corrective steps in time, instead of expressing inability

to revive the failing units at a later stage. The Committee desires to have a note from the Corporation/Government with all the relevant data. (Paragraph 12.4)

22. The Committee directs the Corporation to analyse the reasons for more and more SSI units becoming defaulters and also the circumstances leading to disbursements to four core industries despite their being major defaulters. (Paragraph 13.4)

23. The Committee, therefore, recommends that the Corporation should look at the problem in proper perspective and stream line its approach at pre-project appraisal stage and also strengthen its monitoring wing for close and critical monitoring of the units during the implementation stage and also thereafter.

(Paragraph 13.7)

24. The Committee gains the impression that the Corporation is responsible for any unit becoming sick and consequently a defaulter, since the Corporation which is supposed to be involved at all the stages of implementation of the project, has not apparently been involved itself in adequately and critically appraising the projects submitted by the entrepreneurs, in properly guiding and assisting the enterpreneurs during implementation stage and also improperly monitoring the units after implementation. If the unit faced lack of demand during or immediately after implementation, it can be construed that the entrepreneur has not done proper market survey and also that the Corporation has not given adequate thought to this aspect while appraising the project before sanctioning assistance. This lapse equally applies in the case of defective technical know-how, defective/ imbalanced machinery, technical incapability and financial unsoundness of the entrepreneur, shortage of raw material, non availability of working capital etc. Thus, the Corporation cannot excuse itself by merely saying that these factors which led the unit to sick stage, were beyond its control. (Paragraph 13.8)

25. The Committee, therefore, recommends that the Corporation should exercise necessary vigil at pre-project stage itself and sanction loans/ assistance only in such cases which are surely not going to face any problems. The Committee hopes that with the vast experience the Corporation had earlier, it would not be difficult for the Corporation to anticipate and identify the problems likely to be faced by the prospective units. The Committee also recommends that the Corporation should bear in mind that it is the public money the Corporation is dealing with and the Corporation has no option to take a risk while investing in the units. (Paragraph 13.9)

26. The Corporation admitted that after availing the loan the unit became sick. The Committee, however, fails to understand whether

the unit has goine into commercial production at all or whether the unit availed the loan only to become sick. The Committee desires to have the above information from the Corporation. (Paragraph 14.3)

27. The Committee is surprised to note that the Corporation was not even aware of the fact that the entrepreneur constructed the building encroaching into the neighbouring site, till the same was pointed out by a third party. The Corporation was not also aware of the boundaries of the survey numbers which were mortgaged in its favour. In these circumstances, the Committee cannot but conclude that the Corporation did not at all monitor the implementation of the project after the loan was sanctioned and apparently, the Corporation did not inspect the unit even once, during the construction stage.

The Committee directs the Corporation to investigate and fix responsibility on the officer who was nominated for inspection.(Paragraph 14.4)

28. The Committee desires to be appraised of the amount due as on 31st March 1994, amount available for adjustment out of the sale proceeds and balance amount left for recovery under RR Act. The Committee further desires to be informed whether the report regarding missing plant and machinery was examined by the Corporation, and if so, what was the finding. (Paragraph 14.5)

29. The Committee, therefore, recommends that the Corporation may take necessary action to approach the concerned Revenue authorities and ascertain the details of personal properties available in the name of the entrepreneur etc. (Paragraph 14.7)

30. Regarding the recovery of the balance amount of Rs. 14.25 lakhs, the Committee would like to be appraised of further developments. (Paragraph 14.8)

31. The Committee noted that apart from getting ancillary status, the unit was expected to get orders from a line of reputed automobile manufacturers like Ashok Leyland, Hindustan Motors, TELCO, Enfield etc. The Committee would like to know whether the unit received any orders from the above companies and if not what were the reasons therefor. (Paragraph 15.4)

32. The Committee would like to know the basis on which the Corporation decided to contest the case and the reasons for deciding to deposit the amount only after a lapse of over 7 years. The Committee is unhappy at the inordinate delay in taking proper decisions by the Corporation resulting in deterioration of the condition of the machinery and equipment and consequential reduction in the realisable value. (Paragraph 15.7)

33. The Committee recommends that the Corporation may examine the issue of delay and fix responsibility. The Committe would also like to be appraised of further developments regarding vacating Stay Orders, seizure of plant and machinery, their disposal and action taken for the recovery of the balance amount, if any. (Paragraph 15.8)

34. The Committee desires that the case be examined and responsibility fixed for the failure on the part of the officers concerned for deficient pre-project appraisal. (Paragraph 16.5)

35. The Committeee would like to know whether the unit was sold and if so what was the share of the Corporation out of the sale proceeds and whether any action is initiated for recovery of the balance dues under RR Act. (Paragraph 16.6)

36. The Committee recommends that responsibility may be fixed on the nominee director for his failure in not submitting the feed back in time and also on the officers concerned in the branch office for their failure in monitoring the implementation. (Paragraph 17.4)

37. The Committee directs the Corporation to furnish the reasons for non- return of documents by the Bank even after a lapse of five years and also to intimate the level at which the matter is being pursued with the Bank. (Paragraph 17.7)

38. The Committee directs the Corporation to ascertain from APIDC whether the assets of the unit were covered under insurance and whether the insurance claim was being pursued regularly by APIDC and the stage at which the case presently stands and intimate the Committee. (Paragraph 17.10)

39. The Committee would like to know the reasons for such adverse situation within a period of one year when the Corporation was satisfied with the adequacy and capacity of the source of raw material. (Paragraph 18.4)

40. The Committee may be informed of the final outcome of the action initiated for sale of the assets of the unit. (Paragraph 18.5)

41. The Committee directs the Corporation to inform the latest position on the performance of the hotel and the total amounts due from the unit, amounts repaid, if any, and balance outstanding etc.

(Paragraph 19.3)

42. The Committee directs the Corporation to inform the final results of the issue. (Paragraph 20.3)

43. The Committee may be informed of the final outcome of the action initiated under Section 29 of the SFC Act. (Paragraph 21.4)

44. The final result of action initiated under Section 29 may be informed to the Committee. (Paragraph 22.4)

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