THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)

EIGHTIETH REPORT

(Presented on 23rd March, 2015)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015

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On

Kerala State Industrial Development Corporation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial)

333/2015.

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings 2014-2016 having been authorised by the Committee to present the Report on their behalf, present this Eightieth Report on Kerala State Industrial Development Corporation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial) relating to the Government of Kerala.

The Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 was laid on the Table of the House on 28-6-2004. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2011-2014.

This Report was considered and approved by the Committee at the meeting held on 11-2-2015.

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

The Committee wish to express their thanks to the officials of the Industries Department of the Secretariat and Kerala State Industrial Development Corporation Limited for placing before them the materials and information they wanted in connection with the examination of the subject. They also wish to thank in particular the Secretaries to Government, Industries and Finance Department and the officials of Kerala State Industrial Development Corporation Limited who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

K. N. A. KHADER,

Chairman,

Committee on Public Undertakings.

Thiruvananthapuram,
23rd March, 2015.

REPORT

ON

KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

Introduction

2.2.1 Kerala State Industrial Development Corporation Limited (KSIDC) was incorporated in July 1961 as a wholly owned Government Company for promoting and financing industries in the state. The main objects of the Company are to promote, establish, aid and assist, and finance schemes, projects or enterprises with a view to further the overall economic development of the state. Present activities of the Company are mainly confined to providing financial assistance to industrial units by way of equity and loans.

Organisational set-up

2.2.2 The Company is being managed by a Board of Directors (Board) consisting of 15 directors including the Chairman and a Managing Director. There was no technical director on the Board. All the directors excluding the nominee of the Industrial Development Bank of India (IDBI) were appointed by the Government. An Executive Committee had been delegated with powers to sanction financial assistance and allow reliefs and concessions and for waiver of interest under the One Time Settlement Scheme (OTS), which required ratification by the Board. Day-to-day administration was being carried out by the Managing Director assisted by two Executive Directors (at Thiruvananthapuram and Kochi) and General Manager in-charge of finance.

Scope of Audit

2.2.3 The efficiency in recovery of loans by the Company was reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 1989 (Commercial), Government of Kerala. The review was not discussed by the Committee on Public Undertakings. The present review covering the activities of the Company for the five years from 1998-99 to 2002-03 was conducted during December 2002 to May 2003 and the points emanating there from are discussed in the succeeding paragraphs.

The review was discussed by the Audit Review Committee for State Public Sector Enterprises (ARCPSE) in its meeting held on 4th September, 2003. In the meeting, the State Government was represented by the Additional Secretary, Industries Department, Government of Kerala and the Company by its Managing Director.

Share capital and borrowings

2.2.4 Against the authorised share capital of ₹ 275 crore, the paid-up share capital of the Company as on 31st March, 2003 was ₹ 270.74 crore held by Government of Kerala, including advance towards share capital of ₹ 15 crore received in 2002-03.

The total borrowings as on 31st March, 2003 were ₹ 88.42 crore comprising loans from IDBI/SIDBI* (₹ 74.52 crore), State Government (₹ 3.20 crore) and bonds (₹ 10.70 crore).

Financial position and working results

2.2.5 The Company has finalised its accounts up to the year 2002-03. The financial position and working results of the Company for the five years up to 2002-03 are given in Annexures 16 and 17 respectively. Analysis of the financial position and working results of the Company revealed that :

- The total bad debts provisions for loans and investments increased from ₹ 49.09 crore in 1998-99 to ₹ 76.55 crore in 2002-03 registering an increase of 56 per cent primarily due to 66 per cent increase in the provision for bad debts from ₹ 40.56 crore in 1998-99 to ₹ 67.27 crore in 2002-03. When compared to this, the increase in loan assistance during the same period was 26 per cent only (₹ 194.11 crore in 1998-99 to ₹ 244.07 crore in 2002-03).
- While disbursing instalments of loan, the interest due on loan already disbursed was being adjusted from the amount paid. The interest (income) so adjusted and accounted for was ₹ 14.43 crore during the five years ending 31st March, 2003.
- The Corporation incurred net losses during 1998-2003 except in 1999-2000 due to considerable increase in provision for Non-Performing Assets (NPA).

2.2.6 The funds received from Government of Kerala at interest rates ranging from 11.5 to 17 per cent per annum, for the activities of the Company, were being kept in the treasury, at the instance of Government, which fetched lower rate of interest. A review of the balances held by the Company in treasury savings bank account and treasury personal account during 1997-2002 revealed that the balances retained in these accounts ranged between ₹ 20.60 crore and ₹ 62.09 crore fetching interest at the rate of 6 per cent per annum. Retention of these funds in treasury accounts therefore resulted in loss of ₹ 2.75 crore representing the difference between the interest paid at higher rates to Government and that received on deposits in treasury accounts.

* Small Industries Development Bank of India

Investments in joint/assisted sectors

2.2.7 According to the policy enunciated by the Company, the investment in equity/preference share capital of private/public enterprises varied between 26 and 40 per cent in joint sector and 11 and 26 per cent in sponsored sector. Based on the promotional agreements, the units were bound to buy back the shares at the option of the Company after three years from the commencement of commercial production or after five years from the first allotment of shares, whichever was earlier. The amount receivable for such buy back was paid-up value plus compound interest at IDBI term loan/refinance rate less dividend or book value or market value, whichever was higher. Failure to buy back the shares entails the right to sell the shares and recover the balance amount, if any, from the unit.

Nature of investment

2.2.8 The total investment of the Company as on 31st March, 2003 in 68 units was ₹ 76.16 crore consisting of equity shares worth ₹ 60.80 crore in 61 units, preference shares worth ₹ 13.86 crore in eight units and bonds of ₹ 1.50 crore in one unit. The Company decided (May 1995) to invest in listed quoted shares only, as far as possible, to ensure quick disposal of shares in the event of default so as to avoid loss of investment. During June 1995 to March 2003 the Company invested ₹ 37.76 crore in unquoted shares, of which ₹ 6.38 crore (17 per cent) was written-off due to winding up, non-working or negative net worth of such assisted units. The Company could earn a dividend income of ₹ 35.39 lakh only on this investment during the said period. Since there was low return by way of dividend on investment in equity shares, the Company decided (May 1999) to go for either equity or preference share capital investment based on the merit of each case.

Investment in unviable units

2.2.9 The details of investment in 134 units (including 63 units in which investment was written-off during the five years ended 31st March, 2003) are given below :

Sl. No.	*Age of investment*	*No. of units*	*Amount invested (₹ in crore)*
1	More than 20 years old	21	3.37
2	10 years or more but less than 20 years	55	14.24
3	5 years or more but less than 10 years	43	71.31
4	5 years or less	15	11.65
	Total	134	100.57

Based on the terms of promotional agreement, the Company should have disposed of shares worth ₹ 88.92 crore in 119 units where age of the investment was 5 years and more and invested the funds profitably elsewhere. However, the buy back clause in the agreement was not invoked by the Company during the last 23 years.

Monitoring of assisted units

2.2.10 It was noticed that the Company had not been monitoring the implementation and working of the units in which substantial amounts were invested as discussed below:

Furnishing of annual reports

2.2.11 The assisted units were not prompt in furnishing of annual accounts, to evaluate their performance with a view to take remedial measures to improve the working or to invoke the buy back clause. A test check revealed that 47 out of 72 units did not forward their accounts for the year 2001-02 so far (March 2003).

Nominee directors

2.2.12 The Company was entitled to appoint up to three directors (including Chairman) in joint sector units and one or more directors in proportion to the shareholding in sponsored sector units. However, as on 31st March, 2003, 38 out of 70 units only had nominee directors and 32 units with an aggregate investment of ₹ 15.11 crore did not have nominee directors. The Company as such did not have any control over the management nor any mechanism to watch the units' performance. Further, there was no system to ensure the attendance of nominee directors in the Board meetings of the units and to obtain reports about performance and soundness of investment to the management.

Write-off of investment

2.2.13 During the five years up to 31st March, 2003 the Company had written-off investments worth ₹ 26 crore in 69 instances involving 63 units (preference shares three instances ₹ 5.03 crore and equity shares 66 instances-₹ 20.97 crore) out of which ₹ 11.73 crore pertained to 31 units already wound up or closed. The Company suffered losses due to injudicious investment decisions as discussed below:

Hasty decision to write-off the investment

2.2.14 The Company sanctioned (December 1996) and paid (March 1997) assistance of ₹ 1.50 crore in the form of equity share capital to Muthoot Apt Ceramics Limited (unit), incorporated in June 1994 to set-up a 100 per cent export oriented unit (EOU) for the manufacture of vitrious china sanitary ware at Cochin Export Processing Zone (CEPZ), at a cost of ₹ 36 crore.

The unit commenced production in April 1998, but could not generate the anticipated sales initially, which according to the Company was due to non-cooperation by its technical collaborators (APT Limited, UK).

The unit made (November 1999) alternate marketing arrangements with Spring Ram, UK and started exporting the product and arrangements were also made for sale of products in Indian market. Even though the unit suffered losses during 1998-2001, it overcame the marketing problem from 2001-02. In the meantime, without watching the operation of the unit, the Company had written-off (2000-01) the investment of ₹ 1.50 crore.

The management stated (August 2003) that they took a policy decision to write down the investment since accumulated loss of the unit exceeded its paid-up capital. The reply is not tenable since the write-off decision was taken within a period of three years of the investment decision without waiting for the firm to improve its working and profitability. It was also noticed in audit that in other cases where the accumulated loss of units exceeded their paid-up capital for very long periods, the Company had not written-off investment.

Failure to make independent appraisal about marketability

2.2.15 The Company invested (November 1994) ₹ 66 lakh by way of share capital in Chaya Industries Limited (unit). The investment was enhanced to ₹ 97 lakh on revision of project cost.

In April 1997 the unit requested for additional investment of ₹ 1.00 crore in share capital either by way of equity or preference share contribution. Even though the Project Manager did not recommend (May 1997) the increased investment, the Assistant General Manager (Projects) recommended (October 1997) additional investment of ₹ 50 lakh. The Company sanctioned and disbursed (March 1998) ₹ 50 lakh by way of redeemable cumulative preference shares. However, the entire investment of ₹ 1.47 crore was written-off during 2000-01. It was ascertained (December 2002) that the unit was under BIFR* and no amount would be realisable from it. The loss of interest at the borrowing rate of 12 per cent worked out to ₹ 0.77 crore. Though the Company was aware of the decline in the export market for cotton knitted fabrics, an independent appraisal about marketability of the products of the unit was not conducted. The Company rather depended on the feasibility report prepared by the promoters and made additional investment in March 1998 ignoring the poor financial position and working results of the unit.

* Board for Industrial and Financial Reconstruction.

Investment in project having negative net worth

2.2.16 Meenachil Rubberwood (P) Limited (unit)-a joint venture project of Rubber Board and Rubber Producers Societies, engaged in manufacture of chemically treated and kiln dried sawn rubber wood, approached (June 1998) the Company for financial assistance for expansion of their project commissioned in December 1996. Despite negative net worth of the unit, the Company decided (September 1998) to sanction assistance of ₹ 37.18 lakh which was enhanced to ₹ 39 lakh in May 1999. The Company had written-off the investment in 2000-01, treating the same as bad without insisting the unit to buy back the shares. Audit observed that even at the time of sanctioning assistance, the accumulated losses of the unit at ₹ 0.64 crore had exceeded its paid-up capital (₹ 0.48 crore). Further, the capacity utilisation of the unit was only 65 per cent of which 40 per cent production could be sold. Thus, the decision of the Company to invest in a project having negative net worth resulted in undue benefit of ₹ 39 lakh to the firm.

Management stated (April 2003) that since 74 per cent of the shares were held by Rubber Board and Rubber Producers Societies, the unit expected export orders. The reply is not tenable since the other seven rubber wood processing units assisted by the Company were not performing well and the unit had negative net worth even at the time of investment decision.

Failure to exercise managerial control

2.2.17 On the basis of the Memorandum of Understanding (MOU) signed (January 1993) between the Company and Tirupur Export Associates (TEA), Teaktex Processing Complex Limited (unit) was incorporated (May 1993) for implementation of a garment and yarn project at a cost of ₹ 30 crore. The project was set-up (September 1995) at a cost of ₹ 48.27 crore and the Company held shares worth ₹ 5 crore i.e., 25.51 per cent of the issued share capital of the unit. The Company also disbursed (March 1997) an unsecured loan of ₹ 70.66 lakh. The performance of the unit was not satisfactory since beginning and was under lock out from December 1997 to September 1998. The Company took over the management of the unit in October 1998 and re-started (January 1999) the unit after investing ₹ 1.68 crore in 14 per cent cumulative redeemable preference shares.

In view of the negative net worth, the Company had written-off (1999-2000) its investment of ₹ 6.68 crore in the unit. Besides, the loan of ₹ 1.05 crore (principal : ₹ 70.66 lakh and interest : ₹ 34.75 lakh up to 1998-99) became non-performing asset since March 1998. The Company decided (March 1999) to write-off the interest of ₹ 34.75 lakh outstanding as on 31st March, 1999.

The management stated (August 2003) that delay in implementation of the project and resultant cost overrun, labour unrest and lack of interest on the part of promoters were the reasons for closing down the unit and the Company had in mind the overall development objective while making additional investment in this unit. However, the fact remained that the Company did not exercise proper managerial control and unnecessarily invested ₹ 1.68 crore, the loss of which was avoidable.

Failure to ascertain financial soundness of existing unit

2.2.18 At the instance of the Company (December 1994), Eastern Treads Limited (unit) signed (March 1995) an MOU for equity participation in its expansion project at Ernakulam. The Company had not given assistance to this unit earlier as the financial indicators of the group's other companies showed negative net worth. In spite of this, without making an independent study about the financial soundness of the unit, the Company sanctioned and disbursed (September 1995) share capital assistance of ₹ 62 lakh against the unit's request for a loan assistance of ₹ 54 lakh. After five years, in 2000-01, the entire investment was written-off treating the same as bad. Since the Company did not get any return on the investment, the loss incurred by the Company by way of interest on the blocked funds up to 2000-01 worked out to ₹ 40.60 lakh. Thus, the investment by the Company in an existing unit without ensuring its financial soundness resulted in loss of ₹ 1.02 crore.

Investment subsidy

2.2.19 As of March 2003, the Company received ₹ 12.46 crore from Government as subsidy out of which ₹ 11.30 crore was disbursed to 116 industrial units set-up in the state, based on provisions contained in the orders issued (November 1993 and January 1994) by Government and the Manual of State Investment Subsidy. According to provisions 24 and 25 of the Manual, if the assisted unit did not work for five years from the date of receipt of subsidy, the entire amount along with interest at 14 per cent per annum was to be refunded to the Company on demand. The Company did not take any action for realisation of the subsidy amount disbursed to 23 units which were closed down within five years and thereby incurred loss of ₹ 6.79 crore comprising subsidy of ₹ 3.64 crore and interest of ₹ 3.15 crore.

2.2.20 Government ordered (November 1998) inclusion of six more categories of industries such as metal crushers including granite manufacturing units and all types of steel rolling mills, units manufacturing iron ingots, etc., in the negative list rendering them ineligible for State Investment Subsidy. Despite this order, the Company disbursed (January and June 1999) ₹ 17.04 lakh as subsidy to such units included in the negative list.

2.2.21 Government enhanced (September 1997 and January 1998) the rate of subsidy from 15 to 50 per cent for units installing generator sets having Kerala Electrical and Allied Engineering Company's (KEL) alternator, subject to a maximum of ₹ 7.50 lakh, for a period of two years from 1st June, 1997 to 31st May, 1999. However, even after expiry of the specified period, the Company sanctioned and disbursed (January/June 2000) investment subsidy of ₹ 18.77 lakh to four units at the rate of 50 per cent instead of 15 per cent resulting in excess payment of ₹ 10.58 lakh.

2.2.22 The Company disbursed (March 2003) subsidy of ₹ 20 lakh to Filco Dipped Products and ₹ 22.74 lakh to Nenmani Agro Mills, even though Government reduced (July 2000) the maximum ceiling of subsidy amount to thrust industries from ₹ 20 lakh to ₹ 15 lakh.

LOAN OPERATIONS

Sanction and disbursement

2.2.23 The Company had been granting financial assistance by way of loan to existing as well as new industrial undertakings, projects or enterprises in the state, whether owned by Government, statutory bodies, private companies, firms or individuals for activities which were commercially viable and subject to techno-economic feasibility.

During the Ninth plan period 1997-2002, the Company proposed to provide financial assistance of ₹ 671 crore to 316 industrial units and ₹ 266 crore for the implementation of nine specific projects identified by the Company, for which a sum of ₹ 125 crore was provided in the State budget. Even though the Company received the budgetary support of ₹ 125.21 crore (₹ 113.46 crore as share capital contribution and ₹ 11.75 crore as loan) during the plan period, the Company did not spend any amount for implementation of these nine specified projects but diverted the funds for assistance to other industrial units.

Recovery performance

2.2.24 Details of the loan sanctioned, disbursed, collected and outstanding at the end of each year during 1998-2003 are given in Annexure 18. The details in the Annexure indicate that the percentage of overdues to total demand increased from 79 in 1998-99 to 86 in 2002-03. The high percentage of overdue to total demand indicate the inefficiency of the management in the recovery of loan disbursed. Percentage of overdue interest to interest demand increased from 84 in 1998-99 to 92 in 2002-2003.

2.2.25 In the case of 81 units, where the scheduled date of closure of loan was over, the Company was to recover ₹ 219.12 crore including interest of ₹ 178.89 crore as on 31st March, 2003. Age-wise break up of the outstanding amounts where scheduled date of closure of loans were over, are as follows:

Period	*No. of units*	*Amount outstanding (₹ in crore)*		
		Principal	*Interest*	*Total*
Less than 5 years	40	25.77	80.20	105.97
5-10 years	34	12.81	67.73	80.54
10-15 years	7	1.65	30.96	32.61
Total	81	40.23	178.89	219.12

Out of these 81 units, 54 units were closed and the total dues from these units amounted to ₹ 174.61 crore (including interest of ₹ 144.09 crore). In addition to the above, an amount of ₹ 49.35 crore including interest of ₹ 32.05 crore, had to be recovered from 22 units which were closed down/wound up though the scheduled date of closure of loan was not yet over. As these units were already closed and had negative net worth, the Company would not be able to realise the amount of ₹ 223.96 crore.

2.2.26 The detailed analysis of various types of loan revealed the following:

Bridge loan/short-term loan

2.2.27 A review of position of the bridge/short-term loans revealed that ₹ 4.69 crore towards principal and ₹ 14.07 crore towards interest, were due in respect of 28 cases as on 31st March, 2003 and the default period ranged between six months and twenty years. In the case of 22 units the Company could not collect the entire amount of ₹ 3.44 crore towards principal. Further 19 units, from which the bridge/short-term loans of ₹ 9.72 crore including interest, were to be recovered in one instalment, had been either closed down or referred to BIFR. In two cases (Venad Pharmaceuticals & Chemicals Limited and Formalin Products Limited) the Company had written-off the loan amounts resulting in loss of ₹ 1.33 crore, including interest.

Assistance to various sectors

2.2.28 Industry-wise details of loan assistance made by the Company during the five years ended 31st March, 2003 are given in Annexure 19. Analysis in audit of investment/loan assistance to selected sectors revealed the following:

Export processing

2.2.29 During September 1989 to June 2000, the Company assisted 27 units in Cochin Export Processing Zone (CEPZ) by way of investment of

₹ 3.47 crore (seven nos.*) in share capital and loan assistance of ₹ 23.69 crore (25 nos.). The loans granted to such units were stipulated (May 1996) by the Company to have collateral security of 25, 40, 50 per cent of the loan amount against debt equity ratio of 1:1.25, 1:1, 1.25:1, respectively. However, the Company deviated from this stipulation and granted term loans to these units in CEPZ without insisting on collateral security even though the Customs authorities held first charge on the machines imported by the units, which were under bond.

Out of the 27 units assisted by the Company, 15 units were evicted (June 1998 to July 2002) by the Development Commissioner, CEPZ due to non-payment of lease rent and the assets were confiscated by Customs Department towards duty on imported machines and penalty for non-fulfilment of export obligation. Since the amount realised by the Customs authorities was not sufficient to meet their dues, the Company could not realise any amount against loans disbursed, in the absence of collateral security.

Thus, failure to obtain necessary collateral security necessitated write-off of ₹ 15.66 crore (including interest) towards loans given to seven out of the 15 units evicted during the last five years. The equity investment of ₹ 2.27 crore in these units had also been written-off.

Tourist resorts

2.2.30 During the six years ended 31st March, 2003, the Company sanctioned term loans of ₹ 39.87 crore against project cost of ₹ 87.52 crore to 19 tourist resorts (six beach resorts, five lake resorts and eight hill resorts). Outstanding amounts from 10 of these units became doubtful and from three units became substandard as on 31st March, 2003 as per NPA classification. One unit foreclosed the loan account and dues of five units only were standard. The total amount outstanding against the units was ₹ 39.75 crore (March 2003). There was delay in completion of the projects ranging from 4 to 34 months and consequent cost overrun of 30 to 67 per cent. Even after cost overrun, there was shortfall in facilities envisaged and eight projects were not completed.

2.2.31 It was noticed in audit that:

- the Company had not evolved a system for post disbursement valuation of the assets created in spite of cost overrun and deviation in proposed implementation, and
- the Company did not have a system of collecting and evaluating progress reports on the implementation of the projects or performance reports of the commissioned units for further remedial action by the management.

*Include five units provided with equity assistance (₹ 0.77crore) as well as loan assistance (₹ 3.40 crore).

Improper appraisal of projects

2.2.32 A test check of the appraisal of projects revealed that the Company did not have any data bank of the projects approved/proposed to be financed and did not evolve parameters for evaluation of projects with reference to size and category of the industry. In the absence of the above, the Company relied on the reports submitted by the promoters for appraisal of the viability and marketability of the projects financed. Further, the Company did not ensure the financial capability of the promoters and their credit-worthiness at the time of appraisal of the projects. Since the Company depended on the data provided by promoters, all the project reports received by the Company were invariably approved and loans sanctioned and most of these units failed leading to default in repayment. A few cases where the projects failed due to improper appraisal are discussed below:

Grant of additional loan to a defaulter

2.2.33 The Company sanctioned two loans of ₹ 1.15 crore and ₹ 3 crore to Delta Fintser Limited (DF) and Cheramann Resorts (P) Limited (CR) in March and November 1998 respectively for setting-up tourist projects in Wynad and Kozhikode districts. The projects were promoted by the same promoter (Mr. Abdul Kareem). The disbursements made (April 1998 to October 1999) to DF and CR were ₹ 1.15 crore and ₹ 3 crore respectively. CR did not implement the project and revenue recovery action was initiated (August 2000) for recovery of dues.

However, ignoring the fact that revenue recovery proceedings were pending against the promoter of CR, the Company sanctioned (January 2001) and disbursed (September 2001 to January 2002) additional loan of ₹ 41.50 lakh to DF which was also promoted by the same promoter. Thus, the Company failed to protect the financial interest by disbursing additional loan of ₹ 41.50 lakh to a defaulter even after initiating revenue recovery proceedings against the promoter. In the absence of adequate security the Company could not also recover the outstanding amount of ₹ 5.31 crore (principal : ₹ 3 crore plus interest: ₹ 2.31 crore) from CR and ₹ 2.30 crore (principal : ₹ 1.57 crore plus interest: ₹ 0.75 crore) from DF as on 31st March, 2003.

Sanction of loan without tangible security

2.2.34 The Company sanctioned (November 1995) and disbursed (December 1995) a short-term loan of ₹ 40 lakh to Victory Aqua Farm Limited for setting-up a prawn farming project at Tuticorin in Tamil Nadu. The loan was disbursed after obtaining indemnity bond and promissory note as well as personal guarantee of the directors without obtaining any tangible security. Though the loan was to be repaid by June 1996 no amount was received even after a lapse of about seven years from the date of closure of loan. The unit was closed down (August 1997); but only after four years from the scheduled date of closure of loan, the Company addressed (June 2000) the Revenue authorities for initiating recovery proceedings. No recovery action had been initiated so far (August 2003). The sanction for short-term loan to a unit functioning in Tamil Nadu without obtaining any tangible security, resulted in loss of ₹ 1.25 crore (principal : ₹ 40 lakh and interest: ₹ 85 lakh).

Incorrect appraisal of the capability of promoters

2.2.35 The Company entered into (October 1998) a promotional agreement with Indsoft Infotek and Services Limited for setting-up a project for software development at Technopark, Thiruvananthapuram at a cost of ₹ 4.36 crore. The Company's contribution was ₹ 2.76 crore consisting of equity of ₹ 40 lakh, investment subsidy of ₹ 18 lakh and term loan of ₹ 2.18 crore. The project was approved (December 1998) on the ground that the promoters were well experienced in the line of business and they had tie-up with an established US firm. The entire financial assistance was disbursed to the unit during April to December 1999 as per usual terms and conditions.

After commissioning of the unit (December 1999) the Company noticed that the core promoters had very little knowledge and experience in IT Industry and their association with the US based NRI did not materialize and the unit could not canvass any order. The unit defaulted in repayments and dues of ₹ 3.83 crore (term loan: ₹ 2.18 crore, subsidy: ₹ 0.18 crore and interest: ₹ 1.47 crore) were outstanding as on 31st March, 2003. The Company's investment of ₹ 40 lakh in the equity capital of the unit did not yield any dividend. Incorrect appraisal of the capability of promoters resulted in non-realisation of the entire dues amounting to ₹ 3.83 crore (March 2003).

The management stated (April 2003) that the unit failed since it depended on the foreign collaboration of the promoter. The Company had not initiated any action for the realisation of dues.

Improper appraisal about viability of the unit

2.2.36 The Company received (March 1996) a project proposal from AMA Food Products (P) Limited (unit) for setting-up a wheat flour mill at Edayar in Ernakulam district at a cost of ₹ 1.62 crore. At that time the promoters of the unit were already running a wheat flour mill at the same location with an installed capacity of 100 TPD and it was incurring loss during 1993-94 and 1994-95 with very low capacity utilisation of 8 and 36 TPD respectively.

However, ignoring these facts the Company appraised the project as profitable and granted (July 1996 to July 1997) a term loan of ₹ 1.05 crore. Though the unit commenced (December 1996) commercial production it failed due to low capacity utilisation of 8 per cent and became a defaulter of principal and interest from July 1997 onwards. The Company took over (July 2001) the unit under section 29 of the SFC Act but could not dispose it of in view of stay orders from Debt Recovery Tribunal received by the unit's Bank.

Thus, improper appraisal of the project resulted in financial assistance to an unviable unit and loss of ₹ 2.68 crore (principal : ₹ 1.05 crore, interest : ₹ 1.63 crore) as on 31st March, 2003.

Financing of unit in industry having no prospect

2.2.37 The Company approved (March 1997) a project report submitted by Hyrange Wood Treats Private Limited to set-up a unit for the manufacture of chemically treated kiln dried rubber wood at a cost of ₹ 1.65 crore. At the time of approval the Company had evaluated four similar units financed by it and found that all these units were running in losses due to low capacity utilisation and had defaulted in repayment of loans.

Despite this, the Company sanctioned (March 1997) a term loan of ₹ 90 lakh and disbursed (October 1997) ₹ 88 lakh to the unit. The unit which commenced commercial production in May 1998 incurred losses of ₹ 14.88 lakh and ₹ 16.17 lakh during the first two years ended 31st March, 2000 and defaulted repayment of instalments of principal and interest on due dates. The amount outstanding against the unit as on 31st March, 2003 was ₹ 1.56 crore (principal : ₹ 81 lakh, interest : ₹ 75 lakh).

Thus, financing a unit in the industry in which other units financed by the Company were already running in losses, resulted in investment in an unviable unit.

Failure to conduct proper feasibility study

2.2.38 The Company, relying on the project report furnished by the loanee and without conducting any independent appraisal, sanctioned (December 1997) a term loan of ₹ 1.50 crore to set-up an export oriented unit to extract oleoresins and essential oil at a total project cost of ₹ 3.46 crore. The scheduled date of completion of the project was December 1998. The Company disbursed (January/October 1999) ₹ 47.73 lakh after obtaining the required deed of hypothecation and personal guarantee of promoters. The project was not implemented within the scheduled date of its completion.

A viability study conducted (September 2000/May 2001) by the Regional Research Laboratory, Thiruvananthapuram and the Central Food Technological Institute, Mysore, at the instance of the Company, reported that the system installed by the unit was not suitable for spice oil and oleoresins and recommended additional investment of ₹ 1.95 crore to make the unit viable. Declaring the intention of the promoters as not in the best interest of the project, the Company called back the loan.

Though the Company took over (August 2001) the unit under SFC Act and initiated (February 2002) revenue recovery action against the guarantors, the promoters obtained (January 2002) stay order on the take over and the revenue authorities reported that the guarantors possessed landed property worth ₹ 11 lakh only. The failure of the Company to conduct proper feasibility study and disbursement (January 1999) of the loan despite knowing the incapability of the unit to complete the project within the scheduled period resulted in non-realisation of ₹ 86.59 lakh (principal : ₹ 47.73 lakh plus interest: ₹ 38.86 lakh).

Non-adherence to debt equity norms

2.2.39 A test check of 32 out of 294 assisted units revealed that the promoters' contribution to the cost of the project ranged between 8.5 and 46 per cent. The Company had been extending financial assistance to units without strictly adhering to the prescribed debt equity norms of 1.5:1. In addition to the contribution brought in by the promoters, unsecured loan from the promoters, investment of the Company in the share capital of the unit and investment subsidy were being treated as equity to arrive at the debt-equity ratio. In respect of 16 out of 32 assisted units test checked, the debt equity norms of 1.5:1 had been exceeded. As the promoters' contribution was meagre compared to the cost of the project, the risk to the promoters in case of failure of the unit was less. A few such cases noticed in audit are indicated in Annexure 20.

Monitoring and follow-up

2.2.40 As a financial institution, the Company should ensure proper utilisation of the funds invested by monitoring the implementation of the project as per the schedule. The Company should inspect the site before sanction of loan and ascertain the physical and financial progress of the project to ensure that the amount disbursed was properly utilised. The Company did not have a separate wing to monitor and evaluate the progress.

Further, the Company was to ensure that the funds disbursed were adequately secured and properly utilised. Necessary collateral security should have been obtained in addition to hypothecation deed of the property and personal guarantee of promoters, in the financial interests of the Company. The Company, however, failed in ensuring security of the funds disbursed and insisted on collateral security from 1996 onwards only.

2.2.41 A few cases where the Company failed in monitoring the specific schedule of implementation of project which resulted in delay in completion, cost overrun, etc., are discussed below:

Failure to monitor implementation of project

2.2.42 The Company sanctioned and disbursed (August 1995 to March 1999) assistance by way of a term loan of ₹ 1.95 crore and share capital assistance of ₹ 10 lakh to Ramraj Paper Mills Limited, Kollam for setting-up a project for the manufacture of machine glazed poster paper. The commissioning of the unit was unduly delayed till December 1999 and the actual project cost increased from ₹ 1.72 crore to ₹ 4.52 crore. The operation of the unit during the first three years up to 2001-02 resulted in loss. The accumulated losses amounted to ₹ 2.45 crore.

The unit did not make any payment towards instalments of principal/interest and ₹ 4.25 crore (principal : ₹ 1.95 crore, interest : ₹ 2.30 crore) was outstanding (March 2003).

The reasons for the poor performance of the unit as assessed (October 2002) by the Company were non-availability of technical, marketing and financial personnel and lack of prudent management. These aspects should have been judged even before sanctioning the project by a proper study/appraisal. In addition to this, even though the implementation was unduly delayed without proper justification, the cost was revised thrice and the Company extended financial assistance by enhancing share capital and term loan assistance. The deviations in the implementation viz. procurement of second hand machinery instead of new one, enhancement of installed capacity, also were not considered by the Company while approving the revised cost and sanctioning financial assistance.

Thus, failure to monitor the implementation of the project properly resulted in accumulation of arrears of principal and interest of ₹ 4.25 crore in addition to ₹ 10 lakh invested in the share capital of the unit.

Disbursement of loan without ensuring promoter's contribution

2.2.43 The Company sanctioned (September 1997) a term loan assistance of ₹ 81 lakh to Simons India (P) Limited (unit) for the establishment of a steel furniture manufacturing unit at a project cost of ₹ 1.62 crore. The Company disbursed (April to June 1998) ₹ 67 lakh without ensuring the contribution brought in by promoters and inspecting creation of asset at each stage of disbursement of the loan. A belated inspection conducted (July 1999) by the Company after completion of disbursement indicated that the assets created were for ₹ 34.64 lakh only and the promoter had diverted the loan disbursed by the Company to the extent of ₹ 32.51 lakh.

Revenue Recovery action was initiated (September 1999) to recover the dues, but the sale proceeds of the landed property of the chief promoter realised (October 2002) by the revenue authorities was ₹ 5 lakh only. Thus, disbursement of loan without ensuring the promoters' contribution and verifying the creation of asset at each stage of disbursement resulted in diversion of ₹ 32.51 lakh by the promoters and non-realisation of the entire amount of ₹ 1.59 crore (principal : ₹ 0.67 crore, interest : ₹ 0.92 crore) due as on 31st March, 2003.

Absence of collateral security

2.2.44 The Company sanctioned (August 2000) a term loan of ₹ 1.93 crore and disbursed ₹ 88.21 lakh (₹ 44.21 lakh in September 2000 and ₹ 44 lakh in January 2001) to M/s Diode Information Technologies Limited to set-up a medical transcription unit at an estimated cost of ₹ 4.03 crore on leased land at Kochi on usual terms and conditions of loan. The unit not only failed to implement the second phase of the project but the loan of ₹ 44 lakh disbursed was also diverted by the promoter for other purposes. Hence the Company cancelled (June 2001) the balance term loan and initiated RR action against the unit and the guarantors.

It was noticed in Audit that the loan was sanctioned ignoring the fact that an earlier loan granted (November 1999) to a unit promoted by the same chief promoter had failed. Further, all the properties of the chief promoter (Mr. Santhosh) at Bangalore worth ₹ 6.50 crore and ₹ 10 lakh at Kottayam and a building worth ₹ 6.70 lakh of the co-promoter (Mr. G. Asok) which were pledged as security as per their affidavits, had already been encumbered to SIDBI and Canfin Homes respectively. As such the deed of guarantee executed by the promoters could not be considered as security.

The Company did not also insist for any collateral security at the time of sanctioning of the loan, since the promoter did not have any property in his name. There is little likelihood of realising ₹ 1.17 crore (principal: ₹ 0.88 crore, interest: ₹ 0.29 crore) outstanding as on 31st March, 2003. The management stated (April 2003) that the directors and officials of the unit cheated the Company by not utilising the amount for creating assets. The reply indicates system failure of the Company in regard to post-disbursement verification.

Absence of periodical verification before disbursement of loan

2.2.45 During 1994-95, the Company invested ₹ 12 lakh in the equity capital and granted ₹ 60 lakh as loan assistance to Manito Electronics (P) Limited (unit), Beypore, on the security of 17.35 cents of land (value: ₹ 35,000) along with the proposed building and plant and machinery of the unit as well as the personal guarantee of the promoters, for implementation of a project for computer stationery forms at a cost of ₹ 1.08 crore.

Instead of setting-up the project on the proposed land (the original title deed of which was surrendered to the Company) the unit cheated the Company by setting-up the project on an adjacent land and at the same time obtaining the loan from banks by pledging the duplicate of the title deed which was already pledged for the Company's loan.

Thus, disbursement of the loan without obtaining adequate security and effectively monitoring the execution of the project led to non-recovery of outstanding dues of ₹ 1.01 crore (principal : ₹ 0.50 crore and interest : ₹ 0.51 crore). Since the total value of the land was ₹ 35,000 only and the unit was set-up at another site, the Company would not be able to realise the entire amount of ₹ 1.01 crore due from the unit.

Though revenue recovery proceedings had been initiated (September 2001), the Company could not realise any amount so far (March 2003).

Waiver of norms of disbursement

2.2.46 The Company sanctioned (June 1999) term loan assistance of ₹ 96 lakh to Star Clothings (P) Limited (unit) incorporated in July 1996 to set-up a readymade garment unit at Apparel Park, Trivandrum. The unit requested the Company to release ₹ 63 lakh during November 1999 waiving normal norms of disbursement, viz., creation of assets, execution of deed, collateral security, etc. The Company disbursed (November 1999) ₹ 32.45 lakh without insisting on asset creation, ignoring the recommendation (November 1999) of the Manager (projects). The unit neither implemented the project nor created any fixed assets.

The Company, thus, failed in monitoring the implementation of the project. The outstanding amount as on 31st March, 2003 stood at ₹ 58 lakh (principal: ₹ 33 lakh, interest: ₹ 25 lakh). Disbursement of loan amount without evaluating the progress of implementation and obtaining collateral security resulted in loss of ₹ 58 lakh. The Company initiated (June 2001) revenue recovery action against the loanee. However, no amount has been recovered so far (September 2003).

Inaction/delay in taking action

2.2.47 For ensuring prompt recovery, the Company had not prescribed follow-up action with definite time schedule. Instead the action against defaulters was being initiated on case to case basis after protracted default review meetings instead of having a uniform pattern for action against loanees. The recovery action was being delayed even up to ten years in certain cases. The delay in taking action or inaction on the part of the Company had resulted in delay in realisation as well as non-recovery of amounts due, as discussed below:

Failure to take coercive action for recovery of dues

2.2.48 A term loan assistance of ₹ 79 lakh and share capital assistance of ₹ 3.40 lakh was extended (March 1992) to Triglob Pharmaceuticals (P) Limited (unit), Kozhikode for the formulation of tablets and liquid preparation covering a broad spectrum from antibiotics to anti-psychiatric drugs. The promoter's contribution was only ₹ 30.60 lakh.

The loanee defaulted payment of principal and interest dues from the date of commercial production in 1994. No coercive action was taken for recovery of dues and the Company rescheduled the principal and funded the interest accrued up to 1994 to be repaid in eight and six half-yearly instalments respectively, with moratorium period of 24 months up to June 1998. In spite of this concession, the party did not remit any amount towards dues. The Company initiated (June 1999) RR action against the chief promoter but could not realise the dues due to stay orders from Court. The unit was not able to produce drugs as per market demand and declared lay-off (December 1999).

Thus, the inaction on the part of the Company in taking timely action resulted in mounting up of dues to ₹ 4.10 crore (principal: ₹ 0.79 crore, interest: ₹ 3.31 crore). Management stated (August 2003) that further proceedings were being initiated with the official liquidator of the unit.

Failure to take proper recovery action

2.2.49 The Company disbursed (February 1993) an equipment refinance loan of ₹ 89 lakh to KMH Memorial Hospital, Manjeri (unit) which was to be repaid by April 1997 after availing initial moratorium period of one year. The Company converted (February 1994) the loan into term loan with further moratorium of two years up to March 1996. Even though the loan repayment was rescheduled at the request of the unit with completion of repayment by March 2002, no amount was repaid.

Total amount outstanding as on 31st March, 2003 was ₹ 2.24 crore including the principal amount of ₹ 89 lakh. In spite of the failure of the unit to repay the loan even after availing the undue benefit of three years of moratorium, the Company did not take any coercive action against the unit so far (March 2003).

Management stated (August 2003) that since the loan was for a hospital unit, invoking of section 29 for take over was not practical. The reply is not tenable since the Company was aware of the nature of activities of the unit at the time of sanctioning the equipment loan and thus, there was failure in taking proper recovery action.

Non-performing assets

2.2.50 The Company had been following the asset classification of loan assistance as per guidelines issued by IDBI, and accordingly loans in respect of which instalments of interest and principal were promptly received were classified as standard assets and loans on which instalments of principal or interest were overdue for periods exceeding 180 days were classified as Non-Performing Assets (NPA). As on 31st March, 2003, an amount of ₹ 245.77 crore (principal alone) was outstanding from 293 units, of which ₹ 84.41 crore (34 per cent) only represented 'Standard Assets' and ₹ 161.36 crore constituting 66 per cent was treated as 'Non-Performing Assets' (NPAs).

2.2.51 The following table shows the classification of loans outstanding as at the end of each of the five years from 1998-99 to 2002-03:

(*₹ in crore*)

Classification of loans	*Position as on 31st March*				
	1999	*2000*	*2001*	*2002*	*2003*
I. Standard	79.88	114.60	103.38	100.58	84.41
II. Non-performing assets:					
(i) Substandard	40.75	42.25	57.30	43.02	28.40
(ii) Doubtful	55.57	62.27	71.12	95.27	113.36
(iii) Loss assets	15.04	19.13	18.65	20.72	19.60
Total NPA	111.36	123.65	147.07	159.01	161.36
Total loan	191.24	238.25	250.45	259.59	245.77
Percentage of NPA to total loans	**58**	**52**	**58**	**61**	**66**

The details in the table indicated that the non-performing assets increased from ₹ 111.36 crore in 1998-99 to ₹ 161.36 crore in 2002-03 recording an increase of 45 per cent. During the five years ended 31st March, 2003, loan assistance was granted to 120 new units including 13 units which foreclosed their loan account. The NPA classification of assistance to the new units as at 31st March, 2003 revealed that 50, 55 and 62 per cent of loans disbursed became NPAs within two, three and four years from the date of disbursement.

Cases where entire loan assistance outstanding

2.2.52 The following table summarises the status of the assisted units as on 31st March, 2003 in respect of which there were no repayments since disbursement of the loans and even after scheduled date of closure:

Status of units	*Number of units*	*Arrears* (Rupees in crore)		
		Principal	*Interest*	*Total*
Closed	20	12.63	75.55	88.18
Wound up	21	9.43	32.33	41.76
Under BIFR	6	6.44	27.60	34.04
Total	47	28.50	135.48	163.98

The amount released to 47 units involving ₹ 28.50 crore and interest thereon amounting to ₹ 135.48 crore was outstanding for periods up to 14 years from the scheduled date of closure of loan. Since the units were already closed, wound up or sick, the chances of recovery of the dues amounting to ₹ 163.98 crore were remote.

Rescheduling of loans

2.2.53 During the five years ended 31st March, 2002, the Company rescheduled the repayment of loans of 50 units involving ₹ 49.20 crore with the intention of revival of the units and recovery of loan. Out of the above, the Company could realise ₹ 8.20 crore only towards principal and the balance amount pending realisation was ₹ 41 crore (March 2003). Further, in respect of loans of 31 units aggregating ₹ 29.01 crore the Company could not recover even a single instalment even after rescheduling of loans. Thus, the rescheduling of loans did not help in recovery of dues as expected.

Non-recovery of equipment loans

2.2.54 The Company had been sanctioning loans to units for purchase of equipment and during the five years ended 31st March, 2003 disbursed ₹ 11.65 crore. The amount pending recovery against 14 such units as on 31st March, 2003 was ₹ 4.95 crore (principal : ₹ 4.39 crore, interest: ₹ 0.56 crore). A review of equipment loans sanctioned revealed that the Company was releasing the loan amount to the assisted units directly and there was no system to ensure that the amount was actually utilised for the intended purpose. As on 31st March, 2003, the total amount outstanding on this account (32 nos.) was ₹ 14.16 crore (principal: ₹ 9.04 crore, interest: ₹ 5.12 crore). Further, it was also noticed that there were 14 cases where the Company could not collect any instalment towards principal. Of the 32 units assisted, 12 units were closed/wound up indicating that chances of recovery of dues of ₹ 6.89 crore were remote (principal: ₹ 2.92 crore, interest: ₹ 3.97 crore).

Undue benefit of moratorium

2.2.55 According to the policy followed by the Company, the assisted units had to commence repayment of instalments of principal amount after one year from the date of disbursement or one year from the date of commencement of commercial production whichever was earlier. In violation of this policy the Company granted moratorium for periods exceeding the prescribed one-year period resulting in undue benefit of holiday for recovery of principal amounts besides prolonging recovery and plough back of collection.

In the case of 294 units test checked, the period of moratorium allowed ranged between three and sixty months, except in one case where the period was 93 months. Management stated (August 2003) that the period of moratorium varied from case to case and it was not possible to fix uniform moratorium period for all projects. The reply indicates absence of a uniform policy/procedure in this respect.

One Time Settlement Scheme

2.2.56 The Company introduced (May 1999) a One Time Settlement Scheme (OTS) to reduce the level of non-performing assets. The scheme was applicable to cases where the repayment period was over and the minimum amount to be remitted was 100 per cent of the principal, 50 per cent of the interest worked out on simple interest basis at documented rate and 25 per cent of other charges. Fifty per cent of OTS amount was to be remitted immediately and the balance within one year with interest calculated at the then prevailing rate. The existing or the new promoters who came to take over existing units were also eligible for OTS. The scheme was proposed to be reviewed in June 2000 by the Board on completion of one year period.

2.2.57 On a review of the OTS cases approved since May 1999, it was noticed that, out of 32 assisted units having recoverable amount of ₹ 52.05 crore which opted for OTS, the status of settlement of dues was as detailed below:

Sl. No.	*Status of settlement*	*No. of units*	*Total outstanding amount*	*Amount of OTS approved*	*Amount realised so far*	*Loss on OTS*
				(Rupees in crore)		
1	Fully settled	8	16.10	11.75	11.75	4.35
2	Partly settled	14	18.55	10.83	336	7.72
3	Backed out	10	17.40	11.89	..	..
	Total	32	52.05	34.47	15.11	12.07

2.2.58 The loss incurred in respect of eight units which settled their accounts under the OTS was ₹ 4.35 crore and the loss that would result from settlement of dues of 14 units under OTS worked out to ₹ 7.72 crore. The Company extended undue benefit of ₹ 1.10 crore to five units by settling their accounts for an amount lesser than that admissible as per OTS guidelines and this included two units (₹ 19.89 lakh) which were not eligible for OTS since their scheduled date of repayment was not yet over.

2.2.59 The scheme was reviewed only after two years when the Company decided (June 2001) to reduce the upfront amount from 50 to 25 per cent of OTS amount and payment of balance within one year thereafter with interest. The scheme remained (March 2003) in force even after a period of four years. The OTS was introduced with a view to reduce the NPA level and make available the funds for investment in more profitable ventures. In spite of the huge loss of ₹ 17.58 crore suffered in respect of the settled cases, the NPA level, did not improve and it increased from 52 per cent in 1999-2000 to the all time high level of 66 per cent in 2002-03.

Revenue recovery action

2.2.60 The Company has been resorting to revenue recovery action invoking provisions under Kerala Revenue Recovery Act, 1968 which was made applicable (November 1983) to the Company by the State Government and also by take over of assets mortgaged to the Company under Section 29 of the SFC Act. The revenue recovery action initiated during 1988 to 2001 against 129 assisted units for realisation of ₹ 299.10 crore including interest of ₹ 220.65 crore was pending (April 2003). This included ₹ 216.99 crore (principal: ₹ 46.33 crore and interest: ₹ 170.66 crore) recoverable from 90 units, which were either closed/taken over (57 units : ₹ 153.19 crore), wound up/sold (27 units : ₹ 55.53 crore) or referred to BIFR (6 units: ₹ 21.99 crore). The period of delay in initiating revenue recovery action ranged between six and 121 months and there was no proper follow-up action, resulting in accumulation of arrears as shown below:

Period	*No. of units*	*Amount outstanding*		
		Principal	*Interest*	*Total*
			(₹ in crore)	
Less than 3 years	76	50.06	104.99	155.05
3 to 6 years	26	15.90	45.08	60.98
More than 6 years	27	12.49	70.58	83.07
Total	129	78.45	220.65	299.10

2.2.61 Till 1996 the Company had not insisted on any collateral security for the loans. The Company introduced (1996) the stipulation that the promoters should provide collateral security equal to 50 per cent of the loan amount. Since this stipulation was also not insisted, the Company had lost the benefit of collateral security and had to take RR action against the units and guarantors. Besides, in six cases the Company disbursed loans (₹ 13.89 crore) to units after obtaining personal guarantee of the promoters who had already guaranteed loans to other assisted units.

2.2.62 In the case of 15 units taken over by other financial institutions/ authorities, the amount due to the Company aggregated ₹ 44.27 crore; the chances of recovery therefore appeared bleak. Further in the case of eleven units where the dues amounted to ₹ 32.97 crore, the Company did not conduct valuation either due to inaction (seven units), or stay orders from the Court (four units).

Internal audit and internal control

2.2.63 The Company did not have an internal audit wing as part of its organisation. The internal audit work was entrusted to a firm of chartered accountants. The internal audit reports were being submitted quarterly/half-yearly as per the terms of appointment. It was observed in audit that:

- the internal audit was generally confined to scrutiny of accounting records including cash book and establishment payments. The system lapses in the sanction, disbursement, monitoring of recovery of loans and review of financial soundness of investments were not subject to scrutiny.
- there were many observations of repetitive nature indicating absence of corrective steps based on internal audit observations, and
- the reports were not placed before the Board/Executive Committee of the Company and there was no follow-up action on the reports given to the management.

2.2.64 According to paragraph 9A of the Non Banking Financial Companies Prudential Norms (Reserve Bank) Directions 1998, the Company had to constitute an audit committee, having the same powers and duties as laid down in section 292 A of the Companies Act 1956. The Committee is required to:

- discuss with the auditors periodically about internal control and the scope of audit including observations of auditors;
- review half yearly and annual financial statements before submission to the Board;
- ensure compliance of internal control system ; and
- investigate into the aforesaid matters.

2.2.65 Though an effective audit committee was necessary to ensure quality of financial accounting and control as also to ensure close vigil on the working, the Company has not constituted an audit committee so far (September 2003), even though the directions to this effect was issued by the Reserve Bank of India as early as January 1998.

The above matters were reported to Government in July 2003. Their reply is awaited (September 2003).

Conclusion

The Company had been investing funds and providing financial assistance to industries in the State. Company's high interest bearing borrowed funds yielded very nominal return only since substantial investment was made in unviable units. Monitoring of implementation of projects of assisted units was not effective and injudicious investment decisions without ensuring viability, financial soundness, marketability of products, etc., resulted in losses. The Company had been providing loans to projects in excess of limits prescribed and loan assistance was being provided without proper appraisal, study of marketability of products and adequate security. There was huge default in repayment leading to heavy increase in non-performing assets and ultimate write-off as doubtful and loss assets. The recovery performance was also poor in the absence of proper follow-up and monitoring. One-time settlements were being allowed in deviation from the existing procedure to ineligible units resulting in losses. Delay in taking coercive measures like take over of units and revenue recovery action, rendered the arrears irrecoverable.

Since the Company had been formed with the objective of development of industries in the State, it has to improve the quality of appraisal of projects before deciding to invest funds or provide loan assistance so that the assisted units perform well and contribute to overall economic development of the State. The assisted units have to be closely monitored through better follow-up and managerial control. The system of obtaining security for financial assistance has to be toned up to avoid very heavy losses arising from non-realisation of dues. Take over and disposal of unviable units and revenue recovery action has to be made purposeful rather than being a formality.

[Audit Paragraphs 2.2.1 to 2.2.65 contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2003 (Commercial].

ANNEXURE 16

(Referred to in Paragraph 2.2.5)

STATEMENT SHOWING FINANCIAL POSITION OF KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED AS ON 31ST MARCH OF THE FIVE YEARS UP TO 2002-03

Particulars	*1998-99*	*1999-2000*	*2000-01*	*2001-02*	*2002-03**
	(Rupees in crore)				
(1)	(2)	(3)	(4)	(5)	(6)
A. Liabilities					
1. Share Capital including advances	210.74	230.74	245.74	255.74	270.74
2. Reserves and Surplus	..	..	..	..	..
3. Borrowings					
SLR Bonds	20.90	15.40	15.40	13.30	10.70
Refinance from IDBI	9.92	5.96	3.07	1.32	0.53
Refinance from SIDBI	2.62	1.45	0.61	0.07	...
LOC from IDBI	19.69	16.11	12.53	17.89	14.31
LOC from SIDBI	28.38	48.38	55.73	66.14	57.08
Soft loan from IDBI	2.87	2.87	2.62	2.62	2.61
Loan from Govt. of Kerala	10.40	12.33	12.52	2.20	3.20
4. Current Liabilities	26.69	35.39	22.82	17.65	18.18
5. Provisions					
Bad debt provisions on loans	40.56	49.08	56.52	59.73	67.27
Bad debt provisions on investment	8.53	4.68	6.23	7.54	9.28
Other provisions	14.37	15.33	21.36	21.85	21.97
Total	395.67	437.72	455.15	466.05	475.86

* Provisional.

(1)	(2)	(3)	(4)	(5)	(6)
B. Assets					
6. Gross block	9.74	9.85	9.92	8.78	6.33
7. Less Depreciation	3.52	4.47	5.25	5.03	3.37
8. Net Block	6.22	5.38	4.67	3.75	2.96
9. Investments	58.70	73.77	78.00	74.31	76.03
10. Current Assets	86.18	84.00	74.26	84.35	104.74
11. Loans and Advances					
Loans	194.11	241.11	251.63	256.83	244.07
Advances	40.43	24.43	32.49	32.64	33.99
12. P and L A/C (loss)	10.03	9.03	14.10	14.17	14.10
Total	395.67	437.72	455.15	466.05	475.86
1. Capital Employed	301.39	319.38	340.73	353.76	359.23
2. Net Worth	200.71	221.72	231.64	241.57	256.64

1. Capital employed represents the mean of the aggregate of the opening and closing balance of the paid-up capital, reserves and surplus and borrowings.

2. Net worth represents paid-up capital plus reserves and surplus less intangible assets.

ANNEXURE 17

(Referred to in Paragraph 2.2.5)

STATEMENT SHOWING WORKING RESULTS OF KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED FOR THE FIVE YEARS UP TO 2002-03

Particulars	*1998-99*	*1999-2000*	*2000-01*	*2001-02*	*2002-03**
	(Rupees in crore)				
(1)	(2)	(3)	(4)	(5)	(6)
1. Income					
Interest on loans	23.25	25.43	26.57	23.86	23.08
Dividend	1.33	1.57	1.03	1.53	2.07
Interest on Bank deposits	2.04	4.46	3.75	2.87	4.26
Others	2.63	3.62	2.25	2.56	1.11
Total	29.25	35.08	33.60	30.82	30.52
2. Expenditure					
Interest on Borrowings	11.27	13.02	12.44	12.87	17.71
Expenditure on personnel	1.90	1.96	2.84	2.16	2.45
Administrative Expenses	1.34	1.08	1.38	0.79	0.89
Other Expenses	1.37	1.57	1.25	1.09	0.95
Total	15.88	17.63	17.91	16.91	22.00
3. Profit before Tax and Write-off	13.37	17.45	15.69	13.91	8.52
Add: Deferred Tax Asset	..	..	..	..	1.02
Less:					
Bad Debts and write-offs	1.31	0.08	0.11	0.63	..
Bad trade investments	6.25	10.93	4.55	5.16	0.41
Provision for tax including Interest tax	1.29	0.78	5.61	0.56	

* Provisional.

(1)	(2)	(3)	(4)	(5)	(6)
Provision for bad and doubtful debts as per guidelines of IDBI	17.76	4.66	10.49	7.63	8.77
Add: Deferred Tax Liability	..	..	..	..	0.29
4. Profit/(Loss) transferred to Balance Sheet	(13.24)	1.00	(5.07)	(0.07)	(0.07)

ANNEXURE 18

(Referred to in Paragraph 2.2.24)

STATEMENT SHOWING THE PERFORMANCE OF KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED WITH REGARD TO DISBURSEMENT AND RECOVERY OF LOANS FOR THE FIVE YEARS ENDED 2003

(Rupees in crore)

Particulars	*1998-99*	*1999-2000*	*2000-01*	*2001-02*	*2002-03*
(1)	(2)	(3)	(4)	(5)	(6)
Loan outstanding at the beginning of the year					
1. Principal	183.47	193.53	240.29	251.04	256.74
Interest	106.56	128.35	159.16	193.31	281.28
Total	290.03	321.88	399.45	444.35	538.02
2. Amount Sanctioned during the year	91.67	99.96	69.00	55.78	48.02
3. Disbursements during the year	35.88	69.33	39.27	44.10	21.81
4. Repayment due					
Principal	80.92	86.77	103.63	117.53	117.26
Interest	145.16	178.58	223.19	228.08	292.20
Total	226.08	265.35	326.82	345.61	409.46
5. Collection during the year					
Principal	25.30	22.57	27.09	34.94	35.35
Interest	23.28	25.51	26.67	24.22	23.99
Total	48.58	48.08	53.76	59.16	59.34

(1)	(2)	(3)	(4)	(5)	(6)
6. Write-off	0.52	..	1.43	3.46	0.04
7. Balance pending recovery					
Principal	55.62	64.20	76.54	82.59	81.91
Interest	121.88	153.07	196.52	203.86	268.21
Total	177.50	217.27	273.06	286.45	350.12
8. Percentage of overdue to total demand					
Principal	69	74	74	70	70
Interest	84	86	88	89	92
Total	79	82	84	83	86

ANNEXURE 19

(Referred to in Paragraph 2.2.28)

STATEMENT SHOWING INDUSTRY-WISE DISTRIBUTION OF LOANS IN KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED AS AT 31ST MARCH, 2003

(Rupees in crores)

Sl. No.	Industry	*Loan assistance outstanding*						
		Standard		*NPA*		*Total*		*Percentage of NPA*
		Units	*Amount*	*Units*	*Amount*	*Units*	*Amount*	
1	Chemical	4	0.69	24	12.62	28	13.31	95
2	Drugs and Pharmaceuticals	1	0.11	7	4.94	8	5.05	98
3	Electrical and Electronics	4	1.46	8	7.78	12	9.24	84
4	Information Technology	8	3.08	14	8.19	22	11.27	73
5	Food Products	13	14.51	34	26.28	47	40.79	64
6	Hospitals	4	4.38	8	11.84	12	16.22	73
7	Hotel and Tourism	13	28.67	18	26.84	31	55.51	48
8	Metals	13	12.39	12	10.08	25	22.47	45
9	Minerals	3	0.96	7	3.66	10	04.62	79
10	Textiles	1	0.72	20	12.21	21	12.93	95
11	Paper	2	3.37	4	4.16	6	7.53	55
12	Printing	4	2.11	4	2.23	8	4.34	51
13	Rubber products	7	6.86	18	11.82	25	18.68	63
14	Wood	..	..	6	4.16	6	4.16	100
15	Others	6	5.17	15	11.66	21	16.83	69
	Total	83	84.48	199	158.47	282	242.95	65

ANNEXURE 20

(Referred to in Paragraph 2.2.39)

STATEMENT SHOWING DETAILS OF ASSISTED UNITS IN KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED WHERE THE DE RATIO EXCEEDED THE NORM

Sl. No.	*Name of the Unit*	*Year of sanction*	*Project cost*	*Loan sanctioned*	*Promoters equity contribution*	*Subsidy unsecured loan from promoter etc.*	*Debt equity ratio*
			(Rupees in lakh)				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Coastal Resorts	1998-99	700	400	200	100	2.5:1
2	West Coast Rubbers	1996-97	208.15	130	60	18.15	2.47:1
3	Intech Aromatic Private Limited	1999-2000	100	58	26	16	2.85:1
4	Derby Knits	1999-2000	121.53	81	20.53	20	4.81:1
5	Euro Tech Maritime Academy	2002-03	562.30	270	150	142.3	2.75:1
6	Gagi Apparels	1998-99	184	122	37	25	3.97:1
7	Dolex Knitwear	1996-97	105	69	19	17	4.50:1
8	Fem Exports	1996-97	234	120	61	53	2.83:1
9	Allied Hospital	1996-97	515	150	185	180	1.78:1
10	Blue Nile	1996-97	42	28	12.5	1.5	2.36:1
11	AMA Food Products	1996-97	162	105	57	..	1.84:1
12	Gasha Steels	2001-02	970	485	324	161	1.99:1

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
13	Floatels India Private Limited	1999-2000	760	100	267	393	1.85:1
14	Clasco Hooks	1996-97	152	100	52	..	1.92:1
15	Firma Hooks	1996-97	158	105	53	..	1.98:1
16	Indsoft Infotech	1999-2000	436	218	160	58	1.73:1

Note : 'Debt' arrived at after deducting 'promoter's contribution' from 'project cost'

Notes furnished by the Government is given in Appendix II.

1. The Committee wanted to know the circumstances under which the Company had deflected from its declared objectives other than providing financial assistance to industrial units by way of share capital and loan. The witness explained that in addition to granting loans and share capital assistance to industrial units, the Company had stepped in as a nodal agency of the State and had done a creditable job in promoting and strengthening the industrial units in the State. The witness further stated that the Company had played a pivotal role in the Industrial scenario of the State. Moreover, acting on that commitment the Company had initiated various schemes and conducted events on behalf of the Government with a view to encourage industries including industries which are not assisted by the Company and convert the State as an investment destination.

2. The Committee enquired the details of the activities undertaken by the Company for the overall industrial development of the State. The witness informed that the Company had played a vital role in facilitating constant interaction between Government and Industrial Sector and in converting Kerala as an investment friendly State. The witness further stated that as a promotional agency the Company had taken initiative to establish Industrial parks and Industrial growth centres with a view to attract industrialists to the State. Regarding the details of the industrial units promoted by the Company, the witness informed that the Company had promoted many pioneers in the industrial sector during 1970s including KELTRON, Malabar Cements and major Hotels and Hospitals and acted as a brand ambassador in streamlining the fundamental industrial growth of the State.

3. The Committee enquired the reason for not including technical experts in the Board of Directors of the Company. The witness answered that at present, five or six industrialists are in the Board of Directors, but he expressed his inability to explain what had been the Organisational set-up of the Company prior to 2003.

4. The Committee observed that the loss to the tune of ₹ 2.75 crore incurred due to retention of funds in treasury accounts was not purely notional as stated in the reply furnished by Administrative Department and opined that the explanation given in this regard was not satisfactory. The Committee pointed out that the Government reply was silent regarding the realisation of amount when the units fail to buy-back the shares.

5. The Committee was perturbed to note that the Company had failed to take earnest efforts to obtain the annual accounts and audited balance sheets of the assisted units in time, which had hindered the Board from evaluating and monitoring the functions of the units which the Company had financed by deploying its own funds. The Committee expressed discontent over the deplorable situations prevailing in the Company and recommended that stringent measures should be taken by the Company for prompt furnishing of annual accounts by the assisted units in time and take corrective measures if necessary. The Committee desired to be furnished with the details of the mechanism initiated by the Company to prevent the over all mismanagement which prevailed in the assisted units that had come to the notice of the Company and the steps taken to realise the accumulated dues from some of these units.

6. By citing the Government reply "the write-off in no way affect the rights of the Company to claim the dues from the promoters", the Committee enquired whether it would be legally possible to realise the dues from the promoters of the assisted units, even after taking the write-off decision. The witness failed to furnish a perspicuous explanation.

7. The Committee remarked that there was an alarming spurt in non-performing assets of the Company during the review period owing to the failure of the Company to follow prudential norms with regard to the disbursement and recovery of loans. By admitting the audit observation regarding the increase of non-performing assets and bad debts, the witness informed that the major reason for the same during the said period was due to change in the classification of Non-Performing Assets (NPA). The witness enunciated that unlike banking institutions where the recovery of bad debts of assisted units are handed over to Asset Reconstruction Companies, once the assisted units were declared as NPAs, the Company on the other hand usually grants a temporary respite to the assisted units before going in for tougher measures like Revenue Recovery.

The time limit fixed for classification as an NPA was changed from 360 days to 180 days. To a question of the Committee, the witness stated that the classification of non-performing assets had been done as per the guidelines issued by Reserve Bank of India from time to time, which was mandatory to all financial institutions. Currently, loans in which repayment had not been effected within 90 days are being treated as non-performing assets. Expressing grave concern over the surge in bad debts, the Committee recommended that the Company should formulate pertinent measures to curb the mounting increase of non-performing assets and bad debts.

8. The Committee enquired whether there was any system in the Company to conduct proper study regarding techno-economic feasibility, marketability and viability of projects, industrial units and enterprises while disbursing loans. The witness responded in the affirmative and explained that the Company had evolved an effective appraisal mechanism in this regard and also all these aspects are evaluated thoroughly by a high level committee of officials prior to the approval of the Board. The witness further explained that as a promotional agency, the Company had the obligation to give encouragement and provide financial assistance to local entrepreneurs and maiden endeavours in industrial sector rather than granting loans to established firms and even now, the Company is sticking to the said policy without considering the risk factor.

9. The Committee wanted to know the reasons for the failure of the Company to appoint nominee directors to 32 assisted units of the Company with an aggregate investment of ₹ 15.11 crore and absence of a system to ensure the attendance of nominee directors in the board meetings of the units. The witness informed that the said issue pointed out in the audit observation might have occurred due to the decision of the then Managing Director of the Company to withdraw the nominee directors when the assisted units had failed to function properly, in order to protect the nominee directors from facing disciplinary action as per Companies Act. The witness further stated that currently, there was a proper system to ensure the attendance of directors, but expressed inability to give any testimony regarding the said issue during the review period.

10. To a specific question of the Committee, the witness informed that the investment of Company funds in Government Treasuries was done according to the directions issued by the Government. The Committee urged that the Company should accelerate recovery process and all possible steps should be taken to realise the arrear amounts from the malfunctioning units, and that the Committee should be informed of the steps taken in this regard without fail. To a question of the Committee, the witness answered that at present, 104 assisted units of the Company were functioning in a viable manner and the outstanding dues to be recovered from various units amounted to ₹ 418 crore.

11. The Committee was displeased to note that Company had incurred a substantial revenue loss consequent to the imprudent decision to settle the dues with regard to 19 units at ₹ 21 crore against the outstanding balance of ₹ 122 crore. The witness elaborated that the existing One Time Settlement Scheme of the Company was based on a definite settlement formula approved by the Government. As per the norms of the scheme it could not be possible to settle the dues below the value of the property mortgaged and the Company did not have any right to write-off the principal amount, hence the Company would not suffer any loss. However, the witness admitted that while making negotiations as per the Scheme, the Company was forced to adopt more flexible and lenient approach towards a few units where the principal amount could not be recovered in full.

12. The Committee asked to elaborate on the action taken to realise the entire amount along with interest at 14 per cent per annum as per the Manual of State Investment Subsidy, from 23 units which were closed down within five years after the receipt of the subsidy. The witness replied that the application for the said subsidy had been scrutinized and sanctioned by a State Level Committee headed by the Government Secretary, and the Company was only an agent through which the same was disbursed. To the queries of the Committee regarding the role of the Director of Industries and Commerce in recovering the dues, the witness clarified that no other institution was entrusted to recover the dues on KSIDC loans, but the Director of Industries and Commerce was the sole authority to initiate revenue recovery action on behalf of the Government, against the industrial units which had availed the State investment subsidy and had been closed down before the expiry of five years from the receipt of the same. The witness further informed that the details of the said recovery is maintained at the office of the Director of Industries and Commerce.

13. The Committee pointed out that the huge loss incurred by the Company owing to the hasty decision to write-off the investment of ₹ 1.5 crore which had been sanctioned in the form of equity share capital to Muthoot Apt Ceramics Limited and justification given by Government in this regard was not satisfactory. The witness explained that the investment decision had been taken in accordance with the established investment policy of the Company and in no way it was detrimental to the financial interest of the Company. The witness further stated that since the chief promoter had failed either to buyback the shares or sold it to public limited companies as per the promotional agreement, the Company had moved to the RR authorities to initiate revenue recovery action and a substantial portion of the loan amount i.e. ₹ 1.30 crore had been recovered so far. To an enquiry of the Committee regarding the injudicious decision of the Company to keep shares without using the option to sell them

through stock exchange, the witness replied that the Company sanctioned equity share capital assistance to listed companies after executing buyback agreement to ensure quick disposal of shares in the event of default so as to avoid loss of investment. The witness further informed that even though, the Company was empowered to sell the shares at any time, the concerned officials did not dare to dispose of the same fearing action against bona fide mistakes made by them due to fluctuations and uncertainty in the share market. The Committee opined that it was a classic example of laxity on the part of responsible officers of the Company who failed to invoke the buy back clause in the agreement which prevent future profit on shares. The Committee, therefore recommended that the Company should take up the matter very seriously and earnest efforts should be made to dispose of the shares at the appropriate time.

14. The Committee remarked that the Company was setup for promoting and financing industries functioning within the State and contrary to this stipulation the Company had sanctioned a short-term loan to a unit functioning in Tamil Nadu and thereby misused state funds. The witness made it clear that the registered office of Tirupur Export Associates had been functioning in Kerala. The witness further informed that Company sanctioned share capital assistance to M/s Teak Tex Processing Complex Ltd. for setting up a textile complex at Kanjikode, Palakkad.

15. To a query of the Committee, the witness replied that while processing the request of Chaya Industries Limited for additional investment of ₹ 1 crore, Assistant General Manager (Projects) had endorsed a favourable recommendation to sanction ₹ 50 lakh by over ruling the negative recommendation of the Project Manager and Company sanctioned and disbursed ₹ 50 lakh to the unit. The Company came in for a lot of flak from the Committee for the unscrupulous decision of the Company to sanction the said additional loan despite knowing the malfunctioning of the unit and subsequent decision to write-off the entire investment of ₹ 1.47 crore. The witness explained that being a promotional agency it was deemed to be the duty of the Company to extent patronage and additional financial support to the assisted units without considering its initial failure due to the reasons beyond their control. The Committee was taken aback by the reply given by the witness and observed that the major reason for the failure of the most of the units was inefficiency of the management. The Committee, therefore recommended that the Company should ensure the viability and feasibility of industrial units prior to the investment decision, so that financial loss could be obviated to a great extent.

16. The Committee sought explanation regarding the failure of the Company to implement projects on which budget allocation was obtained and subsequent diversion of funds for other purposes. The witness stated that while

submitting plan proposal usually a list of projects which were expected to be implemented in the immediate future was attached. The witness added that if the projects listed in the proposal failed to materialise due to reasons beyond the control of the Company, the fund would be alloted to other viable projects which were not included in the original estimate. The witness further stated that it was a usual practice followed by the Company and there was no malafide intention on the part of the officers of the Company to divert the funds. To a specific question of the Committee, the witness answered that the budget provision released to the Company for specific projects had not been diverted but had been used for the purpose for which it had been sanctioned.

17. To an enquiry of the Committee, the witness informed that most of the projects or enterprises assisted by the Company were in private sector and as per the direction of the Government the Company extended financial assistance to revive industrial units which had already been closed down. Further, the witness admitted the failure of the Company to realise any amount so far against the loan disbursed to Excel Glass in 2008.

18. The Committee observed that in contravention to the norms, the officials of the Company had taken the decision to provide Share Capital and loan assistance to 27 units in Cochin Export Processing Zone without obtaining necessary collateral security which deterred the Company from realising any amount against the loan disbursed. The Committee wanted to know whether the Company had taken any action against the officials for the said lapse. By accepting the findings on audit observation, the witness submitted that the said loan had been sanctioned as part of the decision to promote export oriented industrial units in Cochin Export Processing Zone.

19. The Committee expressed its grave concern over the imprudent decision of the Company to provide financial assistance to Meenachil Rubber Wood (P) Limited, a joint venture project of Rubber Board and Rubber Producers Societies ignoring the negative net worth of the unit. The Committee was astound by the Government reply furnished in this regard that financial assistance had been sanctioned based on the fact that about 74% of shares in this project were held by the Rubber Board. The witness justified that such a decision had been taken as a step to promote rubber wood processing industry which had wide scope in Kerala at that time. The witness added that the Company had not entertained any proposal from this sector since 2005-06 on account of non-viability of projects. The Committee pointed out that most of the units assisted by the Company were not performing well, which indicated the appraisal of the viability of projects conducted by the Company was not foolproof.

20. The Committee observed that it was totally unjustifiable and an example of sheer negligence on the part of the concerned officers who sanctioned a short-term loan of ₹ 40 lakh to Victory Aqua Farm Limited which functioned at Tuticorin in Tamil Nadu without obtaining any tangible security. The witness made it clear that there was no bar as to financing units out side the State when the registered offices were functioning within the State of Kerala. But the witness admitted that sanctioning of loan without insisting tangible security was a grave lapse on the part of the responsible officers, and added that the entire loan amount had been recovered from the unit.

21. The Committee noticed that the Company invariably relied on the report submitted by promoters for appraisal of viability and marketability of the projects financed by the Company owing to the absence of effective system in the Company to evaluate and verify the proposals submitted by units and required explanation in this regard. But the witness did not furnish a convincing reply.

22. The Committee remarked that the Company failed to safeguard its financial interest by disbursing an additional loan of ₹ 41.50 lakh to Delta Fintser Limited ignoring the fact that revenue recovery action was pending against its promoter related to another loan availed by Cheramann Resorts (P) Limited which was also promoted by the same promoter. Without giving a proper explanation regarding the said grave irregularity committed by the responsible officers, the witness merely stated that the entire loan amount had been recovered from the units. The Committee was not convinced with the reply and pointed out that the review of the performance of the Company revealed that a good number of cases undertaken by the Company were settled after the lapse of several years by realising the principal amount only and such unwarranted relaxation had caused much loss to the Company owing to diminution of money value. The Committee stressed the view that the Company did not take regular and concrete follow-up actions to recover the dues from the units. This situation was quite alarming and indicated the inefficiency of the management and absence of an effective internal working system. Moreover, the Company failed to make any profit from these transactions.

23. The Committee wanted to know the details of action taken by the Company to recover the dues amounting to ₹ 3.83 crore from Indsoft Infotek and Service Limited. The Committee stressed the need for appointing an independent Managing Director in the Company.

24. The Committee desired to be furnished with a detailed report regarding the overall performance of the Company, functioning of the industrial units assisted by the Company, details of dues to be recovered from various units,

activities undertaken by the Company in connection with 'Emerging-Kerala', short comings and problems faced by the Company and details of up coming projects initiated by the Company. The Committee recommended that the management should be more serious, practical and vigilant in the activities of Company and necessary steps should be taken to avoid lapses and unhealthy practices which prevailed in the Company.

25. The Committee felt disgruntled at the failure on the part of the Company to forward the copy of the notes containing the latest position of the action taken on audit remarks to the Legislature Secretariat, and pointed out that this hindered the Committee from having a detailed discussion in the matter. The Committee, therefore, gave strict direction that all relevant materials connected with the subjects under consideration by the Committee should be placed before the Committee as per the Rules of Procedure.

26. The Committee was displeased with the Government reply on audit observation relating to the failure of the Company to monitor the implementation of the projects and the absence of an effective system to ensure security of the funds disbursed. The Committee wanted to explicit as to how it would be possible to initiate Revenue Recovery action against units without obtaining adequate collateral security. The witnesses replied that the insisted on collateral security as an additional measure only when the value of assets and personal guarantees fall start of the loan amount.

27. The Committee was distressed to note that the failure on the part of the Company to conduct a proper appraisal before sanctioning a term loan assistance of ₹ 1.95 crore and share capital assistance of ₹ 10 lakh to M/s Ramraj Paper Mills Limited, Kollam and the absence of a regular and periodic follow-up action for securing repayments had resulted in the accumulation of arrears of principal and interest of ₹ 4.25 crore in addition to ₹ 10 lakh invested in the share capital of the unit. The witness made it clear that this case had been settled under One Time Settlement Scheme and that only ₹ 15 lakh was pending in this regard. The Committee opined that had the Company followed the proper procedure while disbursing the loan such an unfavourable situation could have been avoided. The Committee noticed that absence of a technical director coupled with inefficient management led to the malfunctioning of the unit. The witness disclosed that the project implementation got delayed mainly due to the issues related to land documents. The Committee strongly disagreed with the statement made by the witness and enquired whether the Company had an effective system to verify the validity of documents submitted by the units while availing loans.

28. The Committee expressed its grave discontent over the imprudent decision of the officials of the Company in sanctioning additional financial assistance to the unit by accepting the proposal of the unit to buy second hand machinery instead of a new one on the ground that the performance of the second hand machinery was far more superior than a new one and it would take lesser delivery time than that of a new machine. This presumption proved to be wrong when the actual delivery was delayed by three years. The Committee viewed this as a serious lapse on the part of the Company. The witness informed that the said purchase could not normally be allowed. The Deputy Accountant General pointed out that notes furnished by the company to clarify the present position was silent regarding the amount recovered from the unit, under OTS scheme. Further contrary to the contention made by the witness the amount to be paid as OTS, ₹ 200 crore was arrived at without including the normal interest rate. By accepting the findings of the Accountant General, the Committee remarked that it was a serious omission. To a specific question of the Committee the witness answered that the additional fund had been raised by the promoters themselves. The witness submitted that the Company had approved an OTS package for ₹ 200 lakh, out of this, an amount of ₹ 185 lakh had been remitted so far. The Committee took serious note about the whole deal and observed that the Company had suffered substantial revenue loss due to the injudicious decision to write off entire interest accrued since sanctioning of the loan and thereby extended undue benefit to the promoters. The Committee was distressed to note that the authorities of the Company had failed to exercise required assiduity to safeguard the financial interest of the Company. The Committee was suspicious of an unhealthy nexus between the officers of the Company and Promoters. By quoting the Government reply on audit remarks, the Committee remarked that the Company was making a conscious effort to safeguard the interest of the promoters. The Committee also remarked that the additional information furnished by the Company was also ambiguous on the main issues. At this junction the witness assured the Committee that a precise clarification in this regard would be submitted, at the earliest.

29. The Committee opined that the detailed analysis of the deal of the Company with M/S Ramraj Paper Mills Ltd. clearly revealed that procedural irregularities had crept in at almost all stages of loan disbursement and in its recovery. Moreover, the Committee noticed that the Company lacked uniform procedural pattern as the norms differed from unit to unit. To a particular question of the Committee, the witness replied that at present, sanctioning, monitoring and disbursing of loans are entrusted to different groups. The witness further informed that for the prompt appraisal, disbursement and recovery of loans, the Company had been following uniform procedure since 2003 in accordance with a manual evolved in this regard.

30. The Committee desired to be furnished with the details of the officers involved in the issues. The witness informed that the said details could be submitted only after the verification of records. The Committee recommended that an enquiry should be conducted in the case and stringent actions should be taken against the officials responsible for squandering funds in an unscrupulous manner.

31. The Committee wanted to be informed of the details regarding the action taken against the promoters of Simons India (P) Limited who had availed a term loan of ₹ 67 lakh from the Company for the establishment of a steel furniture manufacturing unit and diverted the fund for other purposes. The Deputy Accountant General pointed out that in this case too the notes furnished by the Company to clarify the present status of the issue failed to mention the exact figures and details of further proceedings initiated by the Company since the approval of the OTS Scheme. The witness informed the Committee that the said particulars were under processing stage as the OTS Scheme had been approved only in the last Board meeting of Company. To an enquiry of the Committee regarding the petitions filed by the promoters before the Hon'ble High Court, against Revenue Recovery the witness elaborated that when the Company had initiated Revenue Recovery action against the unit and its promoters, they had obtained a stay order from the Hon'ble High Court, but their original petition had been disposed of in favour of the Company. To a specific question of the Committee, the witness explained that the amount outstanding against the unit as on 31st March, 2003 was ₹ 1.59 crore and that the Company had decided to settle the loan under OTS for ₹ 67 lakh only.

32. The Committee was astonished to note that the payment for supplies was made by the Company prior to the verification of quality and quantity of the equipment purchased. The Committee enquired why the Company had failed to conduct proper site inspection to verify the physical presence of plant and machinery in the factory before disbursing loan. The Committee viewed this as grave lapse on the part of the concerned officers. The Committee was annoyed with the mode of payment adopted by the Company in this regard. The Committee remarked that for making payments for supplies, Demand Draft should be issued in favour of the supplier after completing all formalities as per Stores Purchase Manual. In contravention to this general rule, the Company had disbursed the loan amount to the unit which applied for the same. The Committee opined that it was a classic example of laxity on the part of the officers. Admitting the lapses, the witness informed that the disbursement of loan was made as per certificate of a Chartered Accountant. The Committee noticed that the responsible officers of the Company committed culpable offence by accepting the fraudulent and unauthorized report submitted by the promoters which facilitated undue benefit to the promoters. The Committee felt that there was an illegitimate nexus between the officials of the Company and Promoters. The Committee wanted the Company to furnish the details of the officials who

were involved in this misappropriation. The Committee recommended that a detailed enquiry should be conducted to unearth even the minute aspects of the deal which had led to the profligacy of public exchequer and initiate stringent action against officers who were responsible for the malpractice. The Committee further recommended that if the Company had failed to identify the officials responsible for the issue, higher officers and the then Managing Director would be answerable for the same.

33. The Committee expressed its displeasure over the failure of the Company to obtain adequate collateral security for financial assistance and purposeful lapses on the part of the officers who sanctioned a term loan of ₹ 1.93 crore and disbursed ₹ 88.21 lakh to M/s Diode Information Technologies Limited to establish a medical transcription unit ignoring the fact that the properties which were pledged as security had already been encumbered to other banks. The Committee remarked that the issues pertaining to the audit remarks had clearly revealed the procedural lapses prevailing in the Company and culpable irresponsibility on the part of the officials concerned. The Committee enquired whether the Company had insisted on submitting encumbrance certificate along with loan application. The witness replied in the affirmative. The Committee contrived that this problem occurred owing to the irresponsibility and negligence on the part of the officers and the Committee could not find any reason to justify the foul play of the officers. The Deputy Accountant General pointed out that though the unit was established at Kochi, the pledged properties belonged to the promoters were situated at Banglore and Kottayam. The witness informed that it had been done so, since the promoter did not have any property at Kochi and unit had been set-up on leased land. The Committee remarked that it was indubitably clear that the officers of the Company had a clandestine deal with the promoters in this deal. However, the responsible officials had committed a culpable offence by accepting forged copy of the document in order to deceive the Company. The Committee, therefore, recommended that immediate steps should be taken by the Managing Director to lodge a criminal complaint against the officers who failed in discharging their duty in good faith.

34. The Committee evinced its discontent over the Government reply that "medical transcription was considered to be one of the emerging sectors in the IT field and that one of the promoters associated with this project was Mr. Louis Padamadan, who besides being a doctor, had contacts in USA" and the Committee asked whether contacts in USA could be considered as a prerequisite for sanctioning loans. The witness refuted that there was nothing wrong in the reply, but he admitted that there had been some lapses on the part of the Company in executing deed of guarantee, which had already been pledged for another loan. The witness further stated that the promoter had finally settled the loan.

The Committee remarked that the testimony of the witness clearly revealed the involvement of the officers of the Company in the misappropriation. The Committee, therefore, recommended that responsibility should be fixed after conducting a thorough investigation and action should be taken against those found responsible.

35. The Committee wanted to be furnished with the present status of the criminal case registered against the promoters of Manito Electronics (P) Limited, Beypore, who had obtained a loan assistance of ₹ 60 lakh on the security of land on which the building of the proposed unit was to be constructed and there after cheated the Company by setting-up the proposed project on an adjacent land and at the same time obtained a loan from banks by pledging the duplicate of the title deed of the property which had already been pledged as security for obtaining loan from the Company. The witness informed that the case was still pending. The Committee desired to be furnished with a detailed report regarding the said case. Further, the Committee stressed that the report furnished should include case number, name of Court, names of plaintiff and accused, section under which the case has been registered, present position of the case and Company's stand on the case. To an enquiry of the Committee, the witness informed that the company had recovered an amount of ₹ 75.04 lakh from the unit.

36. To a question of the Committee regarding the present position of the term loan assistance of ₹ 96 lakh to Star Clothings (P) Limited, the witness made it clear that the loan was settled under OTS Scheme.

37. The Committee sought explanation regarding undue benefit of moratorium granted by the Company in violation of the existing policy that moratorium period should not be exceeded by one year. The witness clarified that relaxation to the moratorium period was granted as a means to provide breathing time to stabilize operations of the unit and other financial institutions also followed similar policies. He further clarified that uncertainties and problems were incidental to any business in the present industrial scenario, hence as a promotional agency it becomes imperative on the part of the Company to implement such flexible policies as a remedial measure to support units which had been facing problems due to reasons beyond their control and the Revenue Recovery measures were initiated only as a last resort. The Committee remarked that adverse changes in policies could be cited as the major reason for the spurt of Non-Performing Assets in the Company.

38. The Committee expressed its discontent over the contention of the Company that Tata Tea Company and Harison Malayalam Plantation were promoted by the Company, since these companies were formed prior to the establishment of KSIDC. To a specific query of the Committee regarding the role of the

Company in promoting Government sponsored event 'Emerging Kerala', the witness informed that as a nodal agency of the Government the Company had significant role in providing facilities and monitoring the event as entrusted by the Government.

Conclusions/Recommendations

39. **The Committee criticizes the Management of the Company for its failure in taking earnest effort to obtain annual accounts and audited Balance Sheets of assisted units in time, as it had hindered the Board from evaluating and monitoring the functions of the units which the Company had financed, by deploying its own funds. The Committee is perturbed over the deplorable situations prevailing in the Company and therefore recommends that the Company should take stringent measures to collect annual accounts of assisted units in time and take corrective measures if necessary.**

40. **The Committee remarks that an alarming spurt regarding the non-performing assets of the Company has occurred during the review period, due to the failure of the Company to follow prudential norms with regard to the disbursement and recovery of loans. The Committee is shocked to find the surge in bad debts and recommends that the Company should formulate effective measures to curb the mounting increase of non-performing assets and bad debts.**

41. **The Committee is astonished to find that ₹ 418 crore has to be recovered as outstanding dues from various units. Therefore the Committee recommends that the Company should accelerate recovery process and to take all possible steps to realise the arrear amount from the malfunctioning units and the steps taken in this regard should be informed to the Committee at the earliest.**

42. **The Committee is displeased to note that a substantial loss of revenue was incurred by the Company due to the imprudent decision to settle the dues with regard to 19 units at ₹ 21 crore against the outstanding balance of ₹ 122 crore. The Committee directs to elaborate on the action taken to realise the amount with interest, from the 23 units which were closed down within five years after the receipt of the subsidy and of the measures taken by the Director of Industries and Commerce in recovering the dues.**

43. **The Committee points out that the Company has suffered huge loss owing to the hasty decision to write-off the investment of ₹ 1.5 crore which had been sanctioned in the form of equity share capital to Muthoot Apt Ceramics Limited. The Committee deprecate the irresponsibility on the part of the Officers of the Company who failed to invoke the buyback clause in the agreement and therefore recommends that the Company should take earnest efforts to dispose of shares at the appropriate time.**

44. The Committee criticizes the unscrupulous decision of the Company in granting additional loan to the unit despite knowing the malfunctioning of the unit and opines that the major reason for the failure of most of the units was the inefficiency of the Management. The Committee therefore recommends that the Company should ensure the viability and feasibility of industrial units prior to the investment decision so that financial loss could be obviated to a great extent.

45. The Committee points out that most of the units, assisted by the Company were not performing well and it indicated that the appraisal of the viability of projects conducted by the Company was not foolproof. It observes that the Company had invariably relied on the report submitted by promoters for the viability and marketability of the projects financed by the Company owing to the absence of an effective method to evaluate and verify the proposals submitted by units. The Committee recommends that concrete parameters should be evolved to evaluate the viability and marketability of the projects and the Financial capability of the promoters should be strictly ensured at the time of appraisal of the projects.

46. The Committee urges that the details of action taken by the Company to recover the dues amounting to ₹ 3.83 crore from Ind Soft Infotech should be furnished to it urgently.

47. The Committee points out that the review of the performance of the Company has revealed that a good number of cases were settled after the lapse of several years by realising the principal amount only and such unwarranted relaxation had caused much loss to the Company. Moreover the Company has not taken regular and concrete follow-up actions to recover dues from the units revealing the inefficiency of the management and the absence of an effective internal working system. The Committee insists that necessary steps should be taken to appoint an independent Managing Director in the Company. The Committee also recommends that the management should be more serious, practical and vigilant in the activities of the Company and necessary steps should be taken to avoid lapses and unhealthy practices which prevail in the Company.

48. The Committee opines that the detailed analysis of the deal of the Company with M/s Ramraj Paper Mills Ltd., has revealed that procedural irregularities had crept in at almost all stages of loan disbursement and its recovery and the Company lacked uniform procedural pattern as the norms differed from unit to unit. The Committee suspects an unhealthy nexus between the Officers of the Company and the Promoters. The Committee recommends to conduct an enquiry in the case and to take stringent actions against the officials responsible for squandering funds in an unscrupulous manner. The action taken in this regard should be reported to the Committee at the earliest.

49. **The Committee seriously views the failure on the part of the Company in conducting proper site inspection for verifying the physical presence of plant and machinery in the factory before disbursing financial assistance to Simons India (P) Ltd. for establishing a steel furniture manufacturing unit. The Committee directs to furnish the details of action taken against the promoters who had diverted the loan for other purposes. The Committee remarks that for making payments for supplies Demand Draft should be issued in favour of the supplier after completing all formalities as per Store Purchase Manual.**

50. **The Committee points out that responsible officers of the Company has committed culpable offense by accepting fraudulent and unauthorised reports, submitted by the promoters which facilitated undue benefit to them. The Committee recommends that a detailed enquiry should be conducted to unearth even the minute aspects of the deal which led to the profligacy of public exchequer and to take stringent action against officers who were responsible for the malpractice. The Committee also wants to be furnished with the details of the officers who were involved in this misappropriation.**

51. **The Committee remarks that the action of sanctioning a term loan to M/s Diode Information Technologies Limited, ignoring the fact that the properties pledged as security had been already encumbered to other banks had clearly revealed the procedural lapses prevailing in the Company and also the irresponsibility and negligence on the part of the officers concerned. The Committee recommends that immediate steps should be taken to lodge criminal complaint against the officers who failed to discharge the duty in good faith and responsibility should be fixed against those who found guilty.**

52. **The Committee demands to be furnished with a detailed report of the present status of the criminal case registered against the promoters of Manito Electronics (P) Ltd., who after availing a loan assistance from the Company had cheated it by obtaining loan from banks by pledging the duplicate of the title deed which was already pledged for the Company's loan.**

53. **Regarding the undue benefit of moratorium granted by the Company in violation of the existing policies the Committee remarks that adverse changes in policies could be cited as the major reason for the spurt of Non-performing assets in the Corporation.**

K. N. A. KHADER,

Thiruvananthapuram,
23rd March, 2015.

Chairman,
Committee on Public Undertakings.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	*Para No.*	*Department concerned*	*Conclusions/ Recommendations*
(1)	(2)	(3)	(4)
1	39	Industries	The Committee criticizes the Management of the Company for its failure in taking earnest effort to obtain annual accounts and audited Balance Sheets of assisted units in time, as it had hindered the Board from evaluating and monitoring the functions of the units which the Company had financed, by deploying its own funds. The Committee is perturbed over the deplorable situations prevailing in the Company and therefore recommends that the Company should take stringent measures to collect annual accounts of assisted units in time and take corrective measures if necessary.
2	40		The Committee remarks that an alarming spurt regarding the non-performing assets of the Company has occurred during the review period, due to the failure of the Company to follow prudential norms with regard to the disbursement and recovery of loans. The Committee is shocked to find the surge in bad debts and recommends that the Company should formulate effective measures to curb the mounting increase of non-performing assets and bad debts.
3	41		The Committee is astonished to find that ₹ 418 crore has to be recovered as outstanding dues from various units. Therefore the Committee recommends that the Company should accelerate recovery process and to take all possible steps to realise the arrear amount from the malfunctioning

(1)	(2)	(3)	(4)
			units and the steps taken in this regard should be informed to the Committee at the earliest.
4	42		The Committee is displeased to note that a substantial loss of revenue was incurred by the Company due to the imprudent decision to settle the dues with regard to 19 units at ₹ 21 crore against the outstanding balance of ₹ 122 crore. The Committee directs to elaborate on the action taken to realise the amount with interest, from the 23 units which were closed down within five years after the receipt of the subsidy and of the measures taken by the Director of Industries and Commerce in recovering the dues.
5	43		The Committee points out that the Company has suffered huge loss owing to the hasty decision to write-off the investment of ₹ 1.5 crore which had been sanctioned in the form of equity share capital to Muthoot Apt Ceramics Limited. The Committee deprecate the irresponsibility on the part of the Officers of the Company who failed to invoke the buyback clause in the agreement and therefore recommends that the Company should take earnest efforts to dispose of shares at the appropriate time.
6	44		The Committee criticizes the unscrupulous decision of the Company in granting additional loan to the unit despite knowing the malfunctioning of the unit and opines that the major reason for the failure of most of the units was the inefficiency of the Management. The Committee therefore recommends that the Company should ensure the viability and feasibility of industrial units prior to the investment decision so that financial loss could be obviated to a great extent.

(1)	(2)	(3)	(4)
7	45		The Committee points out that most of the units, assisted by the Company were not performing well and it indicated that the appraisal of the viability of projects conducted by the Company was not foolproof. It observes that the Company had invariably relied on the report submitted by promoters for the viability and marketability of the projects financed by the Company owing to the absence of an effective method to evaluate and verify the proposals submitted by units. The Committee recommends that concrete parameters should be evolved to evaluate the viability and marketability of the projects and the Financial capability of the promoters should be strictly ensured at the time of appraisal of the projects.
8	46		The Committee urges that the details of action taken by the Company to recover the dues amounting to ₹ 3.83 crore from Ind Soft Infotech should be furnished to it urgently.
9	47		The Committee points out that the review of the performance of the Company has revealed that a good number of cases were settled after the lapse of several years by realising the principal amount only and such unwarranted relaxation had caused much loss to the Company. Moreover the Company has not taken regular and concrete follow-up actions to recover dues from the units revealing the inefficiency of the management and the absence of an effective internal working system. The Committee insists that necessary steps should be taken to appoint an independent Managing Director in the Company. The Committee also recommends that the management should be more serious, practical and vigilant in the activities of the Company and necessary steps should be taken to avoid lapses and unhealthy practices which prevail in the Company.

(1)	(2)	(3)	(4)
10	48		The Committee opines that the detailed analysis of the deal of the Company with M/s Ramraj Paper Mills Ltd., has revealed that procedural irregularities had crept in at almost all stages of loan disbursement and its recovery and the Company lacked uniform procedural pattern as the norms differed from unit to unit. The Committee suspects an unhealthy nexus between the Officers of the Company and the Promoters. The Committee recommends to conduct an enquiry in the case and to take stringent actions against the officials responsible for squandering funds in an unscrupulous manner. The action taken in this regard should be reported to the Committee at the earliest.
11	49		The Committee seriously views the failure on the part of the Company in conducting proper site inspection for verifying the physical presence of plant and machinery in the factory before disbursing financial assistance to Simons India (P) Ltd. for establishing a steel furniture manufacturing unit. The Committee directs to furnish the details of action taken against the promoters who had diverted the loan for other purposes. The Committee remarks that for making payments for supplies Demand Draft should be issued in favour of the supplier after completing all formalities as per Store Purchase Manual.
12	50		The Committee points out that responsible officers of the Company has committed culpable offense by accepting fraudulent and unauthorised reports, submitted by the promoters which facilitated undue benefit to them. The Committee recommends that a detailed enquiry should be conducted to unearth even the minute aspects of the deal which led to the profligacy of public

(1)	(2)	(3)	(4)
			exchequer and to take stringent action against officers who were responsible for the malpractice. The Committee also wants to be furnished with the details of the officers who were involved in this misappropriation.
13	51		The Committee remarks that the action of sanctioning a term loan to M/s Diode Information Technologies Limited, ignoring the fact that the properties pledged as security had been already encumbered to other banks had clearly revealed the procedural lapses prevailing in the Company and also the irresponsibility and negligence on the part of the officers concerned. The Committee recommends that immediate steps should be taken to lodge criminal complaint against the officers who failed to discharge the duty in good faith and responsibility should be fixed against those who found guilty.
14	52		The Committee demands to be furnished with a detailed report of the present status of the criminal case registered against the promoters of Manito Electronics (P) Ltd. who after availing a loan assistance from the Company had cheated it by obtaining loan from banks by pledging the duplicate of the title deed which was already pledged for the Company's loan.
15	53		Regarding the undue benefit of moratorium granted by the Company in violation of the existing policies the Committee remarks that adverse changes in policies could be cited as the major reason for the spurt of Non-performing assets in the Corporation.

APPENDIX II

NOTES FURNISHED BY GOVERNMENT ON THE AUDIT PARAGRAPHS

Sl. No.	*Audit Paragraph*	*Action Taken*
(1)	(2)	(3)
1	2.2.1-2.2.4	No comments. Noted.
2	2.2.5	Facts and figures are confirmed Generally, the NPA figure as at the end of any year is equal to the non-performing assets expressed as a percentage of the total loan assets. It is agreed that NPAs have increased over the 5 year period under review. However, provisions are by way of financial prudence, based on RBI guidelines relating to income recognition and classification of assets and therefore, even in the cases where provisions have been made, possibilities of recovery do exist. It may also be mentioned that it was during this period that the classification as an NPA was changed from 360 days to 180 days of a unit in arrears to be classified as sub standard assets. This accordingly also resulted in making increased provision for bad and doubtful debts. Interest on loan adjusted while making disbursements pertains to pre-operative period interest already provided for (and funded) in the means of finance of projects under implementation. This is by way of constructive disbursement and receipt. KSIDC reiterates that provisions for NPA are by way of financial prudence and therefore, even in cases where provisions are made, possibilities of recovery do exist.

(1)	(2)	(3)
3	2.2.6	The sources of funds for the Corporation comprise of the release of share capital contribution/loan sanctioned by Government, loan from IDBI/SIDBI, receipts of loan principal/ Interest from assisted units, dividend and miscellaneous income. Drawals from Treasury are ultimately dependent on formal Govt. sanction for actual release of the money to KSIDC's bank accounts and invariably take considerable time. No drawal is possible when a Treasury ban is in force. During these periods, KSIDC would be forced to draw on the other sources for continuing its lending activities. Hence, considering that the drawal of such funds are not entirely within the control of KSIDC, the loss indicated by audit is purely notional.
4	2.2.7	Investment in equity shares generally relates to promotional assistance provided for projects which can be categorised in the small/medium scale sector. This assistance was required to be extended for encouraging entrepreneurial development in the State. In the early days a liberal investment promotion policy was followed by Government to encourage the growth of industries in the state and to support the process, the State subscribed to the equity share capital of KSIDC through budget allocations. Thus, in the earlier stages, KSIDC used to participate in the equity of projects up to 26% depending on the decision to place the project in the sponsored sector or the joint sector. While some of the projects were successful, others were not and the investment profile of KSIDC reflects in the history of this process.

(1)	(2)	(3)
		Over the years, based on past experience and changes ushered in by new the equity culture in India, KSIDC also changed its approach. In the last few years KSIDC has been consciously following a policy of subscribing to equity share capital of listed companies (i.e. where there is an exit route) and to preference share capital of big projects with huge investment with buy-back agreement by the promoters. It may please be noted that in terms of the promotional agreement it is the promoter who has to buy-back the equity subscribed to by KSIDC and not the unit.
5	2.2.8	It is reiterated that in most cases, the decisions for initial investment were taken at a time when Govt. followed a liberal policy to encourage industrialization. While in some cases the units had done extremely well in the initial years declaring dividend and sometimes, bonus, they had suddenly been adversely affected by change in Central/State Govt. policies, emergence of substitutes etc., post liberelisation changes and forced to the stage of even closure I winding-up. Taking the going-concern basis which is relevant to KSIDC, the aggregate value of investments as on 31-3-2003, based on their networth works out to ₹ 99.58 crore as against the cost of ₹ 76.03 crore indicating a net excess of ₹ 9.28 crore. Besides the above the Corporation has made 100% provision in cases where networth has turned negative.
6	2.2.9	Promotional Agreement regarding buy-back of shares has been entered into only in certain cases. In several cases, there was no such agreement. Where there was no agreement for buy-back of shares, the only option available was to sell the shares through a Stock Exchange, if the shares are listed or to persuade the promoter to buy-back the shares. In cases where the unit is not doing well, the promoters would have lost

(1)	(2)	(3)
		their total investment and with networth becoming negative, it would have been impossible for them to buy-back the shares. However, KSIDC has now taken up the buy-back of shares as per agreement in all cases where it has become due and efforts are on to recover the investment. Notices have been sent in all relevant cases requiring the promoters to buy-back KSIDC holding within a specified period failing which RR action would be contemplated.
7	2.2.10 & 2.2.11	In the case of units which have been closed down non-operational or against whom RR measures have been initiated or have been taken over under Sec. 29 either by KSIDC or others institutions, no Balance sheet could be expected. However, in the remaining cases, where units are operating, audited Balance Sheet is being collected.
8	2.2.12	When units are closed or Institutions/banks have initiated, recovery measures, in cases where the share investment is below ₹ 20 lakh and in cases where the loan is being serviced promptly and the loan outstanding drops below ₹ 20 lakh, the Nominee Directors are withdrawn from the board of such units. Also, in cases where assistance have been given by way of loan, when the units are regular in making payment and the outstanding amounts are low, insistence on appointment of nominee directors is not done. In cases where KSIDC had not made the investment directly but taken up the same under Govt. directives (renouncement of rights etc.), provisions for appointing Nominee Director by KSIDC does not exist. This is in view of the fact that, with the limited manpower available, their services can be used elsewhere more effectively. At present, the Nominee Director's report is obtained before any reschedulement/additional loan is sanctioned to concerned units.

(1)	(2)	(3)
9	2.2.13	As per the accounting practice followed consistently by the Corporation as a matter of financial prudence and as clearly stated in the Notes to the Balance Sheet of each year, when the networth of a unit (as per the latest available balance sheet) becomes zero or negative the entire investment is provided for in full under the head 'Decrease in the value of investment' by debit to Profit and Loss account; when the unit is having a positive networth but this is less than the face value, the difference between the networth and the face value is debited in the P&L a/c under the head 'provision for diminution in the value of Investment'. (It is also to be noted that the writing off/and writing down of investments could bring down the tax liability of the Corporation). Writing off/providing for the investment even to the extent of 100% does in no way preclude the possibility of realizing value on such investment when steps are taken in the direction. It may be noted that once there is appreciation in the value of the investment in subsequent years because of better working results, the Corporation would have to account the same in its final statements. Even though write-off is made, the Corporation does not give up its right in terms of Promotional Agreement and as a matter of fact, IS pursuing the promoter for buy-back of shares held by KSIDC. It would be incorrect to mix up accounting treatment and action pending disinvestment of shares.
10	2.2.14	KSIDC had given equity assistance of ₹ 150 lakh to M/s Muthoot Apt Ceramics Ltd. in 1997. As per the promotional agreement with Mr. Thomas Muthoot, the Chief Promoter, the buy-back of shares was due in 2002. : The performance of the unit has been very poor due to failure of collaborator (APT, UK) to buy-back the products and lack of marketing network. At present the company is doing contract manufacturing for the major buyers like

(1)	(2)	(3)
		Jacuzzi, UK; Magicwoods, Canada; Parryware, India etc. In view of the substantial losses made by the company, the promoter has not yet come forward for the buy-back of shares held by KSIDC till now. IDBI, the consortium leader for the project, had sanctioned OTS for the term loans at ₹ 16.10 crore and South Indian Bank at ₹ 8.50 crore. Company has paid ₹ 200 lakh to IDBI towards OTS dues. As part of restructuring, IDBI converted the accumulated interest into equity capital at ₹ 4.69 crore and now hold 23.15% stake in the company. Promoters have identified M/s Imperial Bathroom Products, Hongkong as one of the strategic investor and the negotiations are in place. While sanctioning financial assistance to technopolis, the first private IT Park in Kerala, promoted by Muthoot Group in Special Economic Zone, KSIDC had put a condition that the promoters shall pledge all their shares as security for the financial assistance sanctioned to Technopolis and also as security for the buy-back by the promoters of the shares of Muthoot APT Ceramics now held by KSIDC. Provisioning of investments as bad debt based on the networth of the company is only an accounting treatment and the same is done in all applicable cases. This is as per the prudential norms applicable to financial institutions as prescribed by the Reserve Bank of India. The write-off in no way affect the rights of the Corporations to claim the dues from the promoters.
11	2.2.15	In this case, at the time of project sanction in Nov. 94, the share capital participation by KSIDC was fixed at 11%. Later, on account of the increase in the project cost, it was decided to step up the investment to ₹ 97 lakh. At this point, the promoters had also undertaken to enhance their contribution from ₹ 268.50 lakh to ₹ 355 lakh. However the enhanced participation by KSIDC was still within 11%. Further later, the Redeemable Cumulative

(1)	(2)	(3)
		Preference Share Capital of ₹ 50 lakh was sanctioned only because of the fact that the company just could not raise funds from the primary capital market on account of the unfavorable conditions prevalent at that time. Also the financial institutions were not in favour of increasing the debt at that stage. Hence, it became essential to lend preference share capital in order to ensure that the project could progress. It is a fact that there was delay in securing the KSEB power connection and also full working capital assistance from the Bank. These factors did affect the performance of the unit, though the industry scenario was favorable. Subsequently, their was some deterioration in the textile scenario and this adversely affected the unit at a critical-stage. Also the company's operations have been affected due to lack of availability of quality water for operations. The unit needs 1 ML tons of water daily and has represented to Govt. in 1998 itself for water supply from Malampuzha Dam. Regarding the point relating to appraisal, normally, where national financing institutions are involved in loan financing for a project, the detailed project appraisal is carried out by them and in this case it was done by IDBI. The appraisal was utilised by KSIDC for making share investments. The unit is now trying to settle the dues with IDBI on OTS basis.
12	2.2.16	The request of the company for share capital assistance of 26% was sanctioned in spite of its negative net worth, due to following reasons: (1) About 74% of the shares are held by Rubber Board and Rubber Marketing Societies. Due to the backing of Rubber Board it was expected that the company will get adequate export orders and will turn around.

(1)	(2)	(3)
		(2) The loan sanctioned by Bank of Baroda was based on refinance assistance from World Bank. It may be noted that the unit has huge capacity and as long as it can operate in a viable manner it is only logical that all efforts have to be taken in protecting the massive investment. KSIDC had recently conducted a sector study on Rubber wood processing and based on the "interactive sessions held with stakeholders, has recommended the industry cluster approach in-solving the problems of the industry as a whole. Considering that 90% of the rubber plantation in India is accounted by Kerala, it is justifiable to step up efforts to develop our inherent/natural strengths and add value to these.
13	2.2.17	KSIDC has extended ₹ 500 lakh as share capital assistance to M/s Teaktex processing complex Ltd. For setting-up a textile complex at Kanjikode, Palakkad. Though commercial production commenced in March 1996, the performance of the unit was unsatisfactory from the very beginning and the unit was under lockout from December 97 to September 98 due to labour unrest. In October 98 it was decided that KSIDC should take over the management for the time being till a proper buyer could be located, considering the huge amounts invested in a potentially good project and this being a listed company. KSIDC had to infuse further funds along with the original promoters for kick-starting operations and reviving the project. Accordingly, the Corporation sanctioned unsecured loan of ₹ 73.59 lakh as interest-free unsecured loan. KSIDC's unsecured loan was sanctioned primarily for restoring electric/ water connections, maintenance of machinery and margin money for working capital.

(1)	(2)	(3)
		Subsequently the private promoters withdrew from the management of the company. As part of its efforts to revive the operations of the company, the lead institution, ICICI framed a rehabilitation package. Based on this package reduction in interest rate and reschedulement of loan were sanctioned to the company, subject to the following: (1) KSIDC to subscribe ₹ 200 lakh of cumulative redeemable preference shares at 14%. (2) KSIDC and promoters not to charge interest on the unsecured loan brought in by them. Hence it was decided to write-off interest outstanding as on 31-3-1999 (₹ 34.75 lakh) and not to charge further interest on unsecured loan. Out of the sanctioned amount of ₹ 200 lakh, an amount of ₹ 191.48 lakh has been disbursed. The unsecured loan and preference share capital were granted to the unit strictly by way of rehabilitation on the basis of a decision taken in the inter institutional meeting. It may be noted that this is a big project involving public investment and several banks have lent long-term loans to the unit. The plant is state-of-art and since it would be too early to consider sale of the unit, first, a rehabilitation plan was evolved after a series of joint meeting, in the interest of future recovery of monies granted. Later, though a few parties expressed interest in buying the plant, the same did not materialise. Recently, ICICI Bank, the lead institution has reported the receipt of a proposal for taking over the assets of the company by M/s Augustine Knitwear, a Coimbatore based company. The proposal has

(1)	(2)	(3)
		been forwarded to BIFR or their approval. Regarding buy back of shares, KSIDC has issued notice to the promoters requesting them to buy back KSIDC's holding by 31-12-2004, failing which RR action would be taken.
14	2.2.18	Eastern Treads Ltd., incorporated in July 1993, had set-up a tread rubber unit using locally available natural rubber. The company approached KSIDC with a request for equity participation on 18th March, 1995 for a major expansion scheme and for manufacture of precured tread rubber, which is superior in quality compared to conventional tread rubber. The capacity envisaged was 3000 TPA . The Govt. of Kerala had declared rubber as a Thrust Sector for investment as only 13 per cent of natural rubber produced in the State was utilised in the State. Rubber based units were encouraged with a view to improve the utilisation of natural rubber in the State. Cost of this project was estimated at ₹ 8 crore. The company also went for a Public Issue of Share Detailed appraisal of the project was done by IDBI, who had sanctioned term loan for the project. KSIDC provided Equity support, in view of the fact that the term loan assistance was considered by IDBI. The Corporation also had prepared an appraisal document, before sanction of Equity assistance. Observation has been made with reference to the performance of the Group concerns. It may be noted that performance of the Group Companies were as below, which were also shown in the Prospectus issued by the company for the public Issue.

(1)	(2)	(3)

Particulars	Eastern Agencies (Rs. lakh) 1992	1993	1994	Eastern Trading Co. (Rs. lakh) 1992	1993	1994
Turnover	49.63	31.14	59.15	22.3	31.82	93.65
PBDIT	2.13	1.33	2.00	1.86	1.60	5.86
PBIT	2.05	1.32	2.00	1.84	1.41	5.54
PBT	1.47	0.94	1.67	1.70	1.37	5.41
PAT	1.31	0.85	1.53	1.52	1.18	0.21
Capital	4.08	6.58	8.00	0.99	(8.42)	(7.75)
Net worth	4.08	6.58	8.00	0.99	(8.42)	(7.75)

Particulars	Eastern Condiments (P) Ltd. (Rs. lakh) 1992	1993	1994	Eastern Retreads (P)Ltd. (Rs. lakh) 1994
Turnover	188.58	274.22	537.65	12.03
PBDIT	23.87	30.28	44.19	(2.08)
PBIT	15.00	20.59	27.53	(2.95)
PBT	7.89	9.05	14.49	(3.75)
PAT	7.09	7.75	9.74	(3.75)
Capital	20.05	24.30	24.30	9.60
Reserves	..	3.21	3.21	..

It may be observed from the performance figures that the financial soundness of the Group concerns were satisfactory, although not extraordinary. It is indicated that the Group company had a negative net worth. It may be seen from the Table that, in 1992, Eastern Trading Company had a small turnover of ₹ 22.30 lakh and the net worth of ₹ 0.99 lakh, whereas in 1993, after making a Profit After Tax (PAT) of ₹ 1.18 lakh, the net worth was negative at

(1)	(2)	(3)
		₹ 8.42 lakh, which is only because of drawing from capital-Eastern Trading Co. being a Partnership firm. The same pattern is repeated in the following year also. Eastern Agencies had a Profit After Tax during 1992, 1993 and 1994. The net worth was also positive, at ₹ 4.08 lakh, ₹ 6.58 lakh and ₹ 8 lakh during the period from 1992-94. In case of Eastern Condiments (P) Ltd. also the Profit After Tax was satisfactory. Thus, it may be seen that Three of the Group concerns were making Profit After Tax (net profit) when the Corporation sanctioned Equity assistance for the major expansion project in 1995. Actual performance of the unit was affected by labour problems and marketing issues.
15	2.2.19	State Investment subsidy is sanctioned by the State Level Committee (SLC) constituted by the Government. Application for subsidy are initially forwarded to the Director of Industries and Commerce and scrutinized by the SLC taking into account all existing rules and regulations before taking a decision to sanction the subsidy. KSIDC in only an agent through whom the subsidy is disbursed on behalf of the State Government where KSIDC has extended financial assistance. However if the unit closes down before the expiry of 5 years since the date of availing subsidy, the Director of Industries and Commerce is informed of the matter for enabling the latter to initiate action for recovery.
16	2.2.20	It may be mentioned that the Government categorizing certain units in the negative list only makes the units in this sector ineligible for subsidy, after the date of the Government notification. However, very same circulars also indicated that units who have already taken effective steps for implementation of their project prior to the date of notification would continue to be eligible for the subsidy. Therefore, the disbursement of subsidy after

(1)	(2)	(3)
		the classification into negative list relates to projects who are sanctioned and who have taken effective steps for implementation before the classification of such units into negative list.
17	2.2.21	The point relating to the eligibility for subsidy in cases where units have taken effective steps for implementation prior to the issue of notification applies in this case as well. It may also be mentioned that, the sanction and disbursement is done several months after the assets have been created as per the scheme and verification of such assets have been done. As KSIDC has financed M/s. Fitco Dipped Products (P) Ltd. and Nenmani Agro Mills (P) Ltd., subsidy application of these units were processed by the Corporation. The State Govt. reduced the ceiling on normal investment subsidy from ₹ 20 lakh to ₹ 15 lakh in July 2000. M/s Fitco Dipped Products (P) Ltd. created the fixed assets before this date and the unit had declared commercial production on 27-3-2000. The assets were created at the time when the unit was eligible for a maximum subsidy of ₹ 20 lakh and in addition, subsidy at the rate of 15% for pollution control devices was also eligible for the unit. The Subsidy Order applicable in respect of this unit is G.O. (Ms.) No. 4/94/ID dated 4-1-1994. In case of Nenmani Agro Mills, the Company had opted for benefits contemplated under G.O. dated 4-1-1994, which was extended for a period of two years. KSIDC sanctioned term loan for the project on 28-12-1998. The unit was eligible for a normal subsidy of ₹ 20 lakh and a separate D.G. Set subsidy of ₹ 2.74 lakh and hence the total subsidy sanctioned was ₹ 22.74 lakh. It may be noted that while sanctioning Subsidy, eligibility is fixed based on the period at which the assets are created and not based on the eligibility at the time of disbursement of subsidy amount.

(1)	(2)	(3)
18	2.2.22	No Comments.
19	2.2.23	When submitting the Business plan estimate to the Govt. for Budget provision, KSIDC used to give the list of cases under active consideration for investment and cases expected to come up in the immediate future. However, in practice, it may be noted that it may not always so happen that all projects listed in the plan will necessarily materialize due to change in circumstances having a bearing on the priority/relevance of proposed project/non-availability of resourceful investors and other factors beyond the control of KSIDC; by the same vein, it may so happen that projects not initially planned for investment might be considered for financing considering their relevance and potential advantage to the Corporation in particular and the state in general. However, the Budget provision released to KSIDC was utilised for the purpose of investment in loan/share capital of assisted units only through some of the projects that ultimately materialized are different.
20	2.2.24	Since the 1988-89 has been accounting interest receipts on 'cash basis' following an amendment in the Companies Act. However, interest continues to be 'charged' in the loan account on 'memorandum basis' even in respect of units which have closed. Therefore the recovery as a percentage of total demand would appear to be very low. Banks have a practice of not charging interest where the accounts are considered as NPAs. If such practices were followed in KSIDC, the total amount due would also have been reflected at a lower level. Interest is due when charged and therefore, normally, the ratio of interest overdues to interest outstanding is 100%. However, in respect of closed/sick units where interest has been funded, a portion of the interest may not fall due immediately and so, in such cases, the overdues may be lower than the outstandings.

(1)	(2)	(3)
		KSIDC has been taking a number of steps for recovery which include (a) issue of RR, (b) take over under Section 29. But in many cases, KSIDC's efforts did not bear fruit for the following reasons. Units get themselves registered by BIFR, after which KSIDC cannot continue taking any coercive steps. Units obtain stay from Courts against the recovery measures initiated and it takes considerable time to get the stay vacated. Units taken over by the Official Liquidator, in the cases where they are wound up and it takes generally 2 to 3 years before any recovery can be effected. In joint financing cases, consensus has to be reached about the course of action to be taken and KSIDC alone cannot act independently in such cases.
21	2.2.25	It is relevant to state here that, just because units are; closed/have a negative net worth, it does not preclude the possibility of the Corporation realizing a portion of its dues as a secured creditor. Therefore it would be incorrect to state that the entire ₹ 223.96 crore would not be realized. Realization through the official recovery mechanism is time consuming, no doubt, but claims filed will have to be ultimately disposed of by payment of dividend. Where it is felt that a loan cannot be repaid as per the original schedule, reschedulement is effected assuming that the unit is still viable and the loan can be serviced over an extended period. Uncertainties and problems are incidental to any business and more so in the post-liberalization era in India. What is needed is continous scrutiny and judicious remedial measures to support the unit and protect our investment and this is being done.

(1)	(2)	(3)
		Since the period under review, Corporation has made good progress in recovery of loans. Thus the total amount recovered from 1st April 2003 till 30th November, 2004 comes to ₹ 1071.95 lakh and includes recovery of ₹ 515.86 lakh in respect of closed units also. Continuous efforts are on to expedite recovery of the balance recoverable amount.
		The details are given in answer to point. No. 2.2.60.
22	2.2.26	Bridge loans/Short-term loans against term loans were generally granted where a term loan had already been sanctioned to the unit and pending compliance of certain formalities, the funds are sought for disbursements based on the circumstances of each case. Once the conditions of the term loan sanctioned are complied with, the bridge loan as well as the interest accrued thereon is converted into term loan. The disbursement are done, bona fide, on the merits of each case only. Regarding the two cases specifically mentioned, both Venad Pharmaceuticals and formalin Products Ltd. dividend is being received from the Official Liquidator.
23	2.2.27	No Comments.
24	2.2.28	The Government set-up Export Processing Zones (EPZs) with a view to encouraging export oriented units. It is as a part of the promotional measures from the Government that customs duty is waived for imports and becomes leviable in case the unit did not fulfill their export obligations. When the GOI wants to encourage export oriented units, KSIDC also needs to fall in line and encourage such units. Generally, units are expected to operate on a viable basis, on the basis of appraisal done, but units do become sick in some cases for reasons beyond their control. In these cases, the Customs Department does have a prior charge against recovery. Imposing stringent conditions for units in the EPZs when

(1)	(2)	(3)
		compared to units outside the Zone would only mean State level institution taking a stand opposed to that of GOI encouraging the export sector.
		Considering the employment and foreign exchange earning potential, the Board of KSIDC has decided to encourage IT and other units and therefore Board of Directors decided to extend assistance without insisting on collateral security for units being set-up in the EPZs. Setting-up of an IT Park in the EPZ was also at the initiative of KSIDC and in order to encourage setting-up of such units mainly by technocrat entrepreneurs, collateral security was not insisted upon.
25	2.2.29	No Comments.
26	2.2.30	Time and cost overruns are incidental to project implementation, in general. Delay in completion of projects in some cases is due to delay in obtaining power sanction, approval-from statutory authorities, and also because some of the tourism and related projects are set-up in locations which are generally remote, but having scenic beauty and the environment for promoting such projects. What is relevant is that all deviations with respect to the original project and cost overrun aspects at any stage are assessed by the concerned officer before a decision on disbursement is taken. During such assessment, revised viability is always ensured. Deviations may have to be incorporated in certain cases consequent to changes in tourist demand, Govt. policy etc. Normally, cost overrun is shouldered by the promoter and this does not impact the basic viability of the project. The business for the turn-of-the-century was not as big as expected due to the commissioning of various new destinations

(1)	(2)	(3)
		worldwide. Another phenomenon which took place was the changed system of preference of even domestic tourists to book their travel through travel operators only, making it difficult for medium-sized 'stand-alone' units to function on their own except at the cost of heavily reduced tariffs. The US bombing incident which took place on 11-9-2001 had a very adverse impact on the tourism industry in India as a whole. All these necessitated sanction of reliefs like reschedulement and funding of interest. However, the industry has picked up from 2002-03 onwards.
27	2.2.31	For the purpose of monitoring projects from the stage of loan appraisal to subsequent implementation and recovery of units, the Corporation has brought into use a well defined Manual of Procedures containing comprehensive checklists and reports, so that loan failures are less and preventive actions are initiated, well on time, as mentioned below: *Projects under implementation*: Before every disbursement Corporation insists on a Chartered Accountant's Certificate regarding funds raised and spent for the project along with detailed reports by the Company's MD on the progress achieved in implementation. This is followed by a spot inspection of the project by a team of officers from KSIDC. Funds are disbursed based on the progress of the project. This close follow-up in pursued till the final disbursement is made and the project in implemented. We also ensure that the company gets need based working capital from banks before releasing the margin money for working capital. Hence we affirm that the projects are closely monitored and there is a well defined system of follow-up of projects while under implementation.

(1)	(2)	(3)
		Operating units: During the post-implementation period, the project/recovery group collects and analyses Quarterly performance report from all the units, besides the Company's annual reports of the units. The units are closely monitored by way of conducting periodical inspections. Wherever loan repayments are in default, timely Default Review meetings/Inter-institutional meetings are conducted and suitable corrective steps are taken by way of loan reschedulement or rehabilitation. Post dated cheques are collected for next 12 months to avoid any lapse. Apart from these, the Nominee Directors are required to submit their periodical reports regarding the Board Meetings attended by them. Information made available by the above system and as supplemented by factory visits, is extensively used to monitor the progress of operating units and for taking remedial action in the case of defaults.
28	2.2.32	In all new proposals, the banker's report relating to the promoters is obtained before the sanction of loan and not a single case exists, where loan has been sanctioned with an adverse report from the bankers about the promoters. It is incorrect to say that KSIDC depends on the report submitted by the promoter. KSIDC already has information on units assisted in the past and independently collect/verify information in the case of new proposals and the report is modified accordingly. Failure of the unit is not always due to the project being unviable or the promoter being incapable but can be due to various factors beyond the control of the promoter.

(1)	(2)	(3)
29	2.2.33	The Corporation sanctioned loan for Delta Finster and Cheramann Resorts (P) Ltd. in March and November 1998, respectively. In case of Cheramann Resorts (P) Ltd. there were three promoters with 1/3rd share, out of which one promoter was Mr. Abdul Kareem, who is the Chief Promoter of Delta Finster. However, Shri Abdul Kareem resigned from the Board of Cheramann Resorts subsequently due to dispute between the promoters and had informed to KSIDC about his disassociation, well before availing the additional loan of ₹ 41.50 lakh. This aspect was also reported to the Corporation's Board while processing the additional loan. The Corporation Board took a conscious decision to provide the additional loan only for completing and making the resort project operational, especially since it is located in a remote area, 7 Kms. from Vythiri in Wayanad District. Delta Finster Ltd. is an ecotourism project and if the additional loan was not granted, the Corporation's investment of ₹ 1.15 crore along with its interest would have become a dead investment. By releasing the additional loan, the project could be completed and the unit has started commercial operation. The company has started effecting monthly remittance of ₹ 50,000 now, though it is not fully meeting the interest dues. Promoter has promised to remit ₹ 1 lakh/month from January 2005 onwards. Since there is arrears of payment, the Corporation has also initiated recovery steps.

(1)	(2)	(3)
30	2.2.34	At the time of sanction of short-term loan, the company was listed in major stock exchanges and track record was very good. The loan was sanctioned (1995) primarily for working capital requirements. However, the company was forced to close down its activities in August 1997 following the Supreme Court order banning shrimp cultivation in acqua farms of environmental consideration The promoter approached KSIDC for an OTS which was sanctioned in June 2001. However no payment was made thereunder and ultimately the OTS was cancelled and RR initiated against the guarantor for realization of dues.
31	2.2.35	The unit was set-up at a time when there was an IT boom which was expected to sustain for a considerable period. The promoters of the unit had put up a good performance in the case of Kanoil Foods, a unit set-up in the coconut oil industry, for which KSIDC had given loan assistance. It is true that the foreign collaboration with the US firm was considered one of the favourable points in order to get a fillip in the initial business and marketing advantage of the unit. However, it was unfortunate that misunderstanding developed amongst the promoters rendering the agreement a non-starter. For its part, the corporation did a bona fide appraisal as in any other case. The main reasons for the initial failure of the unit, therefore, related to aspect beyond the corporation's control. Once the arrears started increasing, KSIDC took immediate steps to conduct a number of Default Review meetings/inspections to monitor the working of the company. Since the marketing agreement failed to take off, the promoters had to try various alternative work contracts to keep the company going and also to meet the huge expenditure. Coupled with the general downslide in the IT

(1)	(2)	(3)
		scenario consequent to September 2001 bombing incident in the US, the unit suffered heavily at a most crucial time. KSIDC, in all fairness tried to examine all possibilities in a bid to secure repayment before initiating RR action in this case. KSIDC has initiated RR action against the guarantors. Since the unit has lease and electricity dues to Technopark, and Technopark is awaiting formal empowerment by Government to evict the tenants (under Kerala Rent Act). It was decided to take over the unit after the latter is obtained and then advertise it for sale.
32	2.2.36	KSIDC has provided term loan support for more than one dozen wheat roller flour mills. By and large, term loans granted for wheat flour mills have been repaid satisfactorily and most of the units assisted by the Corporation in this field are functioning well. The corporation received the proposal from AMA Food products (P) Ltd. for setting-up a 100 tpd capacity wheat flour mill at Edayar, near Kochi, in March 1996. The unit was promoted by Shri A M. Sadique and Associates, who at that time were already running a wheat flour mill viz. Star Agro and Wheat Roller Flour Mills, financed by the Corporation. This unit, which was taken over by Shri Sadique and Associates, had improved its performance after change of management. It may be noted that in 1993-94, Star Agro Mills had made cash loss whereas in 1994-95, there was cash profit of ₹ 3 lakh and the capacity utilization had increased from 2946 tonnes to 11374 tonnes. Substantial improvement in capacity utilization could be achieved by this unit. When the unit was taken over by the promoters of AMA Food Products (P) Ltd. The promoters had also increased capacity of the plant from 60 tonnes to 100 tonnes per day.

(1)	(2)	(3)
		Wheat consumption in the State has been constantly increasing. After setting up AMA Food Products, the Corporation had assisted two flour mills in Ernakulam District itself, namely, JJ Roller Flour Mills (P) Ltd. and Periyar Agro Food Products (P) Ltd. Both these units are functioning well and repaying promptly to the Corporation. It may be seen that the project failed not due to defective appraisal, but due to problems from the side of the management. The promoters over stretched and set-up a number of projects at the same time. Which resulted in working capital erosion and further leading to sickness of this unit.
		At the beginning itself the Corporation had started monitoring of the unit and observing default, the Corporation quickly served notice in 26-11-1998 (the company started production only on 12th December 1996). The corporation issued RR Requisition. The letter for keeping RR Proceeding in abeyance was issued to enable take over of the unit under Section 29. The unit was taken over on 30-7-2001. After the unit was advertise for sale, the bank approached DRT, which stayed the sale of assets. Since the legal proceedings would take time, the Corporation moved the RR Authorities for recovery proceeding against loan guarantors.
		As soon as the legal proceedings are over, the Corporation intends to re-advertise and continue the sale proceedings. Since most of the wheat flour mills in the State are functioning satisfactorily, the Corporation expects realization of substantial portion of dues, once the sale is effected.
33	2.2.37	For the overall development of the State's economy, it was necessary to support units which add value to the State's produce. Rubberwood, which was mainly used as a fire wood did not provide adequate return to the rubberwood farmers, whereas the kiln-dried

(1)	(2)	(3)
		rubberwood could be used for manufacture of value added products such as furniture, etc. It did take longer than what was envisaged for rubberwood to ,be accepted in the market and therefore the unit which was set-up initially did face marketing problems. It may be mentioned here that, it is as a result of several small unit which were set-up, that RUBCO could think in terms of setting up of a large unit with foreign collaboration. Financing of rubberwood unit should therefore be seen in the context of an initiative by the Institution to get a better return for the farmers and to add value to a product which was otherwise going waste. Because of the carried forward losses and the debt burden, these units are fighting for their survival. As a matter of policy, however, it is felt that the problems faced in initial stage for this pioneering unit should not discourage the promotion of more units in the same sector from a long-term point of view.
34	2.2.38	In the case of M/s Bharat Agro, the sanction of loan was based on the strength of the know-how that was being extended by CFTRI for the project. When the project was not being implemented as per schedule and an inspection revealed that the faciolities created were not suitable, that the corporation took the initiative in recalling the loan and initiated recovery measures. The loan was sanctioned for setting-up a 3 tpd plant based on the CFTRI know-how. The inspection for done at the instance of KSIDC by RRL revealed that the promoter was setting-up a project for a capacity of 700 Kg. per day only. This capacity was not considered viable and it was for this reason that the loan was recalled. It may be mentioned that through KITCO, offers were invited for sale of assets and a major portion of the principal amount of the loan would be recovered, if the sale is confirmed by the Court, without much loss of time.

(1)	(2)	(3)
35	2.2.39	In the case of existing units with a good track record, assistance is extended under Equipment Finance Scheme, where loans to the extent of up to 75% of the plant and machinery cost is provided. In cases other than the Equipment Finance Scheme, the general debt equity norms now followed is 1:1 with exception being made for tourism or other projects for which reasons are specifically mentioned in the appraisal note. Earlier, before the norm of 1.5:1, financial institutions used to sanction loan on the basis of DER of 2:1. Unsecured loan is permitted to be brought in towards promoter's contribution, but such loan, according to the norms prescribed by the Board, are kept not exceeding 1/3rd of the total share capital. In the case of existing units, it is ensured that the over all DER for the company as a whole is within the norms prescribed from time to time.
36	2.2.40	KSIDC has been playing the role of a promotional agency and one of the promotional role is entrepreneurial development. Especially in a State like Kerala where attracting investment from outside is difficult, it was all the more necessary to encourage local entrepreneurs to take up productive, employment generating activities. The insistence of collateral security was considered only when KSIDC's experience in funding several projects were not successful and therefore collateral security was considered as an added measure to enable recovery. For better monitoring and control, it was felt that the officers generally in-charge of appraising the project would be in a better position to verify the assets and the implementation during the course of inspection. Therefore, monitoring and follow-up was made in-charge of the Group which was involved in the sanction of the loan in the first instance.

(1)	(2)	(3)
		Reply to point No. 2.2.31 may also please referred to in this context.
37	2.2.41	No Comments.
38	2.2.42	The original appraisal was done during June 1993. At that time the cost was estimated at ₹ 172 lakh. KSIDC sanctioned ₹ 60 lakh as term loan and ₹ 6 lakh as share capital assistance. The installed capacity of the plant was 5 tonnes per day. This was based on the existing market at that time and capacity of the indigenous machine available. There was a delay of about three years for sorting out the issues regarding land documents. This delay had resulted in cost overrun in the project. The market for machine glazed poster paper was much better during 1996 than that of the demand during 1993. In order to capitalize this additional market and also to make the unit viable (the cost had escalated due to time overrun of about three years) it had been decided to increase the capacity of 12 tonnes per day from the original 5 tonnes per day. Hence the cost was revised to ₹ 297 lakh during August 1996. A second hand imported machinery available at Mumbai was considered for this due to the following reasons: • If a new indigenous machine was ordered, delivery time for the same would have been more. • Imported machines are considered far superior than indigenous machines for making paper even though it was second hand. • The machine was selected after thorough inspection and also valuation by Chartered Valuer. • The project implementation delayed further due to the following reasons: • Delay in releasing the paper making machinery by the official liquidator.

(1)	(2)	(3)
		• As part of means of finance, term loan to the extent of ₹ 40 lakh was to be sanctioned by Federal Bank. However Federal bank did not sanction the loan. Promoters' efforts to get loan from other institutions also failed. • Consequently during June 1997, the cost was further revised to ₹ 355 lakh due to cost and time overrun and TL of ₹ 50 lakh was sanctioned to bridge to the gap of ₹ 40 lakh from Federal bank and ₹ 10 lakh additional for the cost overrun. • The project implementation was further delayed due to the delay in getting the plant and machinery and also due to the inability of the promoters to raise their contribution at a low debt equity ratio. The cost was finally revised to ₹ 452 lakh and additional loan of ₹ 60 lakh was sanctioned. The delay in commissioning (after receiving the plant and machinery from Bombay) was due to the inability of the promoters to identify and retain the services of qualified technical personnel's to install and run the machinery. Also, due to the prolonged trial run operations, considerable loss occurred which eroded the working capital. Bank did not sanction additional working capital. The promoter approached KSIDC for OTS under the Government approved scheme and ₹ 200 lakh was approved as OTS. However, he has not been able to make any payment so far; the last date is 31-12-2004.
39	2.2.43	In this case, at the time of the first disbursement in April 1998, as per the C.A.'s certificate dated 15-4-1998, promoters had raised ₹ 85.22 lakh as own contribution as against ₹ 81 lakh required. Thus they were eligible for 100% loan from KSIDC. In the inspection conducted on 5-11-1998, it was found that only one machine out of 20 was seen at the factory premises. Ed of the Company reported that shearing machine and power press had arrived

(1)	(2)	(3)
		earlier at the factory but had to be sent back to the equipment supplier, M/s Teco Engineering Corporation, Coimbatore, for rectification of certain short comings. KSIDC had conducted a series of project review meetings to ascertain the progress of implementation of the project. Since it was felt that the promoters had not taken any effective steps to bring back and reinstall the plant and machinery and complete the project implementation, Corporation initiated RR action against the company and the promoters on 18-9-1999. The assets of the company was attached and sold for ₹ 22,400. The property of Guarantor was sold in auction for ₹ 4,45,000. The petitions before the High Court had been disposed off and we had written to authorities to release the sale proceeds.
40	2.2.44	M/s Star Clothing and Diode Information Technologies were promoted by Shri Santhosh. He was running a readymade garment unit called Cityman in Bangalore and was one of the first entrepreneurs to set-up a unit in the Apparel Park in Trivandrum. Shri Ashok and Santhosh were operating a medical transcription unit successfully in Bangalore, before deciding to set-up a unit in Kerala and their experience in Bangalore as well as the potential for such a project in Kerala was the reason for providing assistance to their project. Medical transcription was considered to be one of the emerging sectors in the IT field and one of the promoters associated with this project was Dr. Louis Padamadan, who besides being a Doctor, had contacts in USA. First phase of the project was in fact doing well and this unit was expected to succeed. The promoters while setting up the project declared their assets and liabilities and availment of a personal loan for their house is not considered as a negative factor for implementation of the project, which is otherwise considered successful.

(1)	(2)	(3)
		It may be mentioned here that the promoters have come forward for an OTS and have in fact paid about ₹ 46 lakh towards repayment of their dues and promised to clear the balance amount shortly.
41	2.2.45	When it came to the notice of KSIDC that the plot of land on which the unit was located was mortgaged to State Bank, KSIDC filed criminal complaint against the promoters. The case is still in progress. The promoters have made an offer for an OTS.
42	2.2.46	KSIDC had sanctioned ₹ 96 lakh to the unit for setting-up a readymade garment manufacturing unit at KINFRA Apparel Park, Trivandrum. The project had envisaged marketing arrangements with Cityman Clothings, Bangalore, a well known brand in South India. As per the C.A.'s certificate furnished at the time of first disbursement, the promoter had raised ₹ 88 lakh as against their total contribution of ₹ 107.60 lakh for the project. Out of this an amount of ₹ 82 lakh had been shown as paid to equipment supplier. The facts were reported to the Executive Committee which approved the disbursement of ₹ 32.45 lakh to the company.
		The Corporation approved an OTS package for ₹ 50 lakh in November, 2004. As per the package, the company has to clear the entire dues on OTS by February 2005 together with interest @ 12 % from 30-4-2003. They have made payment of ₹ 14.33 lakh so far, as per the approved schedule KSIDC had, therefore, written to authorities to keep the RR action in abeyance.
		Please refer to answer given to point No.2.2.44 above.
43	2.2.47	Whenever a unit defaults, the first step taken is to try and see if the unit can be revived through certain rehabilitation measures. Loans are rescheduled and reliefs are given as a part of the rehabilitation process. One time settlement/change

(1)	(2)	(3)
		of management is also considered. It is only as a matter of last resort that recovery measures are initiated. In joint financing cases, a consensus has to be arrived at between all the participating institutions before initiating recovery measures. In view of the above, in some cases, there could be a delay in initiating coercive recovery steps. This modus operandi is also advocated by BIFR wherever rehabilitation of a sick unit is considered and the same is being followed by KSIDC too. Sickness warrants rehabilitation first; only if it is not possible/practicable, is Revenue Recovery action warranted. It cannot be denied that in the industrial scenario which has lot of uncertainties, the possibility of reschedulement as a mode of defusing crisis should definitely be considered where warranted, before contemplating Revenue Recovery action which may be less productive and entail long period of time.
44	2.2.48	As mentioned earlier, the recovery steps are taken only when other measures for revival/rehabilitation of the unit do not succeed. But once the Corporation is convinced that the unit cannot be operated on a viable basis, recovery measures are initiated. KSIDC had initiated RR against the guarrantors in June 1999. But the chief promoter had immediately obtained a stay against the RR and the stay was vacated only in 2001 Corporation had taken revenue recovery measure against the guarantors which is being pursued. Since the unit is ordered for winding up, the further proceedings have to be done by the Official Liquidator.
45	2.2.49	In this case the loan has been settled under a Government approved OTS Scheme. Full payment has been received from the unit.
46	2.2.50	NPA classification is done based on guidelines for asset classification and provisioning issued by RBI

(1)	(2)	(3)
		and as amended from time to time. RBI and as amended from time to time. RBI has been revising its norms for classification of NPAs and the classification in 2002-03 are based on more stringent norms than what was prevalent during the previous years. It is partly because of this that the percentage of NPAs has shown an increase. Loans may become NPAs due to variety of factors, such as adverse changes in Government policy, labour situation and the fluctuations in the international market which are normally beyond the control of the management. Otherwise Corporation is taking every step to monitor the factor within control.
47	2.2.51	Once a loan starts showing arrears, even before it may turn into an NPA, depending on the nature of loan defaults, either more time is given to clear the temporary arrears or else the possibility of re-schedulement is considered after conducting an inspection. Where time alone is not sufficient to overcome the crisis, Corporation considers revival of units either by infusion of fresh capital by directors and or the Corporation, or change of management or One Time Settlement. However, if nothing succeeds, then KSIDC resorts to Revenue Recovery action, as the last resort, to realise its dues. In the case of BIFR approved units, KSIDC has no option but to await the final outcome of the BIFR decision in such cases. Hence, recovery may be delayed. In the case of closed units, Corporation is taking effective steps either to reopen the unit by bringing an alternative management or dispose off the assets after take-over. There are several cases where after RR action has been initiated against the promoters, they have come forward for a One Time Settlement.

(1)	(2)	(3)
		Since the period of review, Corporation has improved the position of such bad loans and has made good progress in recovery of loans. The details of recoveries under different categories are given below:

(Rs. lakh)

Closed Units	..	175.53
Wound up cases	..	88.69
BIFR cases	..	22.98
RR cases	..	179.89
Units Under Sec. 29	..	34.13
OTS	..	570.74
Total	..	1071.95

48	2.2.52	Continuous efforts are on to expedite recovery of the balance recoverable amount. There is an elaborate system in force in the Corporation, as explained above, to monitor the units both under implementation and, in operation. Corporation does not lag behind in recovery efforts in any respect and there are only unavoidable delays incidental to the business of lending institution.
49	2.2.53	Given the experience of the Institution in recovery by resorting to coercive measures leading to an abnormal delay and deterioration of the assets, it has been the endeavor to try and revive the unit through the rehabilitation measures. In some cases, even though KSIDC extend helping hand, because of stringent attitude taken by bankers in not providing adequate working capital, the revival measures do not become effective. Our efforts are however to see that the recovery is effected through amicable measures and unit helped to operate continuing to provide employment as otherwise, closure becomes the only option in such cases.

(1)	(2)	(3)
		This modus operandi is also advocated by BIFR wherever rehabilitation of sick unit is considered and the same is being followed by KSIDC too. Sickness warrants rehabilitation first; only if it is not possible/practicable, is Revenue Recovery action warranted. In several cases where the loan was rescheduled, the unit has made a turnaround, made repayment as per schedule and thus upgraded itself to a performing asset. Hence, it may be incorrect to generally state that reschedulement of loan did not help in recovery of dues.
50	2.2.54	By and large, the expenses of KSIDC in recovering wherever loans have been given under the Equipment Financing Scheme has been good. There are only some exceptions where units have been unable to repay the loan under EFS, mainly for reasons beyond their control. Specifically, in two 'closed' cases, ₹ 37.50 lakh has already been realised by sale of machinery in the case of Gagi Apparels and steps are being taken for sale of land and building. In the case of Athulya Cements, the other 'closed' unit, the promoter has approached KSIDC for an OTS. Other than the cases under BIFR/winding up, the other cased are live and remittances are being made by the companies after regular follow-up from our side.
51	2.2.55	Regarding moratorium for repayment of loan principal, the period varies from case to case For e.g. A resort in remote location can only expect its occupancy to improve gradually and in the initial years, till they are able to stabilize operations, the occupancy is bound to be low. In comparison, however, a unit being set up in a town like Kochi or Kozhikode can expect to have a higher capacity utilization and revenue realization right from the beginning. Since the nature of project and the technological and marketing

(1)	(2)	(3)
		factors vary from project to project, it would not be prudent to fix a uniform moratorium for all projects. In the table given by audit, the moratorium has been calculated as the difference between the date of first disbursement and the date of first principal repayment as per the 'rescheduled' table in all the cases exceeding 24 months, which is not correct. By any argument, the start of reschedulement period, which may be any time during the original tenure of the loan (could be even after the unit repays part of the principal), can not be deemed to indicate that the preceding period of the loan was 'total moratorium'. Further, limiting the moratorium to. 12 months can be disastrous for the unit as the unit may just have completed project implementation (average 12 months) and not yet started generating income. There are projects with long gestation periods like Health/Tourism Sector projects which warrant a longer moratorium period. Therefore, it is unpractical/unrealistic to fix a uniform moratorium period for all projects. However there is no case where moratorium was granted for 93 months in the ordinary sense.
52	2.2.56	An OTS is thought of as a measure to recover as much as possible from a unit which has been facing difficulties and invariably whose net worth is fully eroded. Taking recovery through coercive measures like RR of Section 29 is not only time consuming but it is considered as a distress sale, often the realizable amount is very low. It may please be noted that any lending activity, has an element of risk associated with it and ensuring 100% recovery is only ideal. Units become sick in some cases for reasons beyond their control. Therefore, an OTS which enable recovery from a unit which has failed, should be considered as one practical measure with a 'time value' that has been adopted by Institutions. The failure to settle even in OTS cases is due to the fact that the promoters are

(1)	(2)	(3)
		forced to arrange funds for repayment at a stage when the unit was not doing well and they have incurred substantial losses from operations and their inability to raise funds at such a juncture.
53	2.2.57	RBI itself has recognized the importance of OTS and issued guidelines to bank on the same. Reserve Bank of India itself has been extending the OTS Scheme formulated for banks, year after year, because it felt that this was proving to be an effective way of recovering long pending dues. KSIDC has followed the same principal in keeping the OTS Scheme alive allowing for a few practical changes. Each OTS case is different from the other. Changes in any scheme are inevitable and are always done keeping the practical observed realities in mind. Regarding remittance of 50% of the OTS amount upfront, this was modified to "25% within a month", (In June 2001) based on observed realities. It is totally incorrect to say that the OTS Scheme has not served to reduce the NPAs. An OTS arrived at for a particular loan account will, on completion, reduce the NPA only with respect to that particular loan account and for other accounts. In this sense, the amounts collected under OTS of various loan accounts have definitely reduced the outstanding balance in these cases and also done away with NPAs in cases closed by payment. The NPA level rose in 2001-2002 not because of remittance on account of OTS cases but on account of deterioration of other cases. KSIDC could definitely contain the increase in NPA through OTS. The total amount realised by way of OTS since April 2003 till date is ₹ 570.74 lakh.
54	2.2.58 & 2.2.59	No Comments.
55	2.2.60	Revenue Recovery is a long process and invariably, the dividend is received over a long period of time. In the case of BIFR approved units, KSIDC as no

(1)	(2)	(3)
		option but to await the final outcome of BIFR decision in such cases. Hence, recovery may be delayed. In the case of closed units, Corporation is effective steps either to reopen the unit by bringing an alternative management or dispose off the assets after take-over.
		Therefore, there is generally no negligence in initiating Revenue Recovery action by KSIDC. Rather, it should be noted that all possibilities are considered to ensure maximum collection by KSIDC itself before handing over the unit to RR authorities for disposal. There are several cases where after RR authorities for disposal. There are several cases where after RR action has been initiated against the promoters, they have come forward for a One Time Settlement.
		KSIDC has been following up the RR with the District authorities. In fact, the Managing Director has been writing DO Letters to the Collectors of the District concerned. When stay is obtained by the promoters against the RR, till the stay is vacated, RR cannot be pursued further. In respect of RR cases, it is left to the RR authorities to decide about the valuation of the assets and invariable they get the valuation done through PWD Engineers. In all units taken over under Section 29, valuation is got done before effecting the sale.
		Answer given to point No. 2.2.52 may also be referred to in this context.
56	2.2.61	Prior to the liberalization era which started in the year 1992, the Corporation was giving term loans backed by refinance from IDBI. The maximum limits for project cost, the Debt Equity Ratio etc. were all determined by IDBI and the Corporation did not have a system of taking collateral security for loans. This was also in accordance with the Liberal Government Policy of promoting and developing industries in the State of Kerala. It may be noted that institutions like Banks also followed a similar policy during this period. However, in the post-liberalisation period, as the Indian Industrial Economy adjusted itself to the multi-faceted effects of global exposure and NPAs increased in certain areas, many institutions started insisting on

(1)	(2)	(3)
		collateral security for loans, though not in all cases. It is thus that in 1996, KSIDC also felt the need for insisting on collateral security in certain cases and evolved norms for the same.
57	2.2.62	In all joint finance cases, inter institutional meetings are held to expedite the disposal of assets taken over under Sec. 29, from time to time. Upset price is fixed through asset valuation which is always conducted before the unit/assets is sold by auction. In some of these, where assets have been sold, promoters have obtained stay from court which is pending to be vacated. But for litigation involved, recovery would have been faster in these cases. However, every attempt is being made to take whatever action is possible in each case.
58	2.2.63	The internal audit of the Corporation is entrusted to outside chartered accountant firms every year and the scope of work includes auditing of sanction, disbursement and recovery of loans as well as share investment portfolio, besides verifying financial records. All the observations of the internal auditors are discussed with the auditors in detail and prompt replies given to them and rectification carried out in time on a concurrent basis. The scope of work has been always accepted by the Statutory auditors and they have expressed satisfaction about the internal audit system in vogue. The other observations are noted for future guidance.
59	2.2.64	As per the directions contained in clause 3(1) of the said norms, these are applicable *inter alia*, to a non-banking finance company accepting/holding public deposits; further, as per clause 3 (iv), the provision shall not apply to an NBFC, being a Government Company. While KSIDC is an NBFC, it does not have any public deposits and it is also a Government Company since 100% of the share capital is owned by Government of Kerala.
60	2.2.65	Hence, the observations in the para not applicable to KSIDC.

(1)	(2)	(3)
61	Conclusion	Government would like to mention that KSIDC is a promotional agency and has been instrumental in promoting a large number of projects in the State and there are many success stories as well as failures. In the absence of Kerala becoming a preferred destination from investors outside, the role of KSIDC in encouraging local entrepreneurs (many of them, first generation entrepreneurs or traders switching over to manufacturing activity) needs to be taken into account. The loans are sanctioned after due appraisal and failure of a project cannot be attributed solely to the appraisal process. Changes in Government policy, the labour situation, increase in power cuts and power costs, changes in the import policy, severe competition and under-cutting in the market, inadequacy of working capital support, etc. are factors beyond the control of many units. Constant efforts are on to improve the standard of appraisal after taking into account known information about the particular industrial environment, trends for the immediate future, strengths and risks (SWOT Analysis) etc., and to learn from experience. The recovery measures are generally taken as a measure of last resort after efforts for revival of the unit through rehabilitation/reschedulement fail. The delay in many cases arises only when there are stays given by Courts and getting the stays vacated take considerable amount of time. Tourism is one of the thrust sectors in Kerala and our experience in financing this sector has been by and large good. Studies have been conducted in several sectors of industry and findings recorded after interactive sessions with the stakeholders. Rehabilitation measures, new promotions measures etc. are being proposed in each sector. It is submitted that there have been a few failures but Government believes that in the days to come, with the increase in emphasis on the promotional role, KSIDC will have a meaningful role to play in the overall development of the state.