



**THIRTEENTH KERALA LEGISLATIVE ASSEMBLY**

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2011-2014)**

**TENTH REPORT**

(Presented on 21st June, 2012)

SECRETARIAT OF THE KERALA LEGISLATURE  
THIRUVANANTHAPURAM  
2012

THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE  
ON  
PUBLIC UNDERTAKINGS  
(2011-2014)**

**TENTH REPORT**

**On**

**The action taken by Government on the Recommendations contained in the  
Fortieth Report of the Committee on Public Undertakings (2006-08)  
relating to Kerala Financial Corporation based on the Report  
of the Comptroller and Auditor General of India for the year  
ended 31st March, 2004 (Commercial)**

## CONTENTS

	<i>Page</i>
Composition of the Committee	.. v
Introduction	.. vii
Report	.. 1
Chapter I : Reply furnished by Government on the recommendation of the Committee which has been accepted by the Committee with remarks	.. 2

COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2014)

*Chairman :*

Shri K. N. A. Khader

*Members :*

Shri Abdurahiman Randathani

„ A. A. Azeez

„ P. K. Gurudasan

DR. N. Jayaraj

Shri Elamaram Kareem

„ T. N. Prathapan

„ Palode Ravi

„ S. Sarma

„ P. Thilothaman

„ P. C. Vishnunadh.

*Legislature Secretariat:*

Shri P. K. Muraleedharan, Secretary-in-charge

„ R. Radhakrishnan Nair, Joint Secretary

„ K. Priyadarsanan, Deputy Secretary

Smt. Lima Francis, Under Secretary.

## INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Tenth Report on the action taken by Government on the recommendations contained in the Fortieth Report of the Committee on Public Undertakings (2006-2008) on the working of the Kerala Financial Corporation based on the Report of the Comptroller and Auditor General of India for the year ended March 31st 2004 (Commercial).

The Statement of action taken by the Government included in this Report were considered by the Committee constituted for the year (2008-2011).

This Report was considered and approved by the Committee at the meeting held on 4-1-2012.

The Committee place on record their appreciation of the assistance rendered to them by the Accountant General (Audit), Kerala, in the examination of the statements included in this Report.

Thiruvananthapuram,  
21st June, 2012.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*

## **REPORT**

This Report deals with the Action Taken by the Government on the Recommendations contained in the Fortieth Report of the Committee on Public Undertakings (2006-08) on Kerala Financial Corporation based on the Report of Comptroller and Auditor General of India for the year ended March 31st, 2004 (Commercial) was presented to the House on March 10th 2008.

The Report contained only one recommendation. Government have furnished reply to the recommendation.

The Committee considered the reply at its meeting held on 16-5-2010 and approved the same with remarks. The recommendation, its reply and the remarks of the Committee thereon form chapter I of the report.

## CHAPTER I

REPLY FURNISHED BY GOVERNMENT WHICH HAS BEEN  
ACCEPTED BY THE COMMITTEE WITH REMARKS

<i>Sl. No.</i>	<i>Para No.</i>	<i>Department concerned</i>	<i>Conclusion/ Recommendation</i>	<i>Action Taken by Government</i>
(1)	(2)	(3)	(4)	(5)
1	3	Finance (PU-A)	The Committee finds that the Corporation is not impartial in its dealings with loanees and shows undue favour towards some of them. The Committee recommends that the Corporation should be impartial in all its dealings with loanees especially in the matter of collateral security and write-off of loans. The Committee opines that waiver of principal amount of loans and expenses was allowed deviating from the specific guidelines under the OTS and unauthorized write-off of principal amount is not acceptable and the Board's decision in this matter should be examined by Government in detail, and reported to the Committee urgently. The Committee desires to be given details of the cases of write-off of principal amount pointed out by Audit.	As a Development Bank the main objective of the Kerala Financial Corporation is to support the industrial development of the State in line with the policies of the State Government. Unlike Commercial Banks, most of the loans sanctioned are to first generation entrepreneurs where the risk and failure rate is high. Ideally, the loan has to be collected back with interest as per the contract. In the event of default and when units are not able to function, the Corporation consider their request under OTS as a last resort to settle the account and relieve them from their liability. Relief like OTS is an exception and not the rule. So the Corporation cannot give similar relief to

---

(1)	(2)	(3)	(4)	(5)
				<p>everybody and such concessions are given in cases where other means of recovery and coercive action have failed. It may kindly be noted that every financial year the Corporation is revising its recovery policy in line with the economic condition, SIDBI/RBI guidelines prevailing at that time. OTS is part of this policy for which well defined norms are set. OTS is allowed considering various factors viz., status of the project, total amount remitted, security position, financial background of the promoter, pendency of coercive actions and NPA status of the account. Hence the concession given may vary from case to case. The intention of the Corporation is to limit the concession to the minimum.</p>
				<p>Due to business failures, many promoters are not in a position to repay the dues in time and as a result, the amount to be repaid increases manifold with the</p>

---



---

(1)	(2)	(3)	(4)	(5)
				<p>passage of time. The repayment of such dues will be beyond the capacity of the promoter. To help such borrowers and to induce them to repay the loan, concessions as per OTS guidelines are given. Usually Corporation has to provide 100% for NPA accounts in the D3 category causing considerable strain on the Corporation's finances. Remittances received under OTS also reduces this burden of making provisions, thereby improving the profitability of the Corporation. The OTS is sanctioned in tune with RBI/SIDBI directives and the Board of the Corporation is empowered to take decisions in such matters and the Board has acted in a bonafide manner. The role of State Government in such matters is limited. A copy of details of the OTS cases mentioned in the Report is enclosed herewith for ready reference. (Annexure I)</p>

---

## REMARKS OF THE COMMITTEE

The Committee seeks to clarify whether the Board had the power to write-off the Principal amount of loans, during the period in which huge loan were written-off and the reason for this kind of write-offs. Further, the Committee desires to be informed of the statutory steps required to be followed in the recovery procedure and the steps which had been taken by the corporation for the recovery of loan amount.

Thiruvananthapuram,  
21st June, 2012.

K. N. A. KHADER,  
*Chairman,*  
*Committee on Public Undertakings.*

ANNEXURE I  
COMMENTS

As per item 91 of the General Regulations, the Corporation is empowered to formulate its own recovery methods. Recovery and OTS policy, loan policy, H. R. Policy, incentive scheme for recovery, promotion policy etc. are all part of operational matters and that the Board is competent to take decision on these matters. OTS scheme has been in vogue since 1993 and the Board has made changes in the OTS norms from time to time. As per Section 48 of the SFCs Act, the Corporation has framed regulations (KFC General Regulations) to take care of the matters specified in Sec. 48 of the SFCs Act, 1951. This has been framed with the approval of State Government and SIDBI.

The framing and implementation of OTS scheme is purely an operational aspect and is a part of routine function of the Corporation and is well within the powers of the Board of Directors as envisaged in the Act. The scheme was conceived with the concurrence of SIDBI for addressing high NPAs and to wipe out the chronic defaulted cases. It is further submitted that Kerala Financial Corporation has been directed vide Government letter 24146/PUA1/09/Fin. dated 17-9-2009 to be impartial in all its dealings with loanees especially in the matter of collateral security and write-off of loans.