सत्यमेव जयते

Report of the
Comptroller and Auditor General of India

for the year ended 31 March 2019

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

Union Government (Commercial)
No. 18 of 2020
(Compliance Audit Observations)

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PREFACE

1. The accounts of Government Companies set up under the provisions of the Companies Act (including Companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 143(6) of Companies Act, 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to the supplementary audit by CAG whose comments supplement the reports of the Statutory Auditors. In addition, these companies are also subject to test audit by CAG.

2. The statutes governing some Corporations and Authorities require their accounts to be audited by CAG. In respect of five such Corporations viz. Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India, Food Corporation of India and Damodar Valley Corporation, the relevant statutes designate CAG as their sole auditor. In respect of one Corporation viz. Central Warehousing Corporation, CAG has the right to conduct supplementary and test audit after audit has been conducted by the Chartered Accountants appointed under the statute governing the Corporation.

3. Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1984.

4. The Audit Report for the year 31 March 2019 contains 42 individual audit observations relating to 31 CPSEs under control of 13 Ministries/ Departments. Instances mentioned in this Report are among those which came to notice in the course of audit during 2018-19 as well as those which came to notice in earlier years. Results of audit of transactions subsequent to March 2019 in a few cases have also been mentioned.

5. All references to 'Companies/ Corporations or CPSEs' in this Report may be construed to refer to 'Central Government Companies/ Corporations' unless the context suggests otherwise.

6. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

EXECUTIVE SUMMARY

I Introduction

1. This Report includes important audit findings noticed as a result of test check of accounts and records of Central Government Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations.

2. The Report contains 42 individual observations relating to 31 Central Public Sector Enterprises (CPSEs) under 13 Ministries/ Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/ Departments under whose administrative control the CPSEs are working to give them an opportunity to furnish their replies/ comments in each case within a period of six weeks. Replies to 34 observations were not received even as this Report was being finalised as indicated in para 3 below. Earlier, the draft observations were sent to the Managements of the CPSEs concerned, whose replies have been suitably incorporated in the report.

3. The paragraphs included in this Report relate to the CPSEs under the administrative control of the following Ministries/ Departments of the Government of India:

Ministry/ Department (CPSEs involved)		**Number of paragraphs**	**Number of paragraphs in respect of which Ministry/ Department's reply was awaited**
1.	Chemicals and Fertilizers (Rashtriya Chemicals and Fertilizers Limited)	1	1
2.	Civil Aviation (Airports Authority of India, Air India)	4	4
3.	Coal (Mahanadi Coalfield Limited, NLC India Limited, NLC Tamil Nadu Power Limited)	3	2
4.	Commerce and Industry (Government E-Marketplace)	1	1
5.	Finance (IIFCL, NABFINS Limited, National Insurance Company Limited, Oriental Insurance Company Limited, SBI Global Factors Limited, United India Insurance Company Limited, IFCI Factors Limited)	10	6

6.	Heavy Industries and Public Enterprises (BHEL, HEC Limited, Tungabhadra Steel Products)	4	4
7.	Housing and Urban Affairs (NBCC (India) Limited)	1	1
8.	Mines (Hindustan Copper Limited)	1	1
9.	Petroleum and Natural Gas (BCPL, ONGC, IOCL, BPCL, HPCL)	5	1
10.	Power (Damodar Valley Corporation, NTPC-SAIL Power Company Limited)	2	2
11.	Road Transport and Highways (NHAI)	4	4
12.	Shipping (Dredging Corporation of India Limited)	1	0
13.	Steel (MECON Limited, RINL, SAIL)	5	5
Total		**42**	**34**

4. Total financial implication of individual audit observations is ₹1,243.20 crore.

5. Individual Audit observations in this Report are broadly of the following nature:

- Non-compliance with rules, directives, procedure, terms and conditions of the contract etc. involving ₹462.13 crore in 16 audit paragraphs.
- Non-safeguarding of financial interest of organisations involving ₹227.41 crore in 14 audit paragraphs.
- Defective/ deficient planning involving ₹440.80 crore in three audit paragraphs.
- Inadequate/ deficient monitoring involving ₹112.86 crore in nine audit paragraphs.

6. The Report contains a Chapter on "Recoveries & corrections/ rectifications" by CPSEs at the instance of audit. The Chapter contains two paragraphs viz. (a) recoveries of ₹51.43 crore made by 9 CPSEs at the instance of Audit, and (b) corrections/ rectifications carried out by 3 CPSEs at the instance of Audit.

II Highlights of some significant paragraphs included in the Report are given below:

Department of Public Enterprises (DPE) vide its Office Memorandum (OM) dated 26 November 2008, stipulated that the payment of performance related pay (PRP) would be directly linked to the profits of CPSE and performance of executives. CPSE was required to adopt 'Bell Curve Approach' in grading the officers so that not more than 10 *per cent* to 15 *per cent* executives are 'Outstanding/ Excellent' and 10 *per cent* of executives would be graded as 'Below Par' and not paid any PRP. However, AAI modified the grading of last 10 *per cent* of 'Below par' category of employees in three sub-categories, i.e., Very Good, Good and Below Good and paid the PRP benefits at the rate of 60 *per cent*, 30 *per cent* and NIL, respectively. Thus, only limited number of employees, sub-categorised as below good, did not receive PRP instead of all the employees under the last 10 *per cent* 'Below par' category. As a result of non-adherence to the condition of 'Bell Curve Approach', payment of PRP amounting to ₹38.78 crore during 2010-11 to 2016-17 to ineligible employees, which was in violation of DPE guidelines.

(Para 2.1)

Air India SATS Airport Services Private Limited (AISATS), the joint venture company of Air India Limited (AIL) is providing Ground Handling (GH) services to International and Domestic airlines including Airline Allied Services Limited (AASL), a subsidiary of AIL, at Delhi, Bangalore, Hyderabad, Trivandrum and Mangalore. AIL borne the differential amount of GH charges to the tune of ₹44.88 crore for the services availed by AASL despite the fact that the revised lower rate was approved by Chairman, AISATS. The differential charges absorbed by AIL do not have approval of Audit Committee of AIL as required under Section 177(4) of the Companies Act, 2013.

(Para 2.3)

NLC India Limited entered into an outsourcing contract for lignite excavation in respect of Mine-II, while the opening stock of lignite, actual quantity of lignite excavated from Mine II and lignite transported from Mine IA was sufficient to meet the requirement of both the Thermal Power Stations, linked with Mine-II, for the years 2015-16 and 2016-17. Outsourcing excavation contract resulted in expenditure of ₹28.74 crore which was avoidable. Further, quantity excavated through outsourcing contract resulted in overstocking of inventory and ultimately deterioration in the quality of lignite.

(Para 3.2)

Government e-Marketplace (Special Purpose Vehicle) was incorporated on 17 May 2017 under the Companies Act 2013 with responsibility for building, operating and maintaining the GeM platform to provide an end-to-end online marketplace for Central and State Government Ministries/ Departments, Central & State Public Undertakings (CPSUs & SPSUs), autonomous institutions and Statutory & Constitutional Bodies, for procurement of common use goods and services. Purchases through GeM by Government users was authorised and made mandatory by the Ministry of Finance vide Rule (No. 149) in the General Financial Rules, 2017. The GeM application (new version) (also termed as GeM Version 3.0) has been operational since 26 January 2018.

Audit observed that although GeM has been successful in implementing an on-line solution for government procurement. However, STQC audit for compliance with "Guidelines for compliance to Quality requirements of e Procurement Systems" of Ministry of Electronics & Information Technology not conducted due to which Audit is unable to derive assurance about the authenticity, non-reputability and integrity of the e-bidding module of GeM, (the electronic equivalent of the manual 'sealed bid' process). There were deficiencies in the input controls for buyer and seller registration and the process of registration and verification of users needed further strengthening along with regular cleaning and updation of legacy data and wrong data. The objectives of faster procurement, efficiency and speed in procurement process remained partially achieved since there were numerous delays at different stages of the procurement process, especially about delays in payment. Similarly, there were inadequate controls to ensure achievement of objective of transparency and there were deficiencies with regard to achievement of objective of economy and price reasonability. Despite being mandatory for all central government offices, high number of dormant or inactive users indicated that universal acceptance may not have been achieved. There were deficiencies in the mapping of the GFR and Government of India (GoI)'s other rules and regulations and Business Requirement Documents. There were also significant delays in the incident resolution mechanism. Although GeM had intended to introduce procurement of services through GeM, however, various services were yet to be introduced on GeM. As regards economy, Audit felt that the methodology used by GeM to indicate savings did not give an accurate picture. The application lacked ease of usage due to absence of functionalities and assistance. The application was also not benchmarked as per the requisite number of users leaving the application slow and in continuous breakdown.

(Para 4.1)

In road sector, the projects do not have physical assets to provide as security against loan. Viability of the project is the only comfort for securing the quality of loan asset. As such, due diligence on the project before signing of common loan agreement (CLA), ensuring compliance to the conditions set in the CLAs before disbursement of loan and monitoring of project work progress for timely corrective action are vital activities to be undertaken by lenders for financing the road projects.

Lenders including IIFCL did not give due cognizance to the major risk of RoW availability to Projects. In seven out of nine NPA cases, non-availability of required RoW was the leading factor for non-completion of projects and turning of the loans into

NPA. In one NPA case, unrealistic traffic projection affected the project's commercial viability.

The loans were disbursed, in many cases including NPA cases, without ensuring the compliance to the CLA conditions relating to environment/ forest/ tree cutting clearances, infusion of required equity through escrow account and funding of cost overrun/ IDC by promoters. This led to delay in work progress, risk of misuse of fund by promoters and avoidable additional loan to badly managed projects.

Monitoring of project progress was weak due to inadequacies in internal control systems established by the lenders, particularly the incomplete/ deficient information contained in LIE reports and CA certificates relating to the RoW availability, the equity infusion by promoters, the changes in shareholding pattern, the physical work progress vis a vis funds available with the project and the advances released/ unadjusted/ unrecovered release of advances to EPC contractor without any security and misutilisation of such advances. The deficiency in monitoring led to the promoter taking undue benefits out of project fund, at the cost of project work progress.

The above deficiencies led to loan of ₹1,895.50 crore to nine projects out of 32 projects examined in audit becoming NPA which indicate that IIFCL still has a long way to go to achieve its mission of adopting best practices and developing core competencies for facilitating infrastructure development.

(Para 5.1)

IIFCL sanctioned and disbursed two loans under Takeout Finance Scheme without ensuring compliance of critical requirement of obtaining 'No Objection Certificate' from Concessioning Authorities, and without ensuring required debt servicing capacity of the borrowers. Resultantly, IIFCL ended up lending of ₹26.20 crore in already terminated projects.

(Para 5.2)

NABFINS Limited was formed with the objective to provide financial services in the areas of agriculture and micro finance. The Company operates loan disbursements in three major business verticals, viz., Second Level Institutions (SLIs), Business and Development Correspondents (B&DCs) and Direct Lending (DL) to borrowers. During audit of Non-Performing Assets (NPAs) in NABFINS Limited, it was observed that:

- The Company incorrectly included the thrift of members of Second Level Institutions (SLIs) in the calculation of their net worth while determining their loan eligibility. Consequently, loans aggregating to ₹299.80 lakh were sanctioned to six SLIs, even though five of them were not eligible for any loan and one was eligible for a loan of ₹0.15 lakh only against ₹50 lakh sanctioned to it.

- There were deficiencies in appraisal of loans as the list of book debts provided by the SLIs were not certified by the auditor and the third party guarantees or personal guarantees of promoters were not obtained.
- The findings of investigative audits of Business & Development Correspondents (B&DCs) were not properly recorded. Post disbursement visits in respect of loans disbursed were not conducted as per the Operations Manual of the Company.
- The follow-up mechanism in respect of the NPA accounts was weak and needed to be strengthened.

(Para 5.3)

NICL, nationalised in 1972, has been servicing in the general insurance industry. Thematic Audit was undertaken to review the performance of underwriting of GMPs as Incurred claim ratio (ICR) under the GMPs was consistently adverse over the years.

Para highlights the deviations/ violations of instructions of IRDA and of its own laid down norms. Audit noticed instances of:

- issuance of policies without approval of HO
- Non-adherence to IRDA guidelines and non-revision of prices of its products despite adverse ICR
- Short collection of premium against the premium approved by HO
- short charging of premium due non-adherence to the underwriting guidelines for GMPs
- Cases of unauthorised and excess payment of brokerage/ commission

Non-adherence to the circulars/ instructions of IRDA and of its own laid down norms guidelines indicate deficiencies in the monitoring and control mechanism in the organisation.

(Para 5.4)

SBI Global Factors Ltd, sanctioned domestic factoring facility worth ₹35 crore to M/s. Fabtech Projects & Engineers Ltd (FPEL). The facility showed early warning signals of stress such as delays in payments, direct payments, downgrading of credit rating, adverse remarks in Auditor’s report etc.. The Company continued to factor the invoices submitted by FPEL and made payments to them instead of taking affirmative action to reduce and exit from the facility. The asset became a NPA in March 2019 and dues amounting to ₹28.37 crore were not recovered.

(Para 5.8)

Non adherence to guidelines of Ministry of Finance for pricing of group health insurance policies by United India Insurance Company Limited led to forego the revenue of ₹112.28 crore during 2016-17 to 2018-19.

(Para 5.9)

IFCI Factors Limited (IFL) is registered as a NBFC-Factor with Reserve Bank of India (RBI) and is primarily engaged in the business of factoring and short term corporate loan. It is a subsidiary of IFCI Limited.

As asset quality of Company had deteriorated over last five years, audit was taken up covering a period of 2014-15 to 2018-19 with objectives to examine compliance with the annual Credit Policy and business plan of the Company, review the credit appraisal mechanism and examine whether due diligence has been exercised in sanction and disbursement of loans, and examine the efficiency of credit monitoring mechanism.

Following were major audit observations:

- 20 out of 26 cases of sanctioning and disbursement reviewed in Audit were approved with one to seven deviations
- In eight cases of Corporate Loans, Company unduly upgraded/ notched up the rating of the clients by two points on the basis of comfort of security, despite collateral security being basic and essential eligibility criteria for sanction of Corporate Loans.
- Out of 25 cases of NPA and write offs (17 NPA and 8 Write Off cases) reviewed by Audit, non-compliance of credit policy was observed in 21 cases with respect to sanctioning and monitoring of the facility which led to these accounts turning into NPA or being written off. Out of 25(sample), recovery in 15 cases of ₹212.31 crore was doubtful.
- Company continued to fund the clients by way of debit note funding despite invoices being in recourse (30 days above due payment date). This practice of debit note funding leads to knocking off/ settling of the old overdue/ recourse invoices and allows funding against the new invoices received thereby delaying the classification of an account as NPA and ever greening such accounts.
- Company did not classify the account as NPA in 16 cases where the overdue were more than the prescribed period in violation of RBI guidelines.
- In four cases company reported a fraud committed by the client/ debtors whereby company had to incur a loss (doubtful recovery) of ₹50.33 crore. The major lapses on part of the company were (i) Sanctioning the credit facility to the client who did not meet the eligibility criteria, (ii) Lack of due diligence at the time of sanctioning and addition of new debtor, (iii) Non-monitoring of the account as per

the procedure laid down in the credit policy, (iv) Delay in declaration of the account as NPA by reassignment of invoices and debit note funding and (v) Non-compliance with the terms of sanction as per sanction letter, disbursement condition and waiver of crucial pre disbursement conditions.

(Para 5.10)

BHEL suffered a loss of Euro 3.83 million (₹28.35 crore) due to failure to deliver performance as per the contractual provisions and resultant invocation of bank guarantee by the client

(Para 6.1)

The Heavy Power Equipment Plant, Hyderabad of BHEL failed to avail 50 *per cent* rebate in sewerage cess on water charges, as extended by the Hyderabad Water Supply and Sewerage Board, which resulted in avoidable extra expenditure of ₹21.24 crore during January 2012 to March 2019.

(Para 6.2)

Tungabhadra Steel Products Limited gave incorrect treatment to the waiver of Government of India loan and interest thereon in the books of accounts for the year 2016-17. Consequently, the Company made avoidable payment of Income Tax to the tune of ₹55.38 crore with a further tax liability of ₹41.18 crore.

(Para 6.4)

Hindustan Copper Limited (HCL) was approached by the Asset Reconstruction Company (India) Limited, Mumbai (ARCIL) seeking the interest of the Company in the acquisition of the plant of Jhagadia Copper Limited (JCL), Gujarat which was closed since was September 2009 for want of working capital. Though apprised of the threats regarding operational aspects as well as constraints for availability of raw materials for the plant, HCL acquired (February 2015) JCL plant at a price of ₹210 crore from ARCIL as a single bidder and renamed it as Gujarat Copper Project (GCP). The capacity utilization of GCP was only 20 percent of the total capacity of the plant during the period from November 2016 to March 2019 primarily due to non-availability of raw materials. As a result, HCL suffered a loss of ₹102.49 crore during the above period by operating GCP. In the meantime, the Company made a total investment of ₹303.18 crore in GCP (including acquisition cost) till March 2019.

(Para 8.1)

Oil and Natural Gas Corporation Limited (ONGC) initiated a project called Information Consolidation for Efficiency (ICE) in October 2003 to realign its business processes under a common Enterprise Resource Planning (ERP) system with the objective of optimizing and standardizing business processes for integrated information availability on real time basis and to eliminate duplication of activities to increase efficiency and transparency by capturing data at source point.

Audit observed that data on location and custodian of assets was not properly populated in the master records and 571 ex-employees continued to be denoted in the system as custodians of assets valuing ₹87.43 crore. Incorrect bank keys and duplicate vendor records were identified in vendor master. Further, Audit noted that repetitive payments were made to vendors classified as one-time vendors and overdue payments continued without any reason attributed in the payment block key (upto 1,096 days). Audit also observed that uniform practice is not followed across the Company for adoption of allocation of drilling costs.

(Para 9.2)

ONGC entered (April 2002) into a MoU with IOCL and BPCL for sale of crude oil. The sale price was subject to discount at slab rates, in case Basic Sediment & Water (BS&W) content in the crude oil exceeded 0.2 *per cent* by volume. The oil produced from Assam fields of ONGC has high BS&W content, due to which further processing of crude oil is required to bring down the BS&W content level below 0.2 *per cent* before supply to the refineries. Audit observed that Assam Renewal Plan was conceptualized way back in December 2005 with an estimated cost of ₹2,465.15 crore. One of the major deliverables of the project was to control the BS&W level below 0.2 *per cent*. Though the project was scheduled to be completed in March 2013, the work is still on. Crude oil contained BS&W ranging from 0.164 - 0.417 *per cent* during April 2013 to October 2019 resulting price discount/ loss of revenue to ONGC amounting to ₹27.06 crore.

(Para 9.3)

The prices of Petrol (MS) and Diesel (HSD) which form major part of the sale of petroleum products of the Oil Marketing Companies (OMCs) were deregulated by the GoI in June 2010 and October 2014 respectively. OMCs effected daily change in Retail Sale Price (RSP) of MS and HSD with effect from 16 June 2017 as against fortnight revision being followed till then. Audit test checked 188 Retail Outlets (ROs) to review the implementation of daily pricing and observed inadequacies in OMCs' preparedness at the time of implementation of daily price revision in terms of automation of ROs and provision of sustained connectivity at the ROs. In some of the automated ROs, the dealers were found to be manually changing the daily prices. The dealers were also not prompt in changing the prices leading to over/ undercharging of prices to the customers. Audit noticed inadequate monitoring of the price changes, reduced inspections of ROs by field officers of OMCs and inadequate reporting by field officers in their inspection reports.

(Para 9.4)

Damodar Valley Corporation (DVC) entered into a PPA with Kerala State Electricity Board Limited (KSEBL) for supply of 150 MW from Raghunathpur Thermal Power Station-I (RTPS-I) for a period of 25 years. Due to increase in project cost, DVC and KSEBL mutually agreed (July 2015) to reduce the quantum of power from RTPS-I in respect of the above PPA from 150 MW to 50 MW and a fresh PPA for supply of 100 MW of power from its existing other units. However, no such PPAs were entered into with KSEBL.

The scheduling of power from RTPS-I was commenced from May 2016. Thus, the Corporation was not in a position to recover capacity charges of ₹78.15 crore from May 2016 to March 2019 in respect of RTPS-I corresponding to 100 MW of power from KSEBL. Additionally, the Corporation has to absorb recurring loss of ₹3.53 crore per month till new consumer for purchasing of 100 MW of power is firmed up.

(Para 10.1)

Even though the responsibility of collection of toll dues from TNSTC buses was of the concessionaire, NHAI accepted the claim of the concessionaire, amounting to ₹28.92 crore, which was not permissible as per the article 22.8 of the Concession Agreement. Also failure of the NHAI to maintain the stretch of the project highway resulted in a Public Interest Litigation and subsequent interim order of Hon'ble High Court of Madras for reducing the toll rates by half. This has resulted in revenue loss of ₹20.38 crore.

(Para 11.1)

NTPC Limited awarded (February 2017) work of External Coal Handling Plant for North Karanpura Super Thermal Power Project to MECON. Delay in commencement of work by MECON Limited and inability to ensure submission of Bank Guarantee by its foreign associate, to execute External Coal Handling Plant Project awarded by NTPC, resulted in termination of contract and encashment of BG by NTPC and loss of ₹42.26 crore to MECON.

(Para 13.1)

RINL had a Thermal Power Plant (TPP) with five Turbo Generators (TGs) and Auxiliary Power Generating Units with an overall installed capacity 542.48 MW as of 31 March 2019. During audit of Energy Management in RINL, it was observed that:

- Plant Load Factor achieved by the Main TPP was less than the norm prescribed by CERC. Even assuming the operation of TPP at PLF of 80 *per cent*, savings to the extent of ₹85.48 crore would have accrued to the Company towards the cost of power imported from APEPDCL.

- RINL curtailed TPP generation due to shortage of boiler coal and blended high cost Medium Coking Coal with boiler coal without envisaging for alternate source of procurement of boiler coal leading to increased cost of power generation. Savings to the extent of ₹145.21 crore were lost by the Company due to improper blending of MCC with indigenous boiler coal.
- The utilisation of Auxiliary Power Generation units was poor due to faulty design/ insufficient heat recovery from Sinter Machine/ insufficient top gas pressure resulting in shortfall in generation of power with consequential purchase of power from APEPDCL.
- Auxiliary Power Consumption, beyond the norms prescribed by CERC, resulted in avoidable expenditure of ₹230.56 crore.
- The excess consumption of steam during 2014-15 to 2018-19, beyond the stipulated norms, accounted for 29.91 lakh tons of steam which when converted to monetary terms valued ₹382.48 crore.

(Para 13.2)

Audit examined records of all captive mines of SAIL for the period 2014-19 to assess the management of captive mines and compliance with safety and environmental laws. It was noted that SAIL did not apply technical due diligence and conduct techno-commercial viability study to assess viability before the allotment of Parbatpur and Sitanala Coal Blocks, which had to be surrendered subsequently. The amount spent on development of these coal mines thus became infructuous. Production lower than the planned levels at Dalli, Rajhara and Barsua mines, led to transfer of iron ore from distantly located mines by BSP and RSP with extra expenditure on freight differential. At Barsua mines, the non-compliance of Forest Conservation Act, 1980, on account of use of forest land for non-forest purpose, without approval led to payment of penal NPV and CA. Non-compliance of Odisha Minerals Rule, 2007 by Bolani mines led to additional expenditure on differential royalty. Additional royalty payments were made at Manoharpur mine, as Iron ore was graded at the highest grade and at Nandini mines on rejected limestone chips that were not suitable for iron making. Government of Odisha and Government of Jharkhand demanded compensation on account of mining beyond quantity permitted under Environmental Clearance/ Consent to operate by the Iron ore and Limestone mines under Raw Material Division. Delay in surrender of excess Railway land at Bolani at Meghahatuburu mines led to avoidable expenditure. There was 41 *per cent* shortfall in statutory manpower against the requirement in mines.

(Para 13.3)

Audit examined records relating to safety policy and environment management of SAIL for the period 2014-19 to assess the compliance to stipulated Act/ Rules/ Regulations and Standard Operating Practices (SOP) and whether social responsibilities related to environmental and pollution control, safety standards and application of the best industrial practices was followed. It was noted that SAIL Safety Organisation did not develop any plan or frame timeline to implement its recommendations. Out of 686 recommendations, 258 were yet to be complied. Rupture in pipelines in Pump House at BSP led to fall in water pressure and Blast Furnace Gas spread into Pump House causing death of six persons. Laxity in taking safety measures and unsafe practice of doing De-Blanking job of CO Gas Line on charged pipelines caused accident at BSP where 14 people died. There were less number of Safety Officers posted in plants than the statutory requirement. Non-disposal of fly ash and slag dump and non-setting up of sewage treatment plant led to delay in issue of EC in absence of which work for Sinter Plant and SMS-I packages at BSL was stopped. CO_2 emission in SAIL was higher than international standards as well as TATA Steel. Delay in completion of air pollution control system led to flaring up of gases in the environment. Average Specific Energy Consumption in SAIL was more than the world average as well as Tata Steel and RINL.

(Para 13.4)

CHAPTER I: MINISTRY OF CHEMICALS AND FERTILIZERS

Rashtriya Chemicals and Fertilizers Limited

1.1 Non-compliance of DPE Guidelines on payment of Performance Related Pay

As per DPE guidelines, profits from core business activities of the CPSEs only were to be considered for distribution of PRP to employees but Rashtriya Chemicals and Fertilizers Limited considered income from non-core activities also, for distributing PRP.

Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises, while approving (26 November 2008) the pay revision of Board level executives and non-unionized supervisors of Central Public Sectors Enterprises (CPSEs), laid down certain conditions regarding payment of Performance Related Pay (PRP). The CPSEs were required to follow a 'Bell Curve' approach in grading the officers so that not more than 10 to 15 *per cent* are graded outstanding and 10 *per cent* are to be graded below par who are not to be paid any PRP[1]. Further, DPE clarified[2] that PRP should be distributed based on profits accruing only from core business activities of the CPSEs.

Rashtriya Chemicals and Fertilizers Limited (Company) paid an amount of ₹52.53 crore as PRP to its executives for the years 2013-14 to 2017-18.

Audit observed that:

- Manufacturing and marketing of fertilizers and chemicals is the main objective of the Company as per its Memorandum of Association and the same is disclosed as the core business of the Company in its Annual Report. However, while computing PRP for the period from 2013-14 to 2017-18, the Company had included income from rent received (₹126.47 crore), interest income (₹38.28 crore), dividend income (₹0.78 crore), profit on sale of fixed assets (₹2.44 crore), Government grant (₹0.90 crore) and miscellaneous income[3] (₹25 crore) aggregating to ₹193.87 crore, though these are income earned from non-core activities. Inclusion of income from such non-core activities has resulted in excess payment of PRP of ₹5.05 crore.

- Though clarification regarding inclusion of only profits from core business activities for the purpose of PRP has been issued by DPE on three occasions since 2010, Board of Directors of the Company took note of the clarification only while approving the PRP for 2017-18. For the remaining years, the aspect regarding core activity was not deliberated, while finalising the payment of PRP. Even for 2017-18, only one item viz. income from

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1 ***As per DPE clarification dated 6 July 2011***

2 ***02 November 2010, 18 September 2013 and 02 September 2014***

3 ***Miscellaneous Income-Security Deposit/ Earnest Money Deposit recovered - ₹13.23 crore; Cash discount on early payment of Electricity bills - ₹11.55 crore; Horticulture income on account of sale of fruits/ coconuts/ woods collected from factory premises - ₹0.22 crore***

TDR[4] was reduced from the Profit before Tax for calculation of PRP, though there were other heads of income, which were clearly not from core activities, as brought out in para above.

- The Company did not comply with the DPE guidelines regarding non-payment of PRP to 'below par' employees (bottom 10 *per cent* of the Bell curve) and these employees were paid PRP amounting to ₹2.58 crore.

Management replied (12 November 2019) that:

- Certain incomes which have accrued to the Company are offshoots to the business activities such as rent received, recoveries made, interest, dividend etc. Also, these are required to be reported separately under 'Other income' as mandated by Accounting Standards and cannot be netted out of the total expenditure.
- Government of India (GoI) is granting subsidy on urea based on cost data which includes fixed cost, net of other income. Accordingly, such income is part of the core business activities of the Company.
- Profitability performance of a CPSE is being monitored by the Government at an overall level as reported in financial statements and not restricted to core activity only.

The above reply is to be viewed against the following facts:

- DPE has emphasised that only core activities are to be considered for the purpose of PRP and, hence, there is no provision for including offshoot activities or non-core activities.
- The basis adopted by GoI for computing urea subsidy cannot be a criterion for computing PRP. While subsidy is granted as a policy by Government, PRP is a part of employee benefits.
- Though performance of CPSEs is evaluated at an overall level, separate guidelines have been laid down by DPE for payment of PRP, focussing on core activities.

Thus, failure of the Company in complying with DPE guidelines has resulted in excess payment of PRP of ₹5.05 crore to its employees. It is recommended that irregular payment made to ineligible employees may be recovered.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

[4] ***TDR means transferable development rights which are obtained in the form of certificates which the owner can subsequently use or can trade it in the market***

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airports Authority of India

2.1 Payment of Performance Related Pay due to non-adherence of conditions of 'Bell Curve Approach'

Due to non-adherence to the conditions of 'Bell Curve Approach' of DPE guidelines, the Airports Authority of India made an irregular payment of ₹38.78 crore for the years 2010-11 to 2016-17 to ineligible employees.

DPE vide its OM dated 26 November 2008, stipulated the admissibility, quantum and procedure for determination of variable pay/ performance related pay (PRP) to executives and non-unionised supervisors of Central Public Sector Enterprises (CPSEs). As per the OM, the payment of PRP would be directly linked to the profits of CPSE and performance of executives for which each CPSE was required to develop a robust and transparent Performance Management System (PMS). Further, the CPSE would adopt 'Bell Curve Approach' in grading the officers so that not more than 10 *per cent* to 15 *per cent* executives are 'Outstanding/ Excellent'. Similarly, 10 *per cent* of executives would be graded as 'Below Par'. In this regard, DPE vide its OM dated 06 July 2011 clarified that 'Bell Curve Approach' should be followed strictly and it was to be ensured that 10 *per cent* of the executives and non-unionised supervisors in a CPSE should be graded as 'Below Par' and not paid any PRP.

Airports Authority of India (AAI) approved the payment of PRP for the years 2010-11 to 2014-15, 2015-16 and 2016-17 on 27 October 2016, 16 October 2017 and 23 October 2018, respectively. The methodology adopted by AAI for the payment of PRP was not in conformity with the aforesaid DPE guidelines since the last 10 *per cent* should not have received any PRP. However, AAI modified the grading of last 10 *per cent* of 'Below par' category of employees in three sub-categories, i.e., Very Good, Good and Below Good and paid the PRP benefits at the rate of 60 *per cent*, 30 *per cent* and NIL respectively. Thus, only limited number of employees, who were sub-categorised as below good, did not receive PRP instead of all the employees under the last 10 *per cent* 'Below par' category.

As a result of non-adherence to the condition of 'Bell Curve Approach', payment of PRP amounting to ₹38.78 crore was made for the years 2010-11 to 2016-17[1] to ineligible employees, which was in violation of DPE guidelines.

Management replied (February 2020) that:

- Decision was taken by Manpower Advisory Board in order to keep up the moral of the executives and also to have harmonious relation in the organisation. Further, during the process of normalisation of PMS, in some cases the executives who had PMS grade as 'Very

[1] ***Bell Curve Approach was discontinued by DPE and new PRP model was effective from financial year 2017-18***

Good' were falling in 10 *per cent* of the lowest end of the bell curve. Therefore, the sub-categorisation of Very Good, Good and Below Good for such employees within 10 *per cent* category was proposed in line of other CPSEs, like, ONGC, NTPC, BHEL, MMTC, etc.

- Also, DPE vide its guidelines on pay revision with effect from 1 January 2017 decided to discontinue the forced rating of 10 *per cent* as below par/ poor performer.

- There has been no financial burden as PRP paid during the period 2010-11 to 2016-17 viz.-a-viz. availability of funds for the said period and eligibility for PRP was in consonance with the DPE guidelines.

Reply of Management is not acceptable in view of the following:

- As DPE specifically clarified vide its OM dated 06 July 2011 that 'Bell Curve Approach' was to be followed strictly and the CPSE was to ensure that 10 *per cent* of the executives and non-unionised supervisors in a CPSE were to be graded as 'Below Par' and not paid any PRP.

- The contention of Management that other CPSEs were following the same practice cannot be a justification for making irregular payment in violation of DPE guidelines. In fact, the issue relating to non-adherence to the conditions of 'Bell Curve Approach' of DPE guidelines was highlighted in CAG Compliance Audit Report No 13 of 2014, 21 of 2015 and 11 of 2018 etc. in respect of CPSEs like MECON, IOCL and ONGC etc.

- The focus of the draft para is on unjustified payment of PRP to ineligible 10 *per cent* executives with 'Below Par' rating which was in contravention of DPE guidelines. As such the contention of Management that there was no financial burden does not hold good. Additionally, Audit observation is limited to period prior to 1 January 2017.

Thus, as a result of non-adherence of condition of 'Bell Curve Approach' issued by DPE in relation to payment of PRP, AAI had made an irregular payment of ₹38.78 crore[2]. It is recommended that irregular payment made to ineligible employees may be recovered.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

2.2 Short recovery of liquidated damages from a contractor

Undue favour to contractor by Airport Authority of India, Ranchi due to short recovery of liquidated damages amounting to ₹9.53 crore.

AAI Ranchi awarded (21 January 2009) the work of construction of New Integrated Passenger Terminal Building (NIPTB) at Birsa Munda Airport, Ranchi to M/s Ahluwalia Contracts (India) Limited (ACIL) at the contract price of ₹109.95 crore. The agreement was entered into between AAI and ACIL on 2 February 2009 with the stipulated date of completion being 30 January 2010. As per clause 32 of the agreement, in case of delay in completion of work, liquidated damages (LD) was to be levied at the rate of 0.5 *per cent* of

[2] ***2010-11 – ₹3.03 crore; 2011-12 – ₹2.57 crore; 2012-13 – ₹2.71 crore; 2013-14 – ₹5.73 crore; 2014-15 – ₹5.27 crore; 2015-16 – ₹7.16 crore; and 2016-17 – ₹12.31 crore***

the contract value per week of delay subject to a maximum of 10 *per cent* of the contract value.

The contractor could not complete the work and AAI issued show cause notice to the contractor in December 2010, i.e. 10 months after the stipulated completion. The work was finally completed on 21 June 2013 after a delay of 1,238 days. ACIL requested (October 2015) for grant of extension of time (EoT) up to 21 June 2013 without levy of LD, on the plea that AAI had not suffered any loss and the delay was caused by hindrances which were beyond their control. AAI, however, decided (November 2015) to grant EoT for 826 days (31 January 2010 to 5 May 2012) as justified period of hindrance without levy of LD and to levy compensation of ₹1.46 crore from the contractor for unjustified period of hindrances of 412 days (6 May 2012 to 21 June 2013). ACIL disputed the deduction of LD and matter was referred to Dispute Resolution Board (DRB) constituted (30 August 2016) by AAI. DRB recommended (July 2017) that EoT case may be reconsidered by AAI. AAI reanalysed the EoT and recommended (September 2018) no change in the earlier approved EoT.

Audit observed that as per the provisions of clause 32 of the contract, since ACIL was responsible for delay of more than 58 weeks (412 days) in completion of work, an amount of ₹10.99 crore (10 *per cent* of the contract value of ₹109.95 crore) was recoverable as LD from the contractor. AAI however recovered only ₹1.46 crore calculated on the basis of a technical circular issued by it (May 2013) for calculating cost implications in cases of EoT with unjustified delay. Thus, there was a short recovery of ₹9.53 crore from the contractor.

Management replied (November 2019) that the competent authority for grant of EoT, as per the contract agreement was Member (Planning) and the same authority issued the Technical circular to have uniformity for working out cost implications/ losses in such cases. The circular was also incorporated in the Works Manual. It, therefore, stated that the loss of ₹1.46 crore, for unjustified period was worked out in line with provision of the Contract Agreement, Technical Circular in-vogue and AAI Works Manual and there was neither short recovery of LD nor undue favour to the contractor. Management further replied that Arbitration on the matter where one of the claims is for refund of ₹1.46 crore is going on between ACIL and AAI.

Reply of Management is not acceptable in view of the following:

- Clause 32 of the contract clearly stipulated that the contractor was liable to pay LD as a percentage of the value of the contract. The terms of contract were agreed to by both the parties and, therefore, were binding on the contractor. The clause did not contain any reference to the Works Manual of AAI and thus, provisions thereto were not to be applied unless in the event of need for clarification of any matter.

- Further, though the competent authority for grant of EoT as per the contract agreement and that who approved the Technical Circular was the same, however, undue benefit was extended to the contractor by recovering a lower amount of LD from the contractor than that agreed as per the agreement. Moreover, the technical circular quoted in the reply was issued in May 2013 much later than the date of entering into contract with

ACIL in February 2009, and, therefore, cannot automatically override the terms of an agreement.

- The arbitration referred to in Management's reply was on certain claims of the contractor including claim for refund of ₹1.46 crore recovered as LD. The fact that the matter is under arbitration does not undermine the right of AAI to recover LD as per terms of the agreement.

Thus, the short recovery of LD amount of ₹9.53 crore by AAI, Ranchi for delays attributable to a contractor in completion of construction of NIPTB at Birsa Munda Airport, Ranchi was against the provisions of the contract and constituted an undue favour by AAI to the contractor.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

Air India Limited

2.3 *Irregular absorption by Air India Limited towards ground handling services charged by Air India SATS Airport Services Private Limited*

Air India SATS Airport Services Private Limited (AISATS), a joint venture company of Air India Limited (AIL) is providing Ground Handling (GH) services to international and domestic airlines including Airline Allied Services Limited (AASL), a subsidiary of AIL, at Delhi, Bangalore, Hyderabad, Trivandrum and Mangalore. AIL borne the differential amount of GH charges to the tune of ₹44.88 crore for the services availed by AASL despite the fact that the revised lower rate was approved by Chairman, AISATS.

Section 177 of Indian Companies Act, 2013 stipulates constitution of Audit Committee by the Board of Directors of every listed company and such other class or classes of companies, as may be prescribed. As per sub-section 177(4) of the Act, every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board and specified certain items to be included in the terms of reference. In compliance with the requirement of Act, AIL constituted an Audit Committee and the Board of Directors approved its terms of reference, which *inter-alia,* included approval or any subsequent modification of transactions of the company with related parties.

AISATS, a joint venture company of Air India Limited (AIL), incorporated in April 2010, is providing GH services to international and domestic airlines at Delhi, Bangalore, Hyderabad, Trivandrum and Mangalore stations.

AISATS is also providing GH services to AASL, a fully owned subsidiary of AIL, at these five stations. The GH rate per flight charged by AISATS for AASL flights for the period 2011-2018, ranged between ₹9,258 and ₹34,000. AASL found these rates very high and requested (February 2016) Chairman, AISATS for reduction of GH rate to ₹5,000 per flight as were charged by AIL in the past and charged by Air India Air Transport Services Limited (AIATSL), another subsidiary of AIL providing GH services, at smaller stations. Chairman, AISATS approved (February 2016) the revised GH rate to be charged to AASL by AISATS at ₹5,000 per flight departure.

Audit noted that though the request of AASL for revised lower rate was accepted by Chairman, AISATS, the difference between revised GH rate and earlier GH rate for the services availed by AASL during the period 2011-12 to 2017-18 (till December 2017), was charged to AIL in 2017-18 by AISATS. It was also noted that the GH services to AASL were charged at higher rates during the years 2016-17 and 2017-18, period subsequent to the approval by Chairman, AISATS for lower rates. Audit observed that AIL had borne the net impact of the revised rates, amounting ₹44.88 crore for the period 2011-12 to 2017-18 (till December 2017) for GH services not availed by AIL. This included the differential charges of ₹23.29 crore for the years 2016-17 and 2017-18, the period subsequent to the approval of Chairman, AISATS for applying lower rates for ground handling services to AASL. Audit further noted that the decision to absorb the differential amounting to ₹44.88 crore was taken by Air India management. As per the terms of reference to the Audit Committee duly approved by Air India Board, approval of Audit Committee is required for approval or any subsequent modification of transactions of the company with related parties, which was not complied with.

While accepting that AIL had absorbed the differential charges arising out of revised GH rate, Management replied (25 September 2019) that:

- In view of the request made by AASL on 5 February 2016, the then CMD conveyed his approval for Alliance Air to be billed based on rate of ₹5,000 per flight with retrospect effect.
- However, since AISATS had incurred all these expenses, the differential arising out of the aforesaid approval had to essentially be absorbed by AIL as these costs would in any case be attributable to AIL in the absence of AASL flights.

Reply of management is not acceptable in view of the following:

- AIL had borne the cost of GH services which were not availed by it. Moreover, the GH rate of ₹5,000 per flight was approved by Chairman, AISATS. The amount includes differential charges of ₹23.29 crore for the period subsequent to the approval by Chairman, AISATS. Further, the differential charges absorbed by AIL do not have approval of Audit Committee of AIL as required under Section 177(4) of the Companies Act, 2013.
- The contention of Management that the differential arising out of the approval had to be absorbed by AIL does not hold good since both AASL and AIL are two different entities and Alliance Air flights are fully operational.

Thus, AIL gave undue favour to AISATS by absorbing ₹44.88 crore, without proper authorisation, towards differential GH charges for services not availed by it from AISATS.

The para was issued to the Ministry in October 2019; their response was awaited (June 2020).

2.4 Undue favour to M/s Ballarpur Industries Limited by withdrawal of recovery proceedings pending final payment of dues

M/s Ballarpur Industries Limited failed to pay outstanding rent for the premises occupied in Air India Building. At the request of Air India, Collector's office started recovery proceedings and initiated attachment of private property of the tenant. However, Air India withdrew the recovery proceedings initiated by the Collector's office without any out of court settlement agreement and pending final payment of dues thereby granting undue favour to the tenant. An amount of ₹7.77 crore is still outstanding, realisation of which is doubtful.

M/s Ballarpur Industries Limited (the tenant) had been occupying an area admeasuring 2,632.39 sq. ft in Air India Building at Nariman Point, Mumbai. The Leave and License Agreement of the tenant was terminated in February 1995 and tenant was asked to hand over vacant possession of the premises on or before 31 March 1995. Since the tenant failed to vacate the premises as per termination notice, they were treated as unauthorised occupants effective from 1 April 1995.

The Estate Officer appointed in accordance with the Public Premises Act passed an eviction order on 20 May 1996. The tenant filed an appeal in the City Civil Court, Mumbai against eviction order, which was dismissed in June 2000. Further, the tenant preferred an appeal in Bombay High Court, which was also rejected in December 2000. The tenant vacated the premises on 30 June 2001. The Estate Officer conducted damage proceedings and passed an order (September, 2008) awarding damages/ mesne profits @ ₹300 per sq. ft. per month for the period from 1 April 1995 till 30 June 2001 (₹5.38 crore) along with simple interest @12 *per cent* p.a. for the period from 01 April 1995 to 31 March 2008 (₹6.36 crore) totaling to ₹11.74 crore and thereafter till the date of payment.

The tenant preferred an appeal in the City Civil Court against the mesne profits and the Court granted (August 2010) mesne profits @ ₹175 per sq.ft. from April 1995 to June 2001 with interest @12 *per cent* p.a. till realisation. The tenant preferred appeal in Division Bench, Bombay High Court, which refused (July 2011) to grant interim relief in the matter.

The Estate Officer requested (March/ June 2014) the Collector's office, Mumbai for recovery of dues to the Company. The Collector's office served (July 2014) notice of demand to the tenant. The tenant filed (August 2014) an application in Bombay High Court for setting aside Collector's attachment notice. The tenant also filed an affidavit/ Undertaking to the effect that they shall not alienate their premises (flat admeasuring 1720 sq.ft. situated at Prabhadevi, Mumbai valued at more than ₹10 crore) pending the hearing and final disposal of writ petition. The appeal was rejected (September 2014) and the Court granted time till the end of October 2014 to effect payment which was further extended till 9 January 2015. The tenant made an attempt to safeguard their interest by filing a Special Leave Petition in Supreme Court, which was dismissed on 27 January 2015. The tenant thereafter, deposited (March 2015) ₹1.25 crore with the Collector's office, Mumbai.

Air India, however requested (October 2015) the Collector's office not to pursue recovery proceedings/ attachment against the tenant and withdrew revenue recovery certificate issued in June 2014 for recovery of the remaining amount stating that the matter was being amicably settled. Accordingly, Collector's office withdrew the recovery proceedings. However, the tenant did not settle the dues except one-time remittance of ₹1.50 crore in May 2016.

Audit observed that though Bombay High Court refused (July 2011) to grant interim relief/ stay in the matter, Air India initiated recovery proceedings with the Collector's office only in March 2014, after a delay of three years. Air India also erred by intimating Collector's office to stop recovery proceedings without entering into any out of court settlement agreement with the tenant and when the private property of the tenant had already been sealed by Collector's office.

Management replied (November 2018) that:

- The decision to stop recovery proceedings and withdraw the notice given to the Collector's office was taken based on an e-mail (dated 05 August 2015) of the tenant wherein it was requested to accept their proposal of ₹175 per sq. ft. with six *per cent* simple interest and withdrawal of the notice issued to the Tehsildar.

- This matter was put up to the Board at its 70th Meeting held on 23 November 2015 and the Board noted the same. Earlier, the Board in its 57th meeting held on 4 February 2014 had directed Air India to pursue out of court settlement in respect of disputes with evicted tenants.

- Out of court settlement appears to have been pursued with Ballarpur Industries in the above circumstances.

Management reply is not acceptable in view of the following facts:

- The tenant had not deposited the pending dues with the Company. Hence decision to stop recovery proceedings based on an email request was against the financial interest of Air India.

- Air India brought the tenant's proposal for out of court settlement to the notice of the Board in its meeting held on 23 November 2015. However, the Board was not informed about Air India's decision to stop recovery proceedings. Moreover, the Management directed the Collector's office not to pursue recovery proceedings against the tenant in October 2015. Thus, Management took the decision before Board was apprised of the matter relating to out of court settlement.

- Approval of the competent authority to direct the Collector's office stopping recovery proceedings was neither found on record nor clarified by the Company.

Thus, Air India could not recover the remaining dues from the tenant amounting to ₹7.77 crore (December 2019), realisation of which is doubtful. Air India's decision to withdraw recovery/ attachment proceedings without receiving outstanding dues from the tenant was not in the best financial interest of the company and tantamount to undue favour to the tenant.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

CHAPTER III: MINISTRY OF COAL

Mahanadi Coalfields Limited

3.1 Excess payment to the contractor under mining contract

Mahanadi Coalfields Limited, under mining contract, allowed excess payment to a contractor of ₹45.17 crore due to difference between the power cost included in the mining fees as per the contractual terms and the amount actually recovered from the contractor based on actual consumption of power, during the period from January 2013 to December 2018.

Mahanadi Coalfields Limited (MCL), a subsidiary of Coal India Limited, is engaged in the mining activities for production of coal. MCL constituted (February 2008) a committee to estimate the rate of mining fees payable to successful bidders for outsourcing the work relating to removal, extraction and transportation of overburden and coal and other associated activities in respect of Bhubaneswari opencast project of Jagannath Area. The Committee firmed up (May 2008) ₹132.97 per tonne as the estimated cost of the work, considering different components of cost (*viz*., plant & machinery spares, petrol, oil & lubricants, labour, explosive and power) involved in the work.

MCL issued (July 2010) work order to M/s. Essel Mining & Industries Limited and Consortium (Contractor), being L_1 bidder to the tender floated (December 2008) for the work, involving mining fees of ₹128.70 per tonne. The contract involved removal of 193.40 million cubic metre of overburden and extraction of 269.50 million tonne of coal over a period of 15 years (2011-12 to 2025-26). The value of the contract was ₹3,468.47 crore.

Audit observed that in the past, power component was not included in the mining fees in the mining contracts entered by the MCL. Power was provided to the contractor by MCL and its payment was recovered on actual consumption basis. However, in the instant contract, power component was included in the mining fees. MCL continued to settle the electricity bills raised by Central Electricity Supply Utility of Odisha (CESUO) for the power consumed by the contractor and eventually recovered it from the contractor. Thus, by inclusion of power as component in mining fees, there was huge difference between the amount of power component paid to the contractor and the amount recovered from the contractor based on actual consumption of power. Hence, during the period from January 2013 to December 2018, against ₹53.39 crore paid to the contractor for power cost component as part of the mining fees, MCL recovered only ₹8.22 crore from the mining fees for actual power consumption, and thus, ₹45.17 crore[1] ***(Annexure-I)*** was paid in excess to the contractor.

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[1] ***Coal extracted during the period from December 2011 to December 2012 was not taken into account due to non-availability of separate figures for power cost component as included in mining fees***

Management stated (September 2019) that, in absence of electrical equipment for transportation of coal through two streams of belt conveyor due to various issues viz. land, formation of benches, etc; the contractor had to incur costs on the use of diesel-operated equipment in lieu of electrically operated conveyor belt. The extra expenditure incurred by the contractor for use of diesel-operated equipment in place of electrically operated equipment was not reimbursed to the contractor.

The reply of the Management is not acceptable, as the contractor was required to deliver coal at a mutually agreed place/ stockyard irrespective of eventualities without extra cost. Further, due to injudicious provisions under the contract, actual amount recovered from the contractor for consumption of power was significantly less than the amount paid to the contractor for power component under mining fees. The contractor should not have been allowed to derive extra benefit under the contract.

Ministry in its reply (May 2020) while endorsing views of the Management further stated that in the tender, the lowest cost offered on composite basis was accepted by the tender committee. The analysis on single input cost parameter i.e. power component of the estimate, excluding all other input cost parameters of the estimate is not correct as the contractor may be using different set of input resources.

The reply of the Ministry is not specific to audit observation as selection of contractor quoting lowest cost has not been challenged. Since as per the contractual provisions, MCL is responsible for arrangement of power including its payment on actual basis, inclusion of power cost component in the mining fees was not prudent. It only resulted in significant difference between the amount of power cost included in the mining fees and the amount actually recovered from the contractor based on actual consumption of power. The company should review the cost components to be included in the mining fees so that the contractor should not derive any extra benefit under the contract.

Thus, injudicious provisions under the mining contract resulted in the excess payment to contractor to the tune of ₹45.17 crore.

NLC India Limited

3.2 Avoidable expenditure on excavation outsourcing in South West Area of Mine II

Outsourcing contract for lignite excavation in South West Area of Mine II without properly assessing the requirement resulted in avoidable expenditure of ₹28.74 crore.

The lignite requirement for two Thermal Power Stations (TPSs) of NLC India Limited (Company) namely TPS-II and TPS-II Expansion was met from two mines viz. Mine-II and Mine-II Expansion. As per the Annual Action Plan (AAP) prepared by both the TPSs, the total lignite requirement for the year 2015-16 was 13.24 MT. The Mine II & Expansion Division (MIIED) estimated 13.3 Million Tonne (MT) of lignite production from both the mines for the said year. Further, the opening stock of lignite available at Mine II was

0.83 MT. As such, the total estimated quantity of lignite available for operating both TPSs during 2015-16 was 14.13 MT.

During March 2015, MIIED estimated that the lignite requirement would be 14.7 MT and proposed to outsource lignite excavation in South-West area of the Mine II to meet the shortfall. However, the Industrial Engineering (IE) wing of the Company rejected (July 2015) the said proposal stating that the estimated requirement of both the TPSs would only be 13.91 MT and not 14.7 MT as projected by MIIED. IE wing also suggested that the shortfall could be met out using departmental machinery instead of outsourcing.

MIIED re-submitted (29 July 2015) the outsourcing proposal requiring the same quantity and obtained approval from the Director (Mines) on 08 September 2015 as existing equipment were to be diverted to other mines. Accordingly, the Company invited open tender (October 2015) and awarded (December 2015) the outsourcing contract to M/s Mahalakshmi Infracontract Private Limited at a cost of ₹26.29 crore for excavation of 1.5 MT lignite at the South-West Area of Mine II and its transportation to the dump sites. The contract was completed in March 2017 with an actual expenditure of ₹28.74 crore.

Audit observed that for the year 2015-16, opening stock of lignite (0.83 MT), actual quantity of lignite excavated from Mine II (12.15 MT) and transported from Mine IA (0.9 MT[2]) was summed up to 13.88 MT which was sufficient to meet the requirement (13.24 MT as per AAP) of lignite of both the TPSs. It was noticed that the actual quantity of lignite used by these two TPSs during 2015-16 was 12.52 MT only. Further, the lignite available through own excavation and transportation from Mine IA was sufficient to meet the requirement of both TPSs for the year[3] 2016-17 also. Thus, adequate quantities of lignite were available to operate both the TPSs without going into for excavation outsourcing. Despite knowing the above facts, outsourcing contract for lignite excavation was entered into, which was avoidable. Further, the quantity excavated through outsourcing contract resulted in overstocking of inventory and ultimately deterioration in the quality of lignite.

Management replied (December 2018) that non-availability of departmental machines had impact on lignite exposure, performance of some of the departmental machines got deteriorated and to avoid further investment, outsourcing was initiated. Further, the lignite production at Mine IA had to be maintained to achieve the production targets as the lesser production may lead to increase in the cost. Also, the available lignite stock at Mine IA had to be utilised in other Mines. Further, award of outsourcing contract generated substantial revenue which resulted in increase in the profit of Mine II.

Reply of Management is not acceptable as the required production could be achieved with departmental machines. The audit observation was about avoidable outsourcing in respect of Mine II and not about the production in Mine IA. However, in case, the Company was required to maintain the lignite production at Mine IA, it should have considered the targets

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[2] ***In September 2015, the Company decided to award a contract to transport 0.7 MT of lignite from Mine IA to Mine II which was renewed in subsequent year. Another contract was awarded in July 2015 for transportation of 0.2 MT of lignite from Mine IA to Mine II***

[3] ***2016-17- Lignite requirement as per AAP – 13.87 MT; Lignite actually used – 13.63 MT, Lignite available- 14.93 MT***

and requirements of lignite across the Company and could have avoided outsourcing excavation of lignite in another mine. Reply on revenue generation and increase in profit, is also not acceptable, as it is the indicative position of Mine II only. Excess production of lignite through outsourcing, in Mine-II resulted in better financial highlights of Mine-II but at the cost of natural resources. Besides this, longer period of storage resulted in deterioration in the quality of lignite as recorded in internal note of the Company. Natural resources need to be exploited on the basis of the need of the time and utilisation capacity of TPSs. Also, Ministry of Coal in its 'Guidelines on Fixation of Transfer Price for NLC Mines', stipulates that for calculation of Working Capital, the inventory of lignite in mines be restricted to 20 days' production to meet the exigency requirements. This has also been overlooked by the Company.

Thus, the total quantity available was adequate to meet lignite requirement of both the TPSs during 2015-16 and 2016-17. Therefore, outsourcing excavation contract was inappropriate and unjustified. This resulted in expenditure of ₹28.74 crore which was avoidable.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

NLC Tamil Nadu Power Limited

3.3 Avoidable payment of demurrage charges

Avoidable payment of demurrage charges of ₹8.97 crore to M/s SICAL Logistic Limited in contravention of agreement.

NLC Tamil Nadu Power Limited (NTPL), a subsidiary of NLC India Limited commissioned (June 2015 and August 2015) two units of coal based 500 MW power plant at Tuticorin, Tamil Nadu. NTPL decided to meet fuel requirement of the power plants through indigenous and imported coal. Accordingly, NTPL signed (July 2013) an agreement with M/s SICAL Logistic Limited (SICAL) for transportation of indigenous coal from Bhubaneshwari Coal Mines, Orissa to Tuticorin Port (Port) which was valid upto October 2018.

Clause 2.30 of the agreement stipulated that SICAL shall be responsible for delivery of indigenous coal at Port. Further, clause 2.43 of the agreement envisaged that no claim for any damage/ demurrage/ detention/ idle charges for transportation/ equipment, labour and other enabling facilities organised by the contractor in connection with stevedoring, handling and transportation operation shall be payable to the contractor under any circumstances whatsoever. As per terms of the agreement (Clause 8.1), SICAL had to prepare quarter-wise scheduled loading programme in advance on behalf of NTPL. Further, NTPL had option to revise the schedule by prior intimation of 15 days.

Audit observed that non-preparation of scheduled programme by SICAL and supply of excess quantity of coal by the other contractors importing coal, against the schedule, resulted in bunching of vessels at Port and consequent pre-berthing of vessels during December 2016 to February 2017. SICAL paid the demurrage charges to the Port for pre-berthing of vessels and claimed (July 2017) the same from NTPL. NTPL reimbursed (January 2018) ₹8.97 crore to SICAL, for these charges, contrary to the agreement clause.

Management replied (September 2018) that the supply of coal to power companies is controlled by coal companies depending upon their production level, availability of coal and not on the schedule given by consumers. Moreover, every power generating company tries to maximise stock of coal during the period January to April to maintain the maximum generation level for the upcoming rainy season. Further, agreement clause was amended (December 2015) and a new clause[4] was added for payment of demurrage charges relating to delay in unloading of vessels at Tuticorin Port and hence, there was no excess payment.

The reply of Management is to be viewed against the facts that:

- As per original clause 2.43 of the agreement, no claim for any demurrage was to be paid to contractor by NTPL. Newly added clause as indicated above was applicable only to post berthing delay and not for pre-berthing delay/ detention of the vessels. As such, payment of demurrage for pre-berthing delay i.e. before discharge procedure was in contravention of the agreement.

- The coal supply was regulated by the Coal Supply Agreement entered between M/s Mahanadi Coal Limited (MCL) and NTPL. As such, MCL could not exclusively change the quantity to be supplied.

- NTPL had not made any request for supply of excess/ additional quantity of coal during December 2016 to February 2017 to SICAL as well as MCL.

- Non-preparation of schedule by SICAL and supply of excess quantity of coal by the other contractors importing coal resulted in bunching of vessels at Port and consequently resulted in payment of demurrage charges.

Thus, NTPL made an avoidable payment of demurrage charges of ₹8.97 crore to SICAL in contravention of the agreement.

The para was issued to the Ministry in May 2019; their response was awaited (June 2020).

[4] ***Amendment No. 1 dated 14 December 2015 clause no. 1.0 xxxi in Section IV of agreement***

CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

Government E-Marketplace

4.1 Information Systems Audit of Government E-Marketplace

4.1.1 Introduction

Since 1951, the Directorate General of Supplies and Disposal (DGS&D), the Central Purchase Organisation of the Government of India (GoI), provided a single point of contact for government users and suppliers for procurement of commonly used goods. DGS&D functioned as an attached office under the Department of Commerce, Ministry of Commerce and Industry.

In order to improve operational processes, in February 2016, a one-stop shop was envisaged in the form of an online end-to-end procurement system for Government buyers. Based on the recommendations of a Group of Secretaries, it was decided to set up a dedicated e-market for different goods and services procured by Government Organisations/ Departments/ PSUs. Subsequently, the Government e-Marketplace (GeM) was incorporated on 17 May 2017 under the Companies Act 2013 and, in turn, DGS&D was wound up on 31 October 2017. The GeM Special Purpose Vehicle (SPV) is responsible for building, operating and maintaining the GeM platform, which provides an end-to-end online marketplace for Central and State Government Ministries/ Departments, Central & State Public Undertakings (CPSUs & SPSUs), autonomous institutions and Statutory & Constitutional Bodies, for procurement of common use goods and services.

The GeM application (new version) (also termed as GeM Version 3.0) has been operational since 26 January 2018. Purchases through GeM by Government users have been authorised and made mandatory by the Ministry of Finance vide Rule (No. 149) in the General Financial Rules, 2017.

The Government envisaged (April 2017) that in the setting up and funding of the GeM SPV as the National Public Procurement Portal, GeM SPV shall provide an end-to-end online marketplace for Central and State Government Ministries/ Departments, Central and State PSUs, autonomous institutions and local bodies, for procurement of common use goods and services in a transparent and efficient manner. GeM shall be professionally managed with a Managed Service Provider (MSP), who would be responsible for development, management and operation of the marketplace and shall be under the overall control of the SPV.

The justification for the GeM SPV included the drawbacks in the Rate Contract System of DGS&D (such as no demand aggregation, encourages cartelisation, being restricted to only products, limited to only firms registered with DGS&D or NSIC[1], non-integration of payment process, delayed payments, non-dynamic prices, limited scale of operations of Rate Contracts).

[1] *NSIC: The National Small Industries Corporation Limited*

As per the approval of the competent authority in Government (April 2017), GeM is a scalable system and being complete online, transparent and system driven, takes care of the problems encountered with the Rate Contract system. GeM covers the entire procurement process chain, right from vendor registration, item selection by buyer, supply order generation, and receipt of goods/ services by the consignees, to online payment to the vendor.

For large orders, the system automatically directs buyers to bidding/ reverse auction and the entire process would be completed online and in a completely secure environment. Price comparison with prominent e-Commerce portals is also made available by GeM in order to bring about price transparency.

The option for demand aggregation on GeM allows the Government users to extract the best price in the market, thereby making public procurement more efficient.

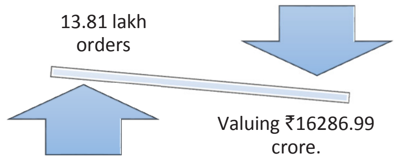

Figure 4.1.1: Orders placed on GeM

In terms of business through GeM Version 3.0, upto March 2019, total 13.81 lakh orders valuing ₹16,286.99 crore[2] were placed through GeM by various buyer organisations[3].

Further, till this time, approx. 8.85 lakh products and 0.07 lakh services were available for procurement[4].

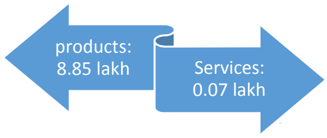

Figure 4.1.2: Number of products and services

4.1.2 Organisation structure

GeM is headed by a Chief Executive Officer who is supported by seven Additional Chief Executive Officers, one Chief Technical Officer and 12 Deputy Chief Executive Officers. These officers are further assisted by executives and staff who look after all the modules and operations of GeM application.

4.1.3 Development and Implementation of GeM application

GeM pilot phase was developed by DGS&D with the technical assistance of National e-Governance Division (NeGD). NeGD was involved as part of Project Management Unit for operational aspects of GeM pilot phase. The pilot, expected to function till a full-fledged GeM was made operational, was launched on 09 August 2016 with a limited set of functionalities of the GeM solution, catering to only 120 products categories and one service category.

Thereafter, for the full-fledged version of GeM application, DGS&D engaged M/s PWC, through limited tendering, at a cost of ₹49.36 lakh (March 2016) for preparing the Detailed

[2] *excluding orders which were under demand creation stage*

[3] *As of 30 March 2020, this cumulative value had increased to 38.38 lakh orders (including orders under demand creation stage) valuing ₹51,467 crore, reflecting a substantial increase from the position as of March 2019*

[4] *As of 30 March 2020, this had increased to 22.00 lakh products and 0.25 lakh services*

Project Report (DPR) and Request for Proposal (RFP) for selection of a suitable MSP. DPR and draft RFP were submitted by M/s PWC in July 2016 and January 2017 respectively. On the basis of open tendering, a consortium of M/s Intellect Design Arena Limited (along with partner M/s Infibeam Incorporation Ltd), with M/s Tata Communications Limited as Network Service Provider, was selected as the MSP and agreement was signed on 31 August 2017 for design, development, implementation, operation and maintenance of GeM application.

As per the terms of the RFP, the project was divided into two phases – Phase 1 and 2 were to be achieved within six and ten months respectively of signing of the agreements, followed by operations and maintenance of the application by MSP for five years. Phase-1 covered application development for the e-Commerce Marketplace, e-Contracting, e-Tendering, CRM Implementation, Technical Helpdesk & Contact Centre, and limited buyer, seller, products and services management, while Phase-2 covered the remaining functionalities and scope.

Phase 1 went live on 26 January 2018 (i.e one month before the scheduled date) whereas Phase 2 go-live was achieved in December 2018.

4.1.3.1 Modules implemented in GeM: In order to automate various processes involved in e-procurement, apart from other supporting modules[5], following modules have been implemented which are directly related to procurement through GeM:

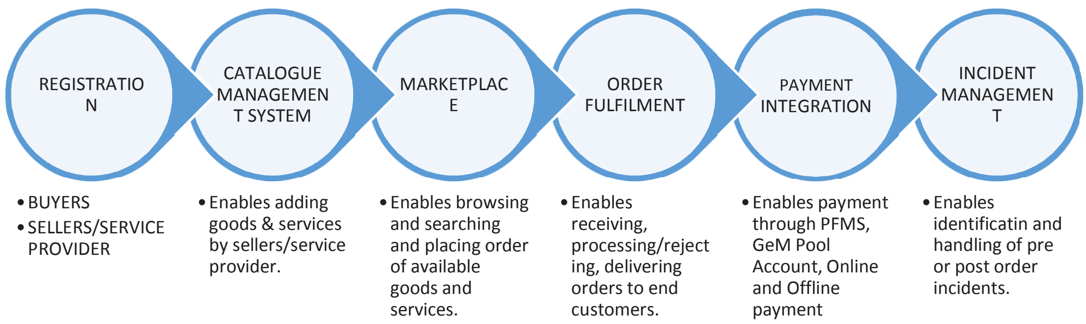

Figure 4.1.3: Modules implemented in GeM

4.1.3.2 Process involved in GeM: Procurement process in GeM begins with the registration of buyers/ sellers and ends at payment to vendors, in case no incidents are raised against the said order. The stages in the process are shown diagrammatically in Figure 4.1.4.

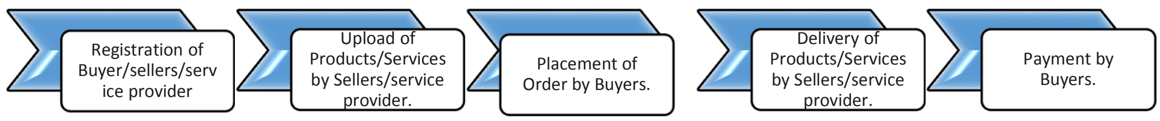

Figure 4.1.4: Procurement procedure on GeM

GeM platform provides three primary buying modes – Direct Purchase for orders upto ₹50,000 (now ₹25,000) Direct Purchase with L_1 for orders between ₹50,000 to ₹30,00,000 (now ₹25,000 to ₹5,00,000) and e-bid/ Reverse Auction (RA) which allows buyers to conduct an electronic bid for the goods and services on the platform (mandatory for order values above ₹30,00,000 (now ₹5,00,000).

[5] *Such as 'Rating of Buyers and Sellers/ service provider' and 'GeM Analytical Dashboards'*

4.1.4 Audit Objectives, Scope and Methodology

The objectives of the audit were to assess whether the:

- rules, regulations and procedures of Government of India in relation with the Government procurement and the user and other stakeholders' requirements were assessed and duly incorporated in the development and implementation of GeM;
- envisaged objectives were achieved;
- functional, quality and security requirements for e-procurement systems, as specified in the RFP, GoI guidelines, GFR were implemented; and
- general and application controls for meeting the functional and non-functional requirements were adequate and effective.

For attainment of the above audit objectives, Audit analysed data of key modules[6] of GeM, for the period from Phase-I Go-live of GeM version 3.0, i.e. 26 January 2018, upto 31 March 2019 (including migrated data). Samples of data were also analysed as per requirement. Additionally, Audit examined certain records relating to development, implementation and operation of GeM application version 3.0. The audit scope did not cover the contracting process for selection of the MSP.

4.1.5 Audit Criteria

Audit criteria were drawn from:

- Agenda and minutes of the meeting held by competent authority in Government for approval of the GeM SPV (April 2017).
- GoI MEITY guidelines for compliance to quality requirements of eProcurement systems (August 2011); Other directives, instructions, policies, rules and procedures laid down in connection with Information Technology, Public procurement and third-party information.
- GeM documents like RFP, MSP agreement, System Requirement Specifications, etc.
- Business Requirement Documents for different modules and other technical documents like manuals, policies etc.

4.1.6 Audit findings

Audit findings based on assessment of attainment of these requirements have been elaborated in the ensuing paras.

4.1.6.1 Non-compliance to GoI Directives for Compliance with Guidelines for e-Procurement Systems and RFP provisions relating to Benchmarking and Disaster Recovery Drill

[6] ***Registration, Catalogue Management System, Marketplace, Order fulfilment, Payment Integration, Incident Management***

(i) *STQC audit for compliance with "Guidelines for compliance to Quality requirements of e Procurement Systems" of Ministry of Electronics & Information Technology not conducted*

Para 5.3.1.1 of the RFP stipulated that the MSP shall provision the e-Procurement Solution in compliance to the published guidelines of Standardization Testing & Quality Certification (STQC) Directorate, Ministry of Electronics & Information Technology (MEITY)[7] on 'Compliance to Quality Requirements of e-Procurement Systems'.

As per the 'Guidelines for compliance to Quality requirements of e-Procurement Systems issued by STQC Directorate on 31 August 2011, the audit for certification of the entire e-Procurement solution shall be undertaken after its deployment and prior to its usage. This was also reiterated by CVC vide its circular dated 12 January 2012. Ministry of Finance, Department of Expenditure vide its OM of 3 September 2012 reiterated that e-procurement solutions meet the requirements under these guidelines and further stipulated that testing of the e-procurement solutions shall be conducted by STQC. The focus of the guidelines is mainly on e-Tendering (i.e. tendering with encrypted bids, the equivalent of which in the manual context would be 'sealed bids').

However, audit observed that such STQC audit for compliance with the above cited guidelines of August 2011 (endorsed by CVC and Ministry of Finance) was not conducted. GeM SPV had provided two audit certificates/ reports from STQC dated August 2018 and December 2018, whose scope was not, however, in compliance with the GoI guidelines. Further, Management stated (May 2020) that STQC carried out a CVC & IT Act Compliance and Security Process Audit of GeM in August 2019, and its scope was in line with CVC circular number 29/9/09 dated 17 September 2009 & 18/04/2010 dated 26 April 2010 and IT Act 2000 (ITAA 2008). However, the report required GeM to address some areas and after submission of response, GeM is in discussion with STQC for issues of final certificate.

The Management response is not acceptable. There was no STQC audit, demonstrating full compliance with the "Guidelines for compliance to Quality requirements of e Procurement Systems" of Meity, and mandated by CVC in January 2012 and Ministry of Finance in September 2012. Even the STQC Report of August 2019 referred to by Management (which does not cover the scope, as mentioned above) indicates numerous deficiencies in key areas, and cannot be treated as compliant. In the absence of such compliance with the Guidelines, as evidenced by a satisfactory STQC Report, the GeM platform is not compliant, and Audit is unable to derive assurance about the authenticity, non-repudiability and integrity of the e-bidding module of GeM, especially considering that procurement through the e-bidding mode of GeM comprises more than 37 *per cent* of total value of procurement from GeM.

(ii) *Non-benchmarking of the application as per the requisite number of users resulting in frequent break-down of GeM application*

Clause 5.3.2.7 of RFP requires that the system be benchmarked as per the estimated buyers and sellers/ service providers upto 2 lakh and 4 lakh respectively at the time of Go live of application with growth of 20 *per cent* per year. RFP further detailed that estimated

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[7] ***Erstwhile Ministry of Communications & Information Technology***

concurrent users at peak load would be 7,500 in number with year-on-year growth of 20 *per cent* for the first three years and 25 *per cent* for the next two years. In this regard, Audit observed that the benchmarking, to be conducted by a third party, was not conducted with estimated number of users. Instead, performance and load testing as per requirement of clause 5.3.2.5[8] of the RFP, was done through a third party (January 2019). The deviation was as follows:

Table 4.1.1: Details of User load to be tested against actually tested by MSP

Particulars	User load to be tested as per RFP	User load actually tested
At the time of go live of phase 2	15,000 users	600-900 users
Every year after phase 2	5 times of actual concurrent users	Yet to be done

It is pertinent to mention that, upto March 2019, there were 2.37 lakh registered buyers and 2.32 lakh sellers/ service providers at GeM, out of which 1.85 lakh buyer and 2.23 lakh sellers/ service provider are active (as per the data provided by GeM management). Also, the average numbers of concurrent users using GeM application ranged between 1,500 and 1,750. However, the performance was tested on only 600 to 900 concurrent users. Audit further observed that the GeM application broke down frequently while using the portal and messages such as "The website is under heavy load, we are sorry many people are accessing this website at the same time", "502 bad gateway", we are sorry but something went wrong" were displayed Since the application was not benchmarked as per the required level and load testing was also done on lesser than actual number of concurrent users, GeM management would be unable to take pre-emptive action against issues of breakdown in the application which are bound to occur.

Management vide its reply (February 2020) stated that a comprehensive benchmarking exercise will be conducted by third party and further assured that KPMG has been selected for performing performance audit, security audit, systems audit and application audit.

Audit notes this response of Management but reiterates that this audit cannot be a substitute for the audit of compliance with the GoI e-procurement guidelines, which has to be done only through STQC.

(iii) Non-conducting of Disaster Recovery Drills

Clause 10.8.9.3 of RFP pertaining to cloud service SLA required MSP to conduct at least two Disaster Recovery Drills in a year (once every six months). This was to be monitored every six months and the liquidated damages were to be levied in the quarter following the end of the six-month period. However, Audit observed that since implementation of GeM version 3.0, no drills were conducted till audit and no liquidated damages were collected from the

[8] ***The MSP shall provide the testing strategy including the traceability matrix and relevant test cases and shall also conduct the testing of various components of the software developed/ customised along with the solution as a whole. The testing should be comprehensive and should be carried out at each stage of development as well as implementation***

MSP. Non-conducting disaster recovery drill might result in an unwarranted situation of application and data loss.

Management vide its reply (July, October 2019 & February 2020) stated that DC-DR drill was conducted in August 2019 and second drill was conducted in January 2020. Management further stated that appropriate liquidated damages for this would be applicable on the MSP.

4.1.6.2 Flawed Process of Registration

The GeM registration process (of buyers and sellers/ service providers) was expected to be driven by principles of ease, convenience and minimal data entry.

Figure 4.1.5: Registration & Participation of Buyers and sellers (in lakh)

Upto 31 March 2019, total 2.37 lakh buyers were registered on GeM, out of which 1.85 lakh were treated as 'active' whereas out of these, only 24.32 *per cent*[9] buyers placed orders through GeM. Similarly, total 2.32 lakh sellers/ service providers were registered on GeM, out of which 2.23 lakh were treated as 'active'[10] by the system. However, Audit found that during this period, only 17.04 *per cent*[11] sellers/ service providers participated for orders/ bids and 13.45 *per cent*[12] seller got orders.

A. Buyer Registration

User authentication, as per GeM Buyer Registration Manual, is through AADHAAR. The Primary user (Head of the Department - HoD), after registration, would authorise various users[13] based on their roles and responsibilities as part of the procurement process of a particular organisation.

The process of primary user registration includes the following steps:

[9] *0.45 lakh*
[10] *All successfully registered users are marked as 'active' status*
[11] *0.38 lakh*
[12] *0.30 lakh*
[13] *Buyer, Consignee and PAO/ DDO*

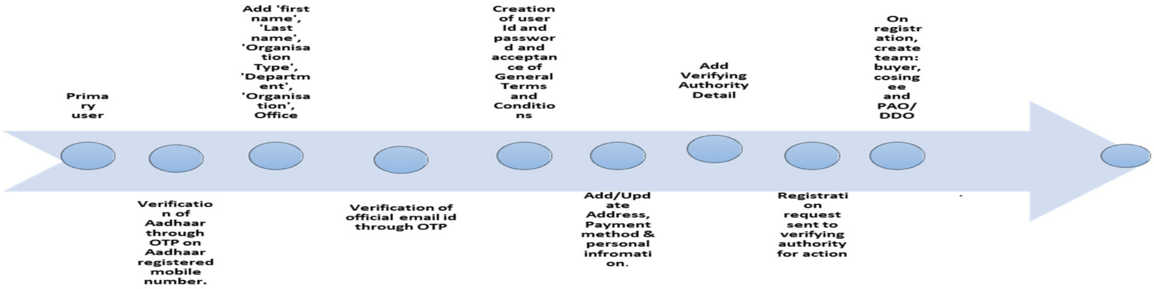

Figure 4.1.6: Steps in Primary User Registration

i) Non mapping of 'verifying' and 'competent authority' resulting in absence of controls on registration of Government user

Buyer Registration Manual of GeM required an organisation to have following users and roles, on GeM:

Table 4.1 2: User-wise roles in GeM

Users	Designation	Responsibility/role
Competent Authority	Secretary/ Principal Secretary/ Managing Director/ Chief Managing Director/ Chief Executive Office/ Chairman/ DG/ Director and JS (for central ministry) or Principal Secretary (for state).	Will be notified (through email) when verifying authority and primary users are added.
Verifying Authority	Under Secretary/ Equivalent or above nominated by competent authority.	Responsible for approving the registration of all primary users.
Primary User	Deputy Secretary or above, Head of the Office at Sub Centre/ Unit/ Branch of Government Organisation/ PSU/ Autonomous Bodies / Local Bodies/ Constitution Bodies/ Statutory Bodies Director/ Equivalent Officer	Creates and manages all secondary users.
Secondary Users: Buyer, Consignee & Paying Authority	As defined by Primary User	Can search, view catalogue, place order, bid, receive/ reject consignment and release payment, as per the role assigned by primary user.

Audit observed that this process was vulnerable as it had weak controls. In order to test the process and controls related to registration, an Audit Team member, tried to register as a primary buyer on the GeM portal with '*.gov*' id. After feeding basic details like Aadhaar number, name etc, he entered his counterpart's '*.gov*' email id (having same designation) as 'verifiers email'. As per registration process, an email was sent to 'Verifying Authority' for intimation and after 48 hours, the registration was considered as 'deemed approved' (in case no action is taken or if not deactivated). Hence, Audit team member was successfully able to register himself as a 'Primary User' on GeM Portal. Further, roles of 'buyer', 'consignee' and 'PAO/ DDO' were also easily added by the Audit team member.

In this regard, Audit noted that:

- As per the registration manual, only an official, not below, the rank of an 'Under Secretary' or 'Head of Office' can hold the role of verifying authority. GeM did not have an automated mechanism for verifying or enforcing this condition; hence, risk of application accepting users who may be below the rank of 'Under Secretary' or 'Head of Office' as 'Verifying Authority', unless verified and enforced manually, existed.

- Confirmatory emails were being sent to 'Competent Authority' only in case of 'Ministries' and 'States' since other organisations (Central/ State PSUs and Autonomous bodies) were not yet mapped.

Thus, checks to ensure that only those officials who have been authorised to make public procurements get registered on GeM as primary user, were not adequate and needed further strengthening. Any official of any designation, even if terminated or retired, having a *'.gov'* (Government) id could register on GeM portal and make procurement. Other than check through the *'.gov'* email id, no other check/ control was in place to ensure exclusive participation of an authorised government employee, and therefore, once a user is successfully registered on GeM, the system would be unable to stop the user from making procurements. Also, the additional checks implemented with regard to competent authority need further strengthening in a manner that the email sent to 'verifying authority' and 'competent authority' allow registration only when it is actually 'approved' or 'accepted' by them and not on the basis of 'deemed approval'.

Management vide its reply (February 2020) assured that process of maker checker, wherein HoD registration would be enabled only after receiving approval of Verifying Authority would be implemented on GeM as in the case of CGDA users.

ii) Absence of input controls leading to registration without .gov email id in violation of requirements

Audit examination revealed that out of the total buyers[14], 16.87 *per cent* (40,196 buyers) did not register with a .gov email id as required in the Buyer Registration Manual. Instead, the system allowed these buyers to register with gmail, yahoo or rediffmail id. It is pertinent to mention that these users placed orders amounting to ₹4,349.18 crore, out of which procurement of top three ministries (Ministry of Human Resource Development[15], Ministry of Defence[16] and Ministry of Home Affairs[17]) was ₹446.81 crore.

Thus, due to absence of adequate input control, there existed risk of placement of orders by a person who may not be a government employee. Also, against the requirements of 'Registration Manual' to regularly monitor and re-verify users' accounts, the application did not re-verify or force these buyers to update their email ids with .gov mail before placing an order.

Management vide its reply (February 2020) stated that GeM was integrating with the LDAP[18] Service of NIC, which would allow GeM to validate the e-mail given by users registered with NIC in real time and capture the date of retirement of Government employees. Management

[14] ***2.37 lakh nos.***

[15] ***Users without .gov or .gembuyer email id – 431 nos. placed orders worth ₹205.71 crore***

[16] ***Users without .gov or .gembuyer email id – 982 nos. placed orders worth ₹127.42 crore***

[17] ***Users without .gov or .gembuyer email id – 375 nos. placed orders worth ₹113.68 crore***

[18] ***LDAP: Lightweight Directory Access Protocol is a method for accessing and maintaining distributed directory information services over an Internet Protocol (IP) network***

further assured that an automated process of introducing users, who have neither "*gov.in*" nor public sector domain-based email, by the Government HOD, would be defined and developed so that GeM buyer domain-based email ids generated by NIC can be assigned to them.

(iii) Absence of validation controls resulting in registration of users beyond age of retirement

In government ministries and departments, the maximum retirement age of an employee is 60[19] years. Audit review showed that due to lack of validation controls in respect of feeding of date of birth of buyers, age of 426 users was found to be more than 60 years to 65 years. Similarly, age of '33' buyers was found to be more than 66 years to 75 years, two buyers were within age of 75 to 95 and 21 buyers were more than 95 years of age. Thus, the application allowed a 'retired official'[20] to get registered on GeM and make procurements and did not revoke access rights after retirement. Case Study 1 is illustrative of the problems associated with this issue and how the application did not block an official after date of his retirement.

> ***Case Study 1***
>
> ***In X organisation, the primary user retired on 31 July 2018, however, he continued to receive messages and notifications from GeM. His user access privilege was not automatically revoked until September 2019, when the organisation intervened and changed/ updated the primary user.***

GeM is an exclusive procurement portal for government users, therefore, it is imperative that GeM ensure that relevant conditions to check the eligibility of a user are mapped into the system since weaknesses in such controls increases the risk that the application's functioning may be susceptible to compromise.

Management vide its reply (February 2020) assured that GeM would integrate with NIC to validate the email of users registered with NIC, in real time and capture date of retirement of Govt. employee. GeM also assured that it will not allow retired government users to procure and would introduce functionality (in integration with NIC) to send notifications regularly to Government organisation for making alternate arrangements of transferring the accounts of employee three months before retirement or email validation expiry date.

(iv) Absence of validation checks leading to feeding of incorrect mobile numbers

A valid phone number linked to Aadhar number is a pre-requisite for accessing the GeM application. Consequently, the mobile number linked to Aadhar becomes critical for the verification and authentication process since validation is done by sending OTP (One-time Password) on this number. Therefore, the mobile number being fed by the user should be correct, in order to commence this process.

Accordingly, Audit performed different tests on the total 'active users[21]' to see the eligibility of the numbers and/ or verify their correctness. Given that this assessment was not

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[19] *Except central Government doctors and Central Universities professors*
[20] *92 users beyond the age of 60 years were able to place orders through GeM*
[21] *1.86 lakh*

exhaustive and different permutations of inadmissible numbers are possible, the test check revealed:

- In case of 75 users, the mobile number was not fed/ fetched into the system at all[22];
- In 11 cases, the mobile number was below 10 digits[23];
- In the case of 652 users' same mobile number i.e. '9999999999' was fed in[24];
- In other random cases, 28 records with misleading mobile numbers such as '111111111' or '1111112222' etc were found.

Besides the lack of input and validation controls in respect of feeding of mobile number by the users, the absence of a correct mobile number indicated that the verification process would have been incomplete.

Management, in continuation of its earlier reply (October 2019), wherein it stated that these instances occurred mostly when the eSign or Aadhaar services were disrupted and some of the entries were migrated data, confirmed (February 2020) that existing users (from earlier version) are being prompted to correct any incorrect mobile number before transacting through GeM and detailed (through data) that number of such users has been reducing. Management further stated that Aadhaar linked mobile number is verified through OTP and that basic checks pertaining to length of mobile number would be in place.

(v) Absence of input control in respect of user organisation leading to non-feeding of 'name of ministry', 'state' and 'name of organisation'

In the absence of adequate input controls, buyer organisations were able to register without filling even basic details such as name of Ministry/ State, name of organisation, name of office as these fields were not made mandatory in the application. While this resulted in incomplete classification of Ministry-wise/ State-wise data/ orders, for instance, orders amounting to ₹14,145.46 crore[25] could not be mapped to any Ministry/ State, greater vulnerability lies in the fact that the GeM application can be used for non-Government procurements by registered buyers.

Management vide its reply (October 2019 and February 2020) has assured that GeM application is prompting all users who have fed incorrect details of organizational hierarchy to first correct them before transacting on GeM. It further assured that GeM would make it mandatory for all organisations to feed all four levels of hierarchy. Management also stated that as on 30 April 2019 there are only 118 orders valuing ₹1.78 crore, involving 24 users where either Ministry/ State/ Department/ Organisation/ Office is null.

Audit acknowledges Management reply. However, Audit observation pertains to those cases where the field related to Ministry/ States is blank whereas GeM appears to have excluded cases wherein even one level of the four level hierarchy is filled. Therefore, the figures may

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22 ***6 users out of 75 placed orders through GeM***
23 ***1 user out of 11 placed order through GeM***
24 ***57 users out of 652 placed orders through GeM***
25 ***Blank Entries: ₹7,080.54 crore, entries with 'N/A'- ₹7,064.91 crore[26] Out of 2.41 lakh***

not be comparable, especially as cases of 'null' entry may have been updated during this time. Hence, they would be subject to further verification.

Thus, there were certain deficiencies in input controls relating to buyer details which need to be strengthened and legacy/ migrated data of buyers needs to be cleansed.

B Seller Registration

With respect to Seller Registration, the Business Requirement Document (BRD) required that the primary seller should be able to register online using AADHAAR or PAN on GeM Portal. The process of registration involves the following steps:

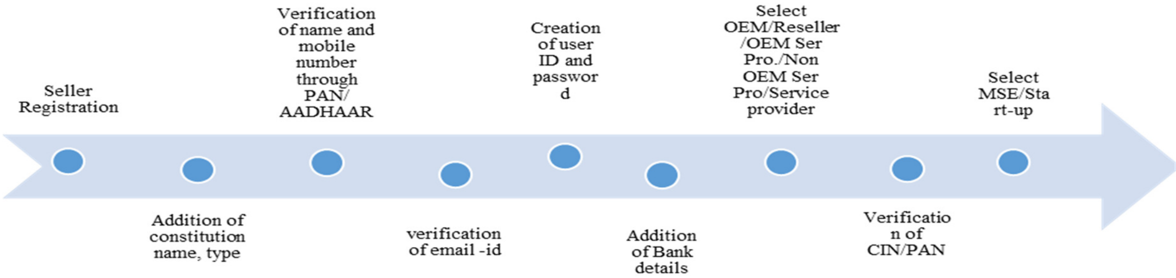

Figure 4.1.7: Steps in Seller Registration

(i) Usage of same email ids by multiple sellers/ service provider in absence of validation check

Para 3.1 of Seller Registration BRD states that, 'Unique Email id check was applicable for primary seller at the time of creating Primary seller account', which implies that one email id is to be used for registration by one primary seller only. However, Audit observed that in violation of this rule, 841 email ids were used by multiple users simultaneously, and within these, 32 email ids were used simultaneously by more than four users. In addition, email id was found to be blank in case of six sellers, despite it being mandatory to operate on GeM. Thus, rule pertaining to 'unique check' on email was not mapped into the application and the email field was not made mandatory for users.

Management vide its reply (February 2020) stated that the GeM application has been prompting all users who have fed duplicate emails to choose one email id when they login and that they are not be allowed to transact unless they make this correction. Further, it has been ensured that only one email id is to be used for registration by one primary seller only. Management also detailed figures comparing status/ position of these users upto October 2019 and upto December 2019 and accepted figures quoted by Audit. Management brought forth that the number of such users were reduced from 841 (upto October 2019) to 194 (by December 2019) and from four (upto October 2019) to zero (by December 2019) and also stated that out of these 194 users, 70 were secondary users.

Management reply is acceptable, however, in respect of secondary users, it is pertinent to mention that out of total registered sellers of 2.32 lakh, there are only 4,834 secondary sellers and out of these cases mentioned by GeM, only 36 *per cent* (approximately) of cases were found to be secondary sellers, implying that the application did not prevent other primary users from using same email id.

(ii) Absence of input validation in respect of 'experience' of sellers/ service provider leading to feeding of unrealistic information

Para no. 4.8 of Seller Registration BRD pertaining to 'Experience' requires that 'Seller should be able to enter total experience as well as experience with Government and that the experience will be used as filter criteria by Buyers' while searching catalogues on GeM. BRD further stated that 'Total Year of Experience' would be populated from 'Date of Incorporation'. However, Audit observed that no input validation was implemented in the application in this regard which resulted in experience data of unreasonable period such as '1 crore years', '15 lakh years' etc. In 16 cases, the experience was found to be more than 100 years, out of which in 10 cases, the experience was more than 1,000 years.

Thus, experience was not populated with date of incorporation and due to absence of validation checks, sellers'/ service providers with misleading information were operating on GeM. This may also compromise the technical evaluation process, in case experience is a selection parameter.

Management, in continuation of its earlier reply (October 2019) wherein it had indicated that there were necessary checks to handle validation in respect of 'experience' for migrated/ existing seller further submitted (February 2020) that 'filter' of seller experience has been removed from the marketplace so it cannot impact the selection process. This would be verified in future audits.

(iii) Non-classification of type of organisation due to absence of input control

Seller Registration BRD requires that a primary seller be registered either as proprietor, partnership firm, Company, Trust or Society, State or Central Government.

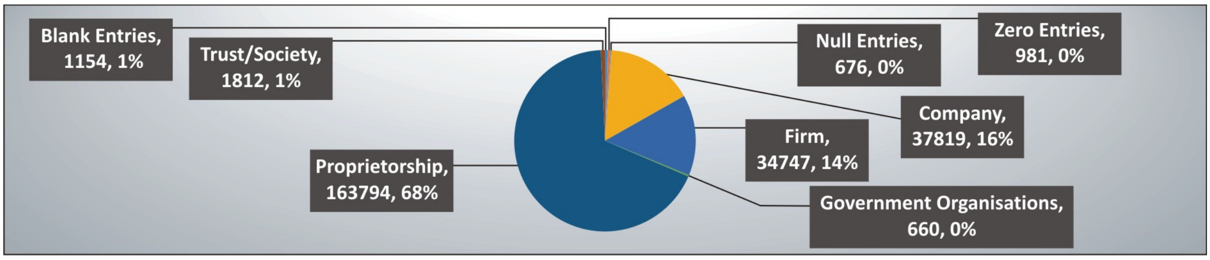

Figure 4.1.8: Types of Organisations on GeM

However, audit observed that in 1,154 cases[26], the 'constitution type' was blank, in 981 cases, the field was filled with '0' and in case of 676 cases the field was filled with 'N'. Thus, total 2,811 sellers'/ service provider did not feed the 'constitution type' as the field was not made mandatory. This resultantly led to bypassing of verification and various checks (CIN

> *Case Study - 2*
>
> *Audit received one feedback wherein a buyer organisation placed an order through Direct Purchase for procurement of 13 UPS. The order was accepted by the seller, however, no delivery was received against the order within 15 days. In absence of any contact number of seller and the address being local, buyer reached the office address of the seller. Here, it was ascertained that the Seller's registered name included ''construction company'' whereas on GeM, the seller was registered for selling IT hardware.*

[26] *Out of 2.41 lakh*

verification, PAN verification and other third-party verification etc.) in the respective constitution type. Case Study 2 is illustrative of the problems associated with this issue and how performance of GeM is exposed to reputational risk on this account.

Management vide its reply (October 2019 and February 2020) stated that MSP had been tasked with regular cleansing of such data and sellers'/ service providers with incomplete profile shall not be able to transact.

In respect of case study 2, it stated that the name of the company may not actually reflect the entire business spectrum of the seller and that there is no legal bar for anyone to sell products which, intuitively, may not be in tune with the company's name, provided that the activities of the company are otherwise in consonance with the extant laws and rules and regulations. While management's reply is noted, it is imperative that the system may be improved in such a manner that sellers with misleading or incorrect information are duly flagged through data analytics reports for follow-up and seller investigation.

(iv) Inadequate verification of credentials of sellers'/ service provider and incomplete integration with third parties

- Permanent Account Number (PAN) issued by the Income Tax Department is an identifier for the "person" with the Tax Department and is mandatory for taxpayers and is to be quoted for specified financial transactions. Para no. 4.2 of Seller Registration BRD, pertaining to 'PAN' verification requires that GeM, once integrated with the Income Tax database, would cross verify PAN number and 'name' entered by the user. However, it was observed that, in 42.79 *per cent*[27] of records the 'PAN number' remained 'unverified' by the system due to feeding of incorrect PAN number or non-feeding of the same. Further, in 36.96 *per cent*[28] of records, the PAN 'name' through PAN card was not fed/ fetched by the system. Further, GeM also did not verify the information fed by the sellers'/ service provider and allowed sellers'/ service provider to operate and transact through GeM despite incomplete profile.

Management vide its reply (October 2019 and February 2020) stated that additional checks have been added to ensure the correctness of PAN format and PAN name for any older data existing in the system and this process is fully and exclusively automated such that users are allowed to transact only if the PAN information is complete and verified through the PAN database and that all those sellers who have not fed PAN numbers are prompted by GeM for correction before transacting on GeM.

- Para 4.3 of Seller Registration BRD pertaining to 'Key Person' verification required that GeM, integrated with Income Tax database, would cross verify 'Key Person' based on PAN Number, authorised Person Name, ITR Type, Acknowledgement Number and Assessment Year. However, it was observed that in 81.34 *per cent*[29] of records, the name of 'authorised person' was found to be blank. Thus, the system had neither auto-captured nor verified the details.

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[27] ***96,106 out of 2.25 lakh sellers/ service provider***
[28] ***79,417 out of 2.15 lakh sellers/ service provider***
[29] ***1,78,285 out of 2.19 lakh sellers/ service provider***

Management vide its reply (October 2019 and February 2020) stated that this gap would get plugged over a period of time as and when these database owners synchronise with Aadhaar. Due to limitations related to integration and non-synchronisation of names between Aadhaar and ITR databases, key person verification feature although present had to be relaxed as a mandatory requirement. It further assured to explore to get key Person's e-mail data from MCA21 or Income Tax databases wherein the Key persons will be notified of registration of their company on the GeM Portal.

- Para 4 of Seller Registration BRD required that, in case of Company, the system would prompt for the Corporate Identity Number (CIN) and thereafter, the system would automatically validate CIN with MCA21[30] and also fetch 'date of incorporation' from the MCA21 database. Audit observed that in 36.12 *per cent*[31] cases of sellers'/ service providers registered as companies, the CIN number was not fed into the system implying that the field was not mandatory for users. Further, CIN number of only 56.27 *per cent*[32] of sellers'/ service providers was verified. Also, in case of 697 sellers'/ service providers, the date of incorporation was not fetched even after feeding of CIN although the system should have automatically fetched the date of incorporation after getting the CIN number.

Further, Audit compared the 'year' appearing in CIN number[33] with 'date of incorporation (year)' fetched by the GeM application and found that in case of 211 sellers'/ service providers, 'date of incorporation (year)' fetched from MCA21 was not matching with the 'year' of incorporation mentioned in CIN number. Also, in 117 cases, the 'year of incorporation' fetched through system was more than 'year of incorporation' as per CIN number.

Management, stated (October 2019 and February 2020) that these cases pertain to initial versions while the platform was stabilising. Management has further assured that post July 2019, users are allowed to transact only if the CIN information is complete and verified through the MCA database and date of incorporation is being fetched. Also, CIN is mandatory for companies in GeM and additional checks have been added to ensure the correctness of CIN format for any older data existing in the system.

Legacy data was neither updated nor sanitised, in respect of PAN and CIN, for verification of sellers. Thus, the application did not have adequate controls or a fool-proof verification process to prevent access by an unverified seller and there existed risk of misuse of application by an unscrupulous seller. GST numbers of sellers, if the turnover of sellers exceed a certain threshold, may also be included is one of the credentials for registration.

4.1.6.3 Delays at different stages of the procurement process

As per the approval of the competent authority in Government (April 2017) and RFP, GeM portal was expected to make the end-to-end process of procurement faster, bring efficiency and speed.

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[30] ***MCA21 is an e-Governance initiative of Ministry of Corporate Affairs (MCA), Government of India that enables easy and secure access to MCA services by corporate entities, professionals and citizens of India***

[31] ***13,659 nos of Companies out of total 37,819 Companies***

[32] ***21,279 nos of companies***

[33] ***CIN is a unique 21 digit alpha-numeric number which also contains the numerals of the year of incorporation***

Audit observed that there were significant delays at different stages of the procurement process, from placement of order to payment to sellers'/ service provider as detailed in the succeeding paras.

A. Delay in placement of orders

As per the order placement procedure for Direct Purchase, an organisation, after making his selection, places an order on a particular seller. The BRD pertaining to 'orders' provides that a seller would have five calendar days to accept or reject a Direct Purchase Order. After expiry of five days, in case of no response from seller, the order would get auto cancelled. Otherwise, the buyer then confirms placement of the order or 'award' the same. Ideally, this can happen immediately or at least within one day of acceptance by the seller.

> ***Case Study 3***
>
> ***An organization placed an order amounting to ₹4,847,259 for procurement of 03 nos of 'LPT1613 cowl chassis 4x2 BS IV of TATA Motors'. The order was created on 22.09.2018, but was awarded on 15.02.2019, i.e with a lapse of 146 days and the goods were delivered afterwards.***

However, it was seen that there is no control or mapping of any time-limit to ensure confirmation of placement of order by the buyer. Consequently, Audit observed that a total of 12.33 *per cent*[34] of orders valuing ₹792.41 crores were awarded after a delay ranging from more than five days from date of creation of orders up to a maximum of 312 days. Further, 18 orders were awarded after 90 days whereas the complete bid cycle on GeM was 90 days only. It was further observed, that out of these cases of delayed placement of orders, in case of 88.66 *per cent*[35] of orders valuing ₹172.40 crore, the orders placed were below ₹50,000 implying that selection of seller was at the discretion of buyer, even then the orders were not placed in time. Thus, controls to ensure award of order within a specified time period were inadequate. Case study 3 indicates how the absence of this control has made the procurement process inefficient and prone to unnecessary delay.

Management in its reply (February 2020) stated that these cases are due to buyers amending the order post placement of order subject to consent by seller. The amendment order created carries the carting time of the original order and hence may show a high time difference between order confirmation time and carting time and can be carried out until the expiry of the original delivery period. However, management also assured that in future, along with original date of carting, amended date of order along with amendment number will be attached to the amended order so that the delivery time can be computed by taking the difference between delivery date and amended order date.

Management's claim that these cases are due to 'amendment' could not be verified in absence of details. Further, Management's reply is not borne out by facts that amendment can be made once order is placed and accepted by sellers since audit observation pertains to delay after the order is moved from cart to placement and time taken from placement to award only.

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[34] ***1,38,837 orders out of 11,25,392 orders***
[35] ***1,23,096 orders out of 1,38,837 orders***

B. Delay in delivery of products

Business requirement document pertaining to Direct Purchase (Marketplace) requires that the buyer should get an option to enter the delivery days for purchase and the maximum delivery days for direct purchase should be 15 days unless a different value is configured for the category, e.g. for automobiles.

However, an analysis of data revealed that in 39.64 *per cent*[36] of the total orders placed upto March 2019, the delivery was either not initiated or was delayed beyond the prescribed time. The maximum delay was as much as 418 days. Case study 4 shows that a seller supplied a small item of stationery after more than a year. Since GeM is mandatory for government purchases, there has to be a high level of reliability assured in delivery otherwise the convenience of electronic ordering would dissipate, especially in the case of small items/ items required for routine functioning.

> ***Case Study 4***
>
> ***X organisation placed an order for 20 pieces of 'Tape 2 Inch Transparent' on 09.03.2018 for ₹860. The order was accepted by the seller on 09.03.2018, however, the delivery of the item was made on 01.05.2019 (418 days) which was accepted by the buyer.***

Management stated (May 2019, October 2019 and February 2020) that more than 71 *per cent* orders have been delivered till date out of which 78 *per cent* of orders have been delivered on time. Management has further assured to improve the same. Management has further reiterated that GeM application allows the buyer to apply "Seller rating" filter in market place to exclude sellers who have low ratings in the Direct Purchase mode of procurement

> ***Case Study 5***
>
> ***Audit received feedback from one buyer organisation stating that while procuring 'Desktop' through 'Direct Purchase' the system selected L_1 who had rating of 1.37 points (out of 5) and was suspended once and disabled twice.***

Management's reply is acknowledged; however, management's reply in respect of rating overlooks the fact that L_1 selection through GeM application is not affected by usage of filter on 'seller rating' as even after selection of a specific rating, the same is overlooked by the application and the L_1 selected by application may not hold the specified rating. Thus, seller rating loses its significance as indicated in Case study 5. On the contrary, sellers are allowed to reject an order based on the rating of buyers.

C. Delay in payment to sellers'/ service providers

Ministry of Finance OM titled 'Procedure for payment to Sellers/ Suppliers in Government e-Marketplace' (dated 20 September 2016), required that the time taken for payment should not exceed 10 days including holidays. Further, Micro, Small and Medium Enterprises Development (MSMED), Act 2006 provided that, for the goods and services supplied by the MSME units, the buyer is to make payment within 45 days.

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[36] ***1,93,850 & 2,52,161 orders of delayed and non delivered orders respectively out of total 11,25,392 order for goods***

However, Audit observed that upto 31 March 2019, total 10.29 lakh CRACs[37] valuing ₹6,780.36 crore were issued. However, in more than 50 *per cent* of the cases no payment was made at all. Payments 'within time'[38] were made only in case of 3.79[39] *per cent* CRACs valuing ₹298.12 crore cases and in rest of the cases, either payments were not made at all or were delayed beyond an unreasonable period as detailed below:

Table 4.1.3: Cases of delay in payments

Cases wherein payments were made, including delayed payment		**Cases wherein payment was made after prescribed time**		**Cases wherein no payment was made**		**Cases of delay in payment to MSE vendor**
per cent	value in ₹ crore	*per cent*	value in ₹crore	*per cent*	value in ₹ crore	*per cent*
49.08[40]	3,308.18	45.29[41]	3,010.05	50.92[42]	**3,785.04**	69.11[43]

The delay in payment ranged to an unreasonable period of 439 days (as illustrated in case study 6) and in cases wherein no payments were made, the pendency ranged to 415[44] days. Further, in violation of MSE (Micro and Small Enterprises) Act, the delay to MSE vendor ranged to 436 days. Audit noted that non-updation of payment status by buyers could be one reason for these figures.

Case Study 6

X organization placed an order amounting to ₹46,000 for procurement of 250 nos. of 'JK COPIER A4 75 GSM (A4 size papers)'. Order was awarded to seller on 16.02.2018, the delivery of the product was made on 25.02.2018, however, the payment was made on 11.05.2019, after a delay of 439 days.

The issue of lack of timely payment to sellers has been flagged by GeM in its GeM Quality Reports, in particular the reports for Jan-March 2019 and for Apr-June 2019. The recommendations of the Committee of Secretaries on GeM (May 2018) also indicated that the Standing Committee of GeM (SCoGem) of the buyer Ministries/ Departments should ensure that all purchases are done through GeM platforms and timely payments are made.

Management in its reply (October 2019 and February 2020) stated that that payment is a service level commitment of the buyer agency and it is exclusively a function of their internal processes and completely outside the purview of GeM SPV; the SCoGeMs headed by AS/ JS & FA are mandated to ensure that buyer service levels are adhered to. It is a change management issue of overall government systems and will take time; upto September 2019 the percentage of timely payments has increased to 25 *per cent*. Department of Expenditure has also issued fresh instruction (23 January 2020) regarding procedure for

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[37] ***As per the existing procedure on GeM, the payment advice on GeM would be prepared after generation of Consignee Receipt and Acceptance Certificate (CRAC) by the buyer***

[38] ***Within 10 days***

[39] ***38,506 CRACs out of 10.29 lakh***

[40] ***5.05 lakh CRACs***

[41] ***4.66 lakh CRACs out of 10.29 lakh***

[42] ***5.24 lakh CRACs***

[43] ***0.94 lakh CRACs out of 1.36 lakh CRACS***

[44] ***Cases wherein CRACs have been issued but payments have been pending (excluding CRAC issued after 31 March 2019)***

payments on GeM. Management has further stated that GeM is going to release Auto Debit 80-20 facility for non-PFMS entities, wherein the complete bill will be released within 45 days in two parts and is also working with Central PSUs for integrating their ERP systems. Also, the system would now close the payment which are due post-CRAC for more than 60 days as buyers do not update the offline payment status on the GeM portal. Management has further iterated that GeM has introduced a dynamic GeM Rating System wherein performance of both buyers and sellers is measured.

In Audit opinion, low rating for buyers, in itself, will not be sufficient to expedite payments.

Thus, there were significant delays from placement of orders, to delivery of goods to delay in payment. The average procurement time (time taken from creation of orders to payments) on GeM application was 136.31 days and in cases wherein payment was not even initiated, the average time remained 118 days (pending upto 31 March 2019). Thus, the objective of providing an efficient and speedy platform for procurement was not fully achieved.

Management in its reply (October 2019 and February 2020) stated that in case of 'Direct Purchase', median time taken from cart to order placement is less than a day, median time from order placement to delivery is eight days and from delivery to CRAC generation is four days. In the case of Bid, median time from Bid submission to order placement is 12 days, Median Delivery Time after placement of Order in Bid/ RA is 18 days and from Delivery to CRAC generation in Bid/ RA is eight days.

In Audit's view, delay in payments is a serious systemic issue which impacts the achievements of objectives of GeM. While GeM SPV needs to take continuous, pro-active action to follow up such delays with the buyers and sellers, Ministry of Commerce should take up the issue with Ministry of Finance to issue instructions to all Government entities to mandatorily ensure timely payment of dues.

Overall, as pointed out by audit in the preceding paras, the performance of GeM needs further improvement although we also note that such improvement in performance requires the collaboration of all stakeholders (including buyer Departments/ entities and sellers).

4.1.6.4 Inadequate controls to ensure achievement of transparency in procurement process as envisaged

Government e-Marketplace was envisaged to provide end-to-end online marketplace for procurement of common use goods and services in a transparent and efficient manner. Further, as per the RFP issued for selection of MSP, the GeM was to act as a public procurement platform between suppliers and buyers, by providing them a common, unified, and transparent Government to Business (G2B) portal for supply and procurement of goods and services registered with GeM. However, the following deficiencies were observed in the application which led to non-achievement of these objectives:

A. Placement of orders repeatedly to same seller

Audit observed that orders[45] valuing ₹1,206.45 crore were placed more than 20 times by the same buyer organisation repeatedly to same suppliers during the period January 2018 to March 2019. Further, buyers also placed orders[46] valuing ₹117.41 crore more than 100 times to same seller and 30 buyer organization gave more than 200 orders to same seller (as elaborated through case study 7). Thus, the system did not have checks to ensure transparency and control favouritism.

> *Case Study 7*
>
> ***X organisation repeatedly placed 558 orders valuing ₹2.81 crore on same vendor from January 2018 to March 2019 for procurement of 'Cartridge' or 'toner'. The highest value of order was ₹12.78 lakh and the lowest was ₹569. Interestingly, total orders placed by the said buyer during this period were 687.***

Hence, the application may develop in-built controls to ensure that ceilings over which value of orders repeatedly placed on the same seller may be implemented, to avoid splitting of orders below the GFR specified thresholds.

Management (October 2019 and February 2020) stated that it is a mark of transparency on GeM that this information is centrally available for the first time. Management further assured that controls such as masking of identity of seller, provision of Dashboard to competent authority of buyers to control favourism, fortnightly alerts to such buyers and reduction in limit of direct purchase from ₹50,000 to ₹25,000, through an amendment in the GFR dated 2 April 2019. Management further stated that Business Rule wherein Buyers cannot place the order of same product in the same week to the same seller in Direct Purchase has been implemented in the application.

B. Invitation for participation in bids to single sellers'/ service provider

As per RFP, GeM system was envisioned to promote procurement of standardised products and services which would in turn reduce/ eliminate the malpractices from the procurement process including bid rigging such as making product specifications very 'specific'. However, a test check of data pertaining to bid notifications sent to sellers/ service provider for participation, revealed that out of 31,993 bids, in 256 bids, the notifications were sent to 'one single seller' whereas the item procured through these bids included items such as desktops, writing and printing papers, battery cells, chairs, computers server, drinking water cooler, Notebook-laptop, etc for which there may be several sellers/ service providers on GeM.

> *Case Study 8*
>
> ***XYZ organisation published a bid for procurement of 100 over bed tables (hospital beds) valuing ₹10.51 lakh. The notification was sent to a single seller instead of all the seller selling similar items. Against the bid, single participation was received from the only seller who received the notification and order was consequently awarded to that seller.***

This indicated that the buyers were able to select the parameters in such a manner that GeM system sent the notification to a single seller despite availability of several sellers'/ service provider (as indicated in case study 8).

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[45] ***3,25,925 cases***
[46] ***37,572 cases***

Management stated (October 2019 and February 2020) that GeM has already put limits on turnover requirement for resellers and review of Additional Terms & Conditions library on a periodic basis is undertaken to ensure no restrictive conditions are allowed for bids. Further, requests for the addition of any additional terms and conditions are included only with the approval of the competent authority within the buyer's organisation. Any corrigendum uploaded for bids are vetted through GeM legal team. Further, the process has been improved so that notification goes a larger group of sellers; the filter of turnover to determine the eligibility of seller has been relaxed.

C. Non-masking of names of service providers

Audit observed that the name of the 'Service providers', while selecting services, were not 'masked' and, therefore buyers were able to see the names of the service provider and could easily select the same service provider again and again, thereby defeating the purpose of transparency.

Management vide its reply (February 2020) has accepted the audit observation and assured to mask the names of service providers in the marketplace.

4.1.6.5 Deficiencies with regard to economy and price reasonability

Audit observed certain deficiencies with regard to price reasonability and economy as detailed below.

i. Sale of products at abnormally low prices

Audit observed that certain products were available at an extremely low rate raising concerns about the quality and authenticity of the offered product. Also, due to extremely low prices, such products had potential of getting selected as L_1 by the application. Test check revealed that 'compatible cartridge' was available at ₹30 (with market price being ₹9,000); similarly, a trolley bag was available at ₹67 (with its market price being ₹1,455).

Thus, an effective and real-time in built-mechanism in the application needs to be evolved to control these irregularities in such a manner that abnormal changes by the seller in order to become L_1 are detected in real-time, and investigated.

Management vide its reply (February 2020) has assured that GeM is in the process of evolving such real time controls and apart from other steps, GeM would ensure price range determination on category/ product level and on *per cent* discount, monitoring of price change during bidding, display the tag of authorised Reseller/ OEM, explore the movement of categories from Q3 to Q2 on case to case basis, evolve system of periodic health reports on sellers/ OEMs/ categories and products and identification of products with abnormally low or high prices product with use of tool. Management further stated that GeM is making it necessary for OEMs to get assessed and developing additional functionalities to ensure market sanity.

ii. Procurement of goods at higher rates in case the quantity to be procured is not available with L_1 (Direct Purchase)

Audit observed that, at the time of selection of items, L_1 rates were shown to the buyer along with the stock available with L_1. In case, the quantity required by the buyer was more than the stock available with L_1, the L_1 gets changed and new L_1 would be available at higher rates than the earlier L_1 due to availability of similar/ same products at different rates. There is no option to obtain the lower quantity from the old L_1 and additional quantity from another vendor. Although this functionality was not required to be implemented by BRD/ RFP, however, lack of this option in GeM application results in procurement of items at higher rates.

Management without refuting audit observation stated (October 2019 and February 2020) that GeM places high emphasis on ensuring price reasonability and it has provisioned many tools on the platform. A buyer can view past trends and price of the product which is available on other e-commerce portals. Management further stated that savings from the portal have been consistently above 25 *per cent* for Top-10 categories (excluding automobiles).

Management reply is appreciable, however, buyers may be provided more options to achieve economy in procurement as in instant cases, the prices of same product were found to be varied and different due to which although L_2 happened to have requisite quantity however, his prices were more than L_1. Further, past trends and price comparison with other e-commerce websites may be made available for all the products on GeM as it is not available for all the products presently.

iii. Variation in prices of same product

Audit observed that there were variations in the price offered on GeM for the same item on the same day. Same departments placed orders at different prices for same item on same date. The variation in 'offered price' ranged from ₹139 to as high as ₹6,000 for same item (as illustrated in case study 9).

> ***Case Study 9***
> ***A department ordered 'meeting tables' for ₹23,181 and ₹17,181 on the same day. Similarly, 'Steel clothes Locker' were ordered for ₹24,000 and for ₹21,159 on the same day by the same department.***

Management contented that that these items were large volume/ heavy weight furniture items and being freight intensive, the prices were therefore very sensitive to location of consignee also. There was therefore, very strong possibility that rate of even the same item with exactly same specification can vary significantly based on consignee location etc. However, Audit review showed that the system did not allow the buyer to choose seller from same or nearby location which resulted in loading of extra cost for distance. Further, in such instances, the application may prompt/ encourage buyers to club their orders in order to achieve economy and discounts in prices. Further, the reply did not address the cases where the same department has got different prices on the same day for same consignee location.

Management vide its further reply (February 2020) assured that GeM currently provides information on last procurement price in marketplace and will enhance the functionality to provide more information to buyers as suggested by Audit.

iv. Variation in market and offered prices and resultant increase in 'savings'

Variations were also observed in 'Market Price' shown at GeM marketplace and in price offered for sale through bid. A test review of 131 orders considered as "demand aggregation" by GeM due to their high value (above ₹20 crores) revealed that the variation between market price and offered price were as high as ₹1.72 crore[47] with the highest difference being 93.07 *per cent*. In 22 cases[48] out of 131, the price variation was more than ₹2 lakh. Similarly, in 12 cases, the variation was more than ₹10 lakh.

Such drastic change in price by sellers resultantly increased the 'savings' which GeM claimed to achieve after implementation of version 3.0 in its quarterly GeM Quality Report (published on its website), as the 'savings' are calculated on the basis of difference between market price and offered price. Since GeM is the exclusive procurement portal for government organisations, actual economies and savings achieved by buyer organisations should be reflected rather than notional savings based on dated figures. Thus, these figures would better evaluate the efficiency and effectiveness of the platform. Hence, the methodology for calculation of 'savings' on GeM does not appear to be robust and needs further review.

Management vide its reply (February 2020) stated that GeM has requested IIM Lucknow to develop a framework for calculation of savings on GeM and assess the savings occurring due to procurement from GeM and this work is in progress.

This also raises concerns about the quality of product being offered, especially in cases where a product is offered after a reduction of more than 93 *per cent* on market price are raised.

In view of the concerns raised about the price reasonability and related quality {Para (i), (ii) and (iv)}, GeM management may identify such transactions and carry out a detailed analysis of the factors giving rise to such cases, develop a tool to detect the irregularities and associated vendors in real-time and also review the outcomes in such situations and take appropriate action, if needed. These transactions may also be flagged to the buyer organisations so that they can rectify deficiencies at their end.

4.1.6.6 Non-mapping of conditions of Catalog Management

Catalog Management System (CMS), in GeM, details the process of new 'product category', definition of technical parameters, approval/ rejection of Product Catalogue. It further details process of seller authorisation such as 'Original Equipment Manufacturer' (OEM) or 'Authorised Reseller'. However, Audit observed that following conditions of catalogue management were not mapped in the application.

[47] ***Item-full HD video conferencing system***

[48] ***Items such as UPS, routers, Diesel Generators, servers, firewall etc.***

i. Non-integration with validity of OEM authorisation leading to product/ brand status remaining 'active' despite expiry of validity

An analysis of data pertaining to OEM authorisation revealed that from January 2018 to March 2019, total 65,234 brands/ products requested or were approved for OEM authorisation out of which 51,557 were 'active' and 13,672 were 'inactive'. It was observed that validity of authorisation in respect of 5,669 product/ brands had 'expired'. However, due to non-mapping of conditions of BRD and inadequate integration, the status of these product/ brands was appearing as 'Active' signifying that these products were available for 'sale' on GeM despite expiry of their authorisation from respective OEM. Thus, there is inadequate integration with validity period of the product/ brand authorisation with OEM and may lead to sale of an unauthorised product or through an unauthorised seller through GeM.

Management in its reply (October 2019 and February 2020) stated that GeM would implement a functionality to notify OEM of all authorisations due for expiry/ expired so that OEMs can take necessary action as required wherein OEMs would have the option to renew/ remove authorisation of such sellers and all the sellers that have expired authorisation codes would be highlighted on the OEM's Panel. Further, steps are being taken to put in place an appeal mechanism for authorised resellers not being permitted by OEMs to onboard on GeM.

ii. Non-mapping of conditions pertaining to approval of 'brand'

Catalog Management System requires that the entire catalog uploaded by the sellers'/ service providers is to be validated by the CMS team before being published on Marketplace. In respect of Brand Approval, the user could 'approve', 'reject', 'put on-hold' the requested brand within 15 days.

In this regard, a test check of data revealed that 1,146 brands were 'requested' for approval; however, the condition pertaining to approval of brand within 15 days was not mapped which led to unreasonable delay in approval of the brands. The details of delay in approval, rejection and pendency in respect of brand approval are as follows:

Table 4.1.4: Details of approval of brands and delays in approval

Status of approval	Number of brands	Number of brands delayed	Range of delay
Approved	636	398	Up to 85 days
Pending	502	370	More than 80 days
Rejected	8	1	Up to 23 days

Management in its reply (June, October 2019 and February 2020) stated that sometimes sellers'/ service provider upload incomplete documents for which GeM team needs to guide the sellers'/ service provider to submit correct documents before approving or rejecting a request. Also, in some cases, the correspondence with seller goes in multiple iterations, as sellers'/ service providers take a long time to arrange the correct documents. However, management assured that changes such as upload of document, website link at the time of brand application itself, requisition and submission of additional supporting documents through approval panel/ seller panel, restriction on submission of brand in category upto three times, and introduction of an automated queue management system ensuring one by one approval by members would be implemented.

iii. Ineffective utilisation of Incident Management System due to non-mapping of conditions

BRD pertaining to 'Incident Management' (IM), details the overall framework for identification and handling of incidents[49] raised because of deviations on GeM portal at both pre-order[50] and post-order stages. The procedure for resolution of incidents involves the following stages:

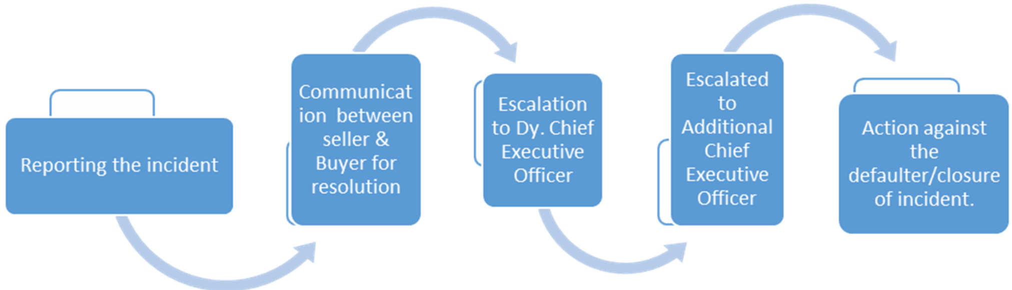

Figure 4.1.9: Stages involved in resolution of incidents

The deviations are categorised on the basis of severity as 'Mild'[51], 'Serious'[52] and 'Severe'[53] incidents. Upto 31 March 2019, 93,222 incidents, raised against 55,984[54] orders, were reported through 'Incidents Management Module'. Out of total incidents, 39,460 incidents were raised against the buyers while 49,948 incidents were raised against sellers'/ service providers.

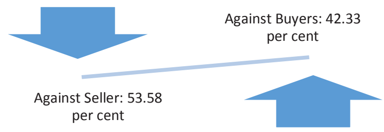

Figure 4.1.10: Incidents raised

- **Delayed resolution of incidents**

Audit observed that there were abnormal delays in resolution of incidents. Out of total incidents reported upto 31 March 2019, only 51.92 *per cent*[55] of incidents were 'closed' and rest 48.08 *per cent* incidents were pending (upto April 2019) for final resolution. The details are as follows:

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49 *deviations from the terms and conditions of procurement on GeM, including general terms and conditions, special terms and conditions*

50 *Registration, Product Listing, Procurement Process etc.*

51 *Mild incidents such as incomplete or unintentional erroneous submissions of information*

52 *Serious incidents such as non-delivery for direct/ L_1 purchases, mis-declaration of Government Transaction experience or financial information, supply of inferior/ substandard quality, furnishing inaccurate, false, misleading or forged documents*

53 *Severe incidents such as non-delivery of product/ services after successful bidding, seller withdraws/ modifies/ impairs/ derogate from bid in any respect, fails to furnish requisite PBG, registration with fake identity, indulgence in any anti competitive behavior or cartel formation, corrupt influence, mis-declaration of MRP*

54 *excluding incidents without any order number reference*

55 *48,399 out of 93,222*

Table 4.1.5: Details of resolution of incidents.

Type of Incident	Total incidents reported	Total incidents resolved after prescribed period	Percentage of incidents resolved after prescribed time[56]	Longest resolution time in one incident
Mild	2,232	1,645	**73.70**	283 days
Serious	65,320	35,369	**54.15**	338 days
Severe	21,772	13,475	**61.89**	336 days

Thus, in the absence of automatic escalation to the appropriate authority based on pre-specified conditions, eg. type of incident, time elapsed from receipt, etc, there were prolonged delays in resolution of the incidents, and thus, the incident management mechanism loses its effectiveness as a deterrent. Further, it allows the defaulter buyers/ sellers to operate on GeM even during the period of consideration of incident which is lasting upto 6 - 10 months.

Management vide its reply (October 2019 and February 2020) stated that the auto-escalation and auto-show cause notice in case of non-delivery of products and services for Direct Purchase, quality related issues of product/ service and submission of forged documents to GeM is being implemented and activities such as auto-closure of non-escalated incidents due for escalation, imposition of auto-penalty for system identifiable deviations is also under development to enhance the effectiveness of the IM portal.

The GeM Handbook (July 2018) states that while GeM provides the platform for dispute resolution and incident management, GeM is, at the crux of it all, only a platform. Thus, GeM is limited to taking administrative action, ranging from deviations recorded against the seller/ buyer to blocking or suspending of the defaulting buyer/ seller account and a blacklisting recommendation to the Board/ Ministry of Commerce. Nevertheless, Audit believes that the GeM SPV needs to take such administrative action to the fullest extent possible.

- **Non-categorisation of level of severity of incidents**

As per the procedure, types of incidents were classified into 'Mild', 'Serious' or 'Severe' on the basis of level of severity. However, Audit observed that field referring to 'severity level' of the incident was not automatically populated on the basis of type of incidents reported by the users, this left severity level of 58 incidents 'blank', i.e. undefined by the system. The resolution time and procedure to be followed for resolution of an incident depended upon 'severity' of incidents, therefore, in absence of such categorisation, the resolution time got adversely affected.

Management vide its reply (February 2020) stated that the system has been evolved now and stabilised and no incident can be created without selecting a reason and these reasons populate severity of incident in the table; so now such cases do not occur.

[56] *25, 24 and 22 days in case of mild, serious and severe incidents respectively*

iv. Non-mapping of functionalites as per requirements of GoI, GFR & RFP

Audit observed that following requirements of GoI, GFR and RFP were not developed and implemented in the GeM application.

- ***Exclusive procurement of items reserved for Micro and Small Enterprise:*** Although MSE vendors with their respective products have been identified on GeM portal, however, 358 items, reserved for exclusive procurement (20 *per cent* annual target) from MSEs as required under the Public Procurement Policy for Micro and Small Enterprises (MSEs) Order, 2012 were not been mapped or linked in the system.

- ***'Option clause' of Manual for Procurement of Goods, 2017 (Ministry of Finance):*** The 'Option Clause' of 'Manual for Procurement of Goods, 2017' specifies that the purchaser retains the right to place orders for an additional quantity (increase/ decrease) upto a specified percentage (25 to 30 *per cent*) of the originally contracted quantity at the same rate and terms of the contract, during the currency of the contract. It further provides that this clause and percentage should be part of the Bid Document and the contract for raw materials/ consumables of regular and year-on-year recurrent requirements and all tenders of value above ₹50 lakh should invariably include this clause.

Audit observed that though the requisite conditions of 'option clause' were mentioned in the terms and conditions of the bidding process, however, the process for availing this option was not mapped in the application for procurement through bidding. Therefore, the buyer could not increase the quantity of product selected at the time of bidding as the option for the same was not available in the application.

- ***Functionality for buy back:*** The provision of Buy-Back offer to replace the existing old items with new procurements through buy-back mode, especially in case of electronics items, e-waste or hazardous items, as required under Rule 176 of GFR, was not mapped.

- ***Forward Auction:*** 'Forward Auction' functionality was not developed for users as required in RFP.

- ***Demand aggregation:*** Demand aggregation was projected as one of GeM's goal in the RFP to maintain equilibrium between demand and supply, enabling bulk purchase by allowing buyer to participate in cycle of Demand Aggregation and put their demand requirements in the portal enabling vendors to offer the products and best offer prices in the portal which would result in more competitive prices. Audit observed that functionality relating to Demand Aggregation was not implemented on GeM portal and the option to put the request for participating in cycle of Demand Aggregation by buyer was not available on the portal.

- ***Provisions pertaining to QR Code:*** RFP required that in order to facilitate effective tracking of goods within GeM system, system would have functionality of generating GeM specific QR-Code for the various goods transacted through GeM platform. It further stated that vendors shall be required to print the GeM QR-Code and affix the same on the supplied goods and vendors may have their own QR-code/ bar code that may be additionally affixed on the supplied goods. However, the said functionality was not made available which would lead to inability of user to track the ordered item.

- ***Inadequate implementation of e-EMD and e-PBG:*** Audit observed that, though, GFR 170 and 171 did not provide for any monetary restriction on value of orders in obtaining EMD and PBG from seller, on GeM application, option for EMD was not available for orders having value less than 25 lakh and option for PBG was not available for orders having value less than 30 lakh. It was also observed that EMD was not automated.

- ***GeM ios application:*** RFP required that the MSP shall create a GeM Mobile App (both for Android and iOS) in Phase-2 which would include access to Plain Buy, Plain L_1 Buy, Reverse Auction, Forward Auction, Demand Aggregation, etc. However, mobile app for iOS supported phones was yet to be rolled out.

Management vide its reply (May, October 2019 and February 2020) has assured that necessary steps to implement/ enable all the above functionalities/ compliances are already in process except in case of e-EMD & e-PBG wherein it has replied that in compliance to Rule 170 (iii)[57] of GFR, provision has been made in GeM 'General Terms & Conditions' to obtain Bid Securing Declaration of all sellers.

Management reply in respect of e-EMD and e-PBG overlooks the fact that GFR does not put restriction on value of order. Further, provision mentioned in Rule 170 (iii) is an 'option' available in place of 'bid security' and does not take away the right to obtain bid security implying that buyers may be provided with both the options.

v. Deficiences and lack of functionalities in 'marketplace'

GeM was intended to provide an end to end system, seamless process flow and standardised specifications; however, Audit found certain deficiencies:

a. Limited development of functionality of 'Price Comparison' and 'Price Trend':

Para 3.2 of BRD on 'Market place' related to price reasonability states that buyer should have provision to view price trends basis, the purchase history of a product and category on GeM. It further provides that the buyer should have the provision to view prices of the same or a similar product on different marketplaces.

However, a test check revealed that the link to trends and comparisons was not implemented exhaustively for all the items available on GeM and was available for limited products. Price comparison feature was not available for categories such as office furniture (almirah), operating system software, etc. Also, the trend of entire 'category' was shown instead of trend of 'individual' items[58] thereby making the comparison invalid and of limited use. Test check also revealed that despite availability of comparison link, no comparison was shown

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[57] ***In place of Bid security, the Ministries/ Departments may require bidders to sign a Bid Securing declaration accepting that if they withdraw or modify their bids during the period of validity, or if they are awarded the contract and they fail to sign the contract, or to submit a performance security before the deadline defined in the request for bids document, they will be suspended for the period of time specified in the request for bids documents from being eligible to submit bids for contracts with the entity that invited the bids.***

[58] ***A scooty was compared with bikes such as Bullet***

while clicking on 'comparison link' in respect of items such as AC, Television, Desktop, Laptop and projector. Thus, the functionality of trends and comparisons is not exhaustive and needs enhancements.

Management vide its reply (May, October 2019 and February 2020) assured that it has implemented price comparison for 32 categories and is in the process of implementing for other most relevant categories in stages. Management has further stated that enhanced version of price trends on basis of similar matching products is available for 72 categories and will be implemented for remaining categories.

b. Non display of breakup of installation and commissioning charges

Audit observed that the prices of some goods requiring installation and commissioning were shown inclusive of installation and commissioning charges whereas prices of similar other goods were shown exclusive of these charges. As procurement of items are largely affected by 'price', therefore in the case of items which are shown exclusive of installation and commissioning charges, the buyer would find it hard to ascertain the probable amount of these charges. Therefore, Audit is of the opinion that the charges of installation and commissioning, whether inclusive or not, may be specifically mentioned along with cost of product as it causes inconvenience to buyers if such products are selected as L_1 by GeM application.

Management vide its reply (February 2020) stated that enhancement in respect of providing breakup of installing and commissioning cost has already initiated.

c. Non-availability of the application in any other language except English

As per sub para 2 of clause 10.2.4 of RFP, the portal should have multi-lingual capabilities with regional, localisation and unicode support and one of the key features would be the ability of showing the content in multiple languages.

Audit observed that, although there is a language drop down menu at the top bar of the home page, however, on choosing 'Hindi' language option, only 'login page' was available in Hindi language and once the user logged into the application, the content on next page appeared in English language instead of Hindi. Thus, the requirement of providing the portal in various languages, was not implemented on GeM and the application is not catering to regional users in their regional languages. Hence, users are not left with any option but to use the application in 'English' language.

Management (May, October 2019 and February 2020) assured that development of this functionality is prioritised for taking up in April 2020, as this enhancement requires freezing of source code for four to six weeks.

d. Non-availability of functionality to apply for corrigendum through GeM application

Sub-clause 4 of Bid Terms and Conditions of clause 7.1 states that buyers can edit buyer specific Additional Terms and Conditions (ATC) for an on-going bid before any participation begins with minimum three days remaining for bid to end and the same would be published as a corrigendum in the bid and can be viewed by buyers, sellers/ service provider and public with notification to existing participants.

However, Audit observed that there was no option available on buyer's dashboard to initiate the process of issuance of corrigendum and if a buyer wanted to issue corrigendum the buyer had to send an email to GeM for approval for the same. The process causes inconvenience to the user due to manual intervention. In order to eliminate manual intervention, prejudices and subjectivity and ensure availability of complete audit trail, it is essential that the process may be mapped in application itself on the buyer's dashboard.

Management vide its reply (February 2020) confirmed that as per suggestion of audit, in place of e-mail based approval used earlier, the request and approval part has now been made available in application itself in Request Management Module. Thus, corrigendum request process has been fully automated.

e. Non-display of batch/ year of manufacturing

While procuring on GeM portal a buyer can see the specifications of the product along with all the features of item. However, the batch or year of manufacturing of the article is not shown which may help in ensuring quality/ expiry of the product, especially those products which are perishable in nature and have limited shelf life. The batch number/ year of manufacture may be intimated to buyer at the time of dispatching the shipment to avoid delay due to rejection of goods at the stage of CRAC and to ensure assurance of adequate quality to buyers in advance which may be ascertained with date of packaging/ manufacturing.

Management (June, October 2019 and February 2020) in its reply stated that since seller inventory information is not maintained on GeM, the stock information is not available to show on the portal. However, management also assured that GeM is working on the implementation of the QR Code which will cater to the suggestion of Audit of making the batch number/ year of manufacture available to the buyer at the time dispatching the shipment.

f. **Inadequate development of functionalities related to various 'filters' and 'sorting'**

Audit observed that sorting on the basis of 'Number of order count' and 'Product/ service rating' was not implemented by GeM and the Product Details Page (PDP) did not show MSE as category and PMA value[59] as required under BRD.

Management vide its reply (February 2020) assured that a revised Business Requirement Document (BRD) is being prepared for simultaneous implementation of MSE and Make in India (erstwhile PMA) based on the latest policies in consultation with the controlling ministries i.e. MSME Ministry and DPIIT and also assured that sorting feature is being enhanced.

[59] ***Preference for domestically manufactured electronic goods***

g. Difficulties while navigating through the application

Audit observed that application lacked ease while navigating through the application due to deficiencies in functionalities such as 'switching to previous page' as the application directly logged the user out, application did not respond to 'Enter' button of keyboard. The application did not indicate how long it would take to approve the service while uploading a service. Thus, an uncertainty remained for approval for service and time taken for it. Audit also observed deficiencies in following services resultantly causing inconvenience and lacking ease of usage:

Table 4.1.6

Name of service	Deficiency observed
'Consultancy Services' and 'Application Development Services'	Functionality to add these services was missing despite availability of their 'names' in the drop-down menu.
'Florist', 'Cleaning & Sanitisation' and 'Data & Voice Services'	The tool tip for manner of filling location was not available making it difficult to understand the process of selecting location.
'Back up Service'	Absence of tool tip while feeding information of quantity field in 'estimator' due to which it could not be understood as to what information was to be fed in 'estimator' field.
'Cleaning and Sanitization 2.0'.	The location tabs/ filters in respect of 'Cleaning and Sanitization 2.0' was not available.

As user experience differs, therefore, application must ensure inclusion of easy and understandable terms with adequate tool tips for further support and the easy functionality.

Management in its reply (February 2020) assured to consider all these in the UI/ UX (User Interface/ User Experience) enhancement work which is currently in the design stage in GeM and redesigning of GeM portal is underway.

vi. Inadequacies in functionalities pertaining to procurement and upload of 'Services'

GeM was envisioned to introduce functionality of procurement of services as procurements from DGS&D were restricted to products only. Audit found following deficiencies in the existing process of service procurement:

(i) Inadequate development of services

As per clause 5.3.2 RFP pertaining to Application Design, Development and Implementation, total 79 services were to be implemented on GeM portal. However, Audit observed that services such as, 'Inspection Service', 'Survey', 'Energy Conservation', 'Custodial', 'Land Record Services', 'Project Management Services', 'Highway Services', 'Bridges and Tunnels', 'Irrigation and other water works' etc. as required in RFP, have not been introduced on GeM portal till now instead services are added on demand of buyers.

Management in its reply (October 2019 and February 2020) stated that services in RFP are defined only in flat form. Service on-boarding is an ongoing exercise on GeM; currently there are 105 services. Management assured that GeM shall consider implementation of service mentioned in RFP on the basis of periodic review and suitability of services category. However, the management reply that 105 services have been implemented overlooks the fact that the services on GeM have been inflated due to introduction of a sub-services/ category of main service as a separate full-fledged service.

(ii) Non-verification of nature of vehicles being hired by various Government offices in violation of Ministry of Finance and CVC instructions

To prevent corrupt/ undesirable practices in awarding contracts for hiring of vehicles to Government offices, Ministry of Finance circular dated 23 September 2016 requires that only vehicles registered as taxi or public transport vehicle be hired. However, Audit observed that on GeM portal, there was no mechanism to confirm that the vehicle being provided to Government Offices are private vehicles or registered as taxi vehicles. Further, other related statutory requirements such as vehicle permits, etc. were also not being verified by GeM.

Management in its reply (February 2020) stated that GeM is planning to allow the sellers to attach all statutory documents in the bid for verification by the buyers and that the documents may expire during the tenure of service contract period which will have to be verified by the buyer only. It is, therefore, for the buyer organisations to ensure compliance of the relevant guidelines of Ministry of Finance and CVC.

(iii) Non-availability of option to upload registration certificate

As per clause 4.1 of SLA of 'Data and Voice Service', the seller needs to be registered with and comply to all the rules and regulations set forth by DoT/ TRAI on time-to-time basis. However, there is no option to add the 'Registration Certificate' at the time of addition of this service by the seller. Thus, the system allowed buyers even without 'Registration Certificate' with TRAI to operate on GeM. These are preliminary verifications and may be undertaken by GeM at the time of registration so as to ensure that only service providers with verified credentials are allowed.

Management in its reply (February 2020) assured to provide the provision to upload registration certificate for Data and Voice service.

(iv) Deficiency in experience parameters of resources in case of outsourcing of Human Resource Services

While selecting parameters for outsourcing of Human Resource Service, it was observed that in case of selection of 'Experience' of resources, the given options were either '0-3 years', '3-7 year' and 'more than 7 years'. Thus, in the first slab (0-3 years experience), non-experienced (zero experience) resources as well as experienced (above zero experience) resources are lying in the same category. Due to this, the chances of getting a non-experienced resource especially in case of skilled services are equal, even if not desired.

Management vide its reply (July and October 2019) has assured that GeM will re-define experience in case of outsourcing of Human Resource Services in the slabs of 'inexperienced', '> 0 year and < 3 years', '> 3 and < 7 years' and '>7 years'.

4.1.7 Conclusion

GeM was envisaged to bring transparency, speed, efficiency and ease of doing business, curb delay in payment, economy and price reasonability. GeM has been successful in implementing an on-line solution for government procurement. However, the critical requirement of STQC audit for ensuring compliance with the GoI MEITY Guidelines (August 2011) for compliance to Quality Requirements of e-Procurement Systems was not complied with. Hence, Audit is unable to derive assurance about the authenticity, non-repudiability and integrity of the e-bidding mode of GeM (the electronic equivalent of the manual 'sealed bid' process).

Further, the objectives of GeM, as per the approval of the competent authority in Government (April 2017), remain partially achieved since there are numerous delays at different stages of the procurement process, especially with regard to delays in payment. Delay in payments is a serious systemic issue which impacts the achievements of objectives of GeM and needs to be addressed by Ministry of Commerce in coordination with Ministry of Finance. There were also deficiencies in the input controls for buyer and seller registration. Despite being mandatory for all central government offices, high number of dormant or inactive users indicates that universal acceptance may not have been achieved. There were deficiencies in the mapping of the GFR and GoI's other rules and regulations and Business Requirement Documents. There were also significant delays in the incident resolution mechanism. Although GeM had intended to introduce procurement of services through GeM, however, various services were yet to be introduced on GeM.

Audit had noted that the timeframe of six months from the date of signing of the MSP Agreement (31 August 2017) for implementation of Phase-1 was challenging inspite of which the Phase-1 Go-Live of GeM 3.0 was declared prematurely. The deficiencies pointed out in this report, i.e. in obtaining the requisite certification and in various general and application controls, would appear to have required greater due diligence.

As regards economy, Audit felt that the methodology used by GeM to indicate savings did not give an accurate picture. The application lacked ease of usage due to absence of functionalities and assistance. The application was also not benchmarked as per the requisite number of users making the application slow and in continuous breakdown.

4.1.8 Recommendations

- The requirement for STQC audit of compliance with the GoI MEITY Guidelines for Quality Requirements of e-Procurement Systems should be immediately complied with on top priority. Such audits should also be made applicable for new/ amended functionalities to ensure that application releases are released into the production environment only after STQC audit for compliance with the Guidelines is done.

- Ongoing maintenance of seller credibility and market sanity should be a key area of focus for GeM, both through use of analytics reports for outliers/ anomalies as identified in this Report (e.g. unusually low prices, unusual variations/ increases in prices, non-delivery/ extreme delivery delays; other seller incidents etc.) and through strong seller management teams, with blacklisting being used appropriately to address seller misbehaviour and ensure seller compliance.

- On the buyer side, delayed payment is a critical issue which could adversely impact the performance of the GeM Platform. GeM SPV should closely monitor the implementation of Ministry of Finance instructions on timely payment, and instances of undue delay should be taken up at the highest level with the concerned Department Secretary/ Head of the Organisation for speedy corrective action. Further, Ministry of Commerce may take up the issue with Ministry of Finance to issue specific instructions to all Government entities for mandatorily ensuring timely payment of dues.

- A rigorous data cleansing process for addressing the instances of incomplete/ wrong data of buyers and sellers (including legacy data) needs to be put in place, with clear timelines by which buyers and sellers should be de-activated/ closed for not correcting erroneous data.

- In order to attain economy in procurement, especially in bulk purchases which require aggregation of demand, to ensure availability of genuine quality products, participation from OEMs and authorised sellers need to be increased. This will also ensure timely delivery and will further reduce cases of rejection of products and non-payment.

The para was issued to the Ministry in November 2019; their response was awaited (June 2020).

CHAPTER V: MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)

India Infrastructure Finance Company Limited

5.1 Review of Loans to Road Projects

5.1.1 Introduction

India Infrastructure Finance Company Limited (IIFCL), is a wholly-owned Government of India company set up (January 2006) to provide long term finance to viable infrastructure projects through the scheme for financing viable infrastructure projects under its policy documents referred to as SIFTI. The sectors eligible for financial assistance from IIFCL broadly include transportation, energy, water, sanitation, communication, social and commercial infrastructure. Resources for carrying out the loan activities are raised by IIFCL through bonds and loans from domestic sources and lines of credit from external sources like Asian Development Bank and World Bank etc.

IIFCL provides loans to road projects being executed under Public-Private Partnership (PPP) model, based on Concession Agreement (CA) signed between a Concessionaire (the developer) and a Concessioning Authority[1]. Financing activities of IIFCL were largely concentrated in road sector at 44 *per cent* (₹31,051 crore) as on March 2019. Gross non-performing assets (NPA) in road sector were significant as 37.25 *per cent* (₹5,187 crore) of the amount was outstanding as on 31 March 2019 and the net NPA in road sector was much higher at 17.84 *per cent* against internally approved overall limit for net NPA at 2.75 *per cent* of total loan outstanding across all sectors.

In view of the deteriorating position of NPAs pertaining to loan accounts of road projects, Audit selected to review the mechanism in vogue for sanction, disbursement, restructuring and monitoring of loans of road sector by IIFCL during the period 2016-17 to 2018-19. The audit sample was selected based on Stratified Random Sampling Method using IDEA from the total disbursements made as indicated below {details of loan are given in (***Annexure-II***)}:

Table 5.1.1: Details of sample selected

Categories of loan cases during 2016-17 to 2018-19)	Total no. of loan cases	No of loan cases selected	Percentage
NPA cases	49	9	18
Disbursement only	33	9[2]	27
Sanction having disbursement	12	3	25
Prepayment	32	4	12
Restructuring	4	3	75
Sanction only	18	4	22
Total	**148**	**32**	**21**

[1] *National Highways Authority of India (NHAI)/ State Government Agencies*

[2] *Includes one case under Takeout Finance Scheme. All other selected cases are under Direct Lending Scheme*

5.1.2 Audit findings

Audit has commented on 24 cases out of 32 cases as in four cases, borrowers have fully paid the loans and in other four cases of sanctioned loan, no Lending Confirmation Notice (LCN) was received till completion of field audit. Audit findings on 24 loan cases are given in the succeeding paragraphs:

5.1.2.1 Failure to ensure availability of land/ Right of Way (RoW) to the concessionaires

In road financing, the lenders have negligible physical security against the loan dues as the main assets of the project i.e. land, road and other structures thereon constructed by the concessionaire (borrower) are owned by the Concessioning Authority. The loan is serviced mainly from toll revenue generated from operations of commercially viable road project completed under BOT model. In case the project remains incomplete for any reason, there exists *inter alia* no mechanism in the CA to compensate the borrower for the work done so that the lenders are paid their dues as discussed below:

- If CA is terminated by Concessioning Authority for Concessionaire's default, a termination payment (equivalent to 90 *per cent* of debt dues) would be payable by the Concessioning Authority to the Concessionaire provided the project is issued the Project Completion Certificate[3]/ Provisional Project Completion Certificate i.e., Certificate of Provisional Commercial Operation Date (PCOD) by Concessioning Authority. PCOD is issued by the Concessioning Authority only after completion of atSleast 75 *per cent* work on the project, thereby permitting the Concessionaire to collect toll revenue from operations of the project, pending completion.

- The Appointed Date, which shall also be deemed to be the date of commencement of concession period, shall generally be fixed only on or after each and every condition precedent to the CA including availability of unencumbered right of way to the land (RoW) to the Concessionaire to the extent of at least 80 *per cent* of the total area of project is either satisfied or waived off by the Concessioning Authority.

The above provisions in the CA increase the risk level of the road projects if the Concessionaire commences the work in the project before having possession of the required RoW and the project is unable to achieve PCOD.

The condition for availability of minimum 80 *per cent* RoW before first disbursement was stipulated in 14 cases (58 *per cent*) examined in Audit, while the condition of 100 *per cent* RoW for loan disbursement after appointed date was found included in only two cases (eight *per cent*). Deficiencies in the Common Loan Agreements (CLAs) and also the observations pertaining to non-compliance of the stipulated conditions in the above cases are discussed below:

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[3] ***In case of four to six laning, Project Completion Certificate is issued on 100 per cent completion of the project and commercial operation date (COD) commences from the Appointed Date or the date of Financial Closure, whichever is later.***

(i) In six cases, the pre-disbursement conditions of CLAs either did not quantify (i.e. stipulated only 'reasonable availability of RoW') or did not include any specific clause on the issue of requirement of RoW. As a result, the loan was sanctioned without mitigating the risk of non-availability of atleast 80 *per cent* RoW of the project on appointed date before disbursement of first loan installment and it was one of main reasons that out of six loans, three[4] loans amounting to ₹674.35 crore turned into NPA and one loan (NJTBPL) had to be restructured. These four cases are indicated as under:

Table 5.1.2

Sl. No.	Name of contractor	Name of project	Length of road in KM	Provision of availability of RoW in CA as on Appointed Date in *per cent*	Actual availability of RoW at the time of first disbursement by IIFCL in *per cent*	Date & amount of first disbursement	
						Date	Amount (₹ in crore)
1	IIGTL[5]	4 laning of Indore to Gujarat	155.15	80	51.43	January 2011	18.20
2	BKEL[6]	4 lane highway on the Barasat-Krishnagar	84.317	80	14.73	December 2011	21.54
3	BHPL[7]	2 lane road on NH 24 from Bareilly to Sitapur	151	80	72	June 2011	16.92
4	NJBPL[8]	Development of a Greenfield alignment connecting NH-31	50.943	80	23.55	August 2012	7.69

IIFCL continued to disburse the loan despite NHAI not making available the balance land within six months of appointed date or de-scoping the work on non-available land, which is indicative of the fact that lenders including IIFCL did not adequately protect their interest before disbursement of loan.

IIFCL replied (April/ May 2020) that NHAI has been declaring Appointed Date without complying with agreed terms of providing RoW. Besides, NHAI often declares availability of RoW at 3C/ 3D[9] stage whereas the RoW is supposed to be declared at 3G/ 3H[10] stage. IIFCL in case of BHPL and BKEL replied that NHAI neither made the balance RoW available within six months of Appointed Date nor de-scoped the RoW, which was not made

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[4] ***IIGTL(₹299.72 crore), BKEL(₹121.18 crore), and BHPL(₹253.45 crore)***
[5] ***IVRCL Indore Gujarat Tollways Limited***
[6] ***Barasat-Krishnagar Expressway Limited***
[7] ***Bareilly Highways Project Limited***
[8] ***Navayuga Jhanvi Toll Bridge Private Limited***
[9] ***3C denotes stage of hearing of objections, 3D denotes stage of notification for acquiring the land***
[10] ***3G denotes stage of determination of amount of compensation of land, 3H denotes stage of deposit of amount of compensation with competent authority to pay to the respective persons***

available, resulting in erosion of viability of the road project. NHAI delayed handing over of RoW in case of IIGTL while in case of NJTBPL, it failed to fulfill its duty to provide RoW within the scheduled period, which adversely affected the project. IIFCL added that as per SIFTI, it was supposed to follow the appraisal carried out and disbursements made by the lead bank, which was adhered to by IIFCL. The Ministry endorsed (June 2020) the views of Management.

The reply is to be viewed against the fact that as per SIFTI, IIFCL is to finance viable projects only. Without the required unencumbered RoW for construction of road, the viability of the project cannot be established and that in itself is a risk. IIFCL was required to safeguard its interest by ensuring inclusion of suitable pre-disbursement clauses in the CLA on pre-availability of RoW and its compliance to mitigate the risk, which was not done. Further, the Inter Creditor Agreement[11] also required the lenders to decide on sanction/ disbursement of loan based on their independent judgement without reliance on information provided by any other lenders. This requirement also remained unfulfilled.

(ii) As per CA, the concessionaire is eligible for payment in case of default subject to completion of 100 *per cent* work in respect of widening the roads from four to six lane. As such, the condition of 100 *per cent* pre-availability of encumbrance free RoW with requisite forest clearances should have been stipulated in the CLAs, so as to plan the work and execute it smoothly.

In four cases {SEW LSY Highway Limited (SLHL), Barwa Adda Expressway Limited (BAEL), Pune Satara Toll Road Private Limited (PSTPL) and DA Toll Road Limited (DATRL)}, CLAs stipulated the condition of minimum 80 *per cent* to 85 *per cent* RoW for disbursement of first loan installment, but did not stipulate the condition of 100 *per cent* RoW for subsequent disbursements of loan within 90 days from the Appointed Date. This has resulted in non-completion of work in two[12] loan cases i.e. SLHL and BAEL mainly due to non-availability of clear RoW. These projects were not eligible even for termination payments due to Concessionaire's default occurring prior to commercial operation date (CoD). Both loan cases turned into NPAs with outstanding principal amount of ₹439.42 crore.

Besides this, in other two loan cases i.e. PSTPL and DATRL, due to non-availability of RoW, the projects got delayed and the loans had to be restructured thrice with extension of time for original Scheduled COD (as per CLA) from January and April 2016 to January and April 2019 in respect of DATRL and PSTPL respectively. The work is still under progress, (January 2020) and the loan of IIFCL amounting to ₹591.78 crore (DATRL: ₹400 crore, PSTPL: ₹191.78 crore) in the projects is still at high risk.

IIFCL replied (April/ May 2020) that:

- In case of SLHL and BAEL, NHAI declared availability of RoW at 3C/ 3D stage (issue of notification/ gazette) whereas the RoW is supposed to be declared at 3G/ 3H

11 ***Signed among the consortium lenders***
12 ***SLHL and BAEL***

(deposition of compensation and right to enter) stage. In case of SLHL, as per the borrower, land was available to the extent of 95.67 *per cent*. In case of BAEL, at the time of sanction/ disbursal, more than 80 *per cent* of RoW was available with the Concessionaire, and thus it complied with the provisions of CLA.

- In case of PSTPL, three years after first disbursement (April 2018), availability of hindrance-free land was 96 *per cent* and as the project is tolling for 100 *per cent* stretch there is no revenue risk.
- In case of DATRL, provisional completion certificate (PCC) may be issued by the Independent Engineer, if construction work is completed on all the lands for which RoW has been granted by the Authority within 90 days of the Appointed Date.

The Ministry endorsed (June 2020) the views of Management.

The reply is to be viewed against the fact that, there is no provision in CAs to issue PCC for incomplete road and tolling for 100 *per cent* stretch from the existing four lanes would not mitigate the risk of non-recovery of debt in case of termination of Concession Agreement before completion of the Project.

(iii) In case of Concast Path Bameetha Satna Road Projects Private Limited (CPBSRPL), the CLA stipulated (May 2013) the condition of 100 *per cent* availability of RoW before disbursement of any loan. Yet, the loan was disbursed with availability of 64 *per cent* RoW only. Non-availability of required RoW resulted in non-achievement of CoD, termination (January 2018) of CA and the loan amounting to ₹43.20 crore of IIFCL turned NPA on 30 September 2017.

IIFCL replied (April/ May 2020) that as informed by the Concessioning Authority, 100 *per cent* RoW was handed over to the Concessionaire and the pre sanction inspection was done by the lead bank. The Ministry endorsed (June 2020) the views of Management.

The reply is to be viewed against the fact that non-availability of 100 *per cent* RoW to the project was known to the lenders including IIFCL before disbursement of second installment (December 2013) as Lenders Independent Engineer (LIE)'s report (December 2013) mentioned that MPRDC[13] has not awarded the construction permit in the entire stretch of 12 km of reserved forest and some land acquisition was required in some places which was under inspection.

5.1.2.2 Not ensuring availability of necessary clearances/ approvals

One of the conditions for loan disbursement in all CLAs was that the Concessionaire shall obtain all requisite statutory and other necessary approvals, including the forest, environmental and pollution clearances/ approvals before commencing disbursement.

Status of the compliance of pre-disbursement conditions before first disbursement of loan in the selected cases is given as under:

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[13] *Madhya Pradesh Road Development Corporation Limited (MPRDC)*

Table 5.1.3: Details of compliance to the conditions of clearances/ approvals

Category of Loan	Sample size	Compliance to pre-disbursement condition of all clearances/ approvals	
		Yes	No
NPA	9	3	6
Fresh sanction & disbursement	3	3	0
Old sanction & disbursement	9	8*	0
Restructuring	3	2	1
Total	**24**	**16**	**7**
*One case pertained to take out finance where clearance issue was not applicable			

As such, in 29 *per cent* (7 out of 24) cases, the loans were disbursed despite non-compliance of the pre-disbursement conditions of obtaining environment/ forest clearance and other necessary approvals before first disbursement. Delay of 13 months to 95 months in obtaining statutory clearance has resulted in delay in completion of work and consequently turning of six[14] loan cases in NPAs and restructuring of one[15] loan case.

IIFCL replied (April/ May 2020) that the Concessionaire had issued the draw down notice confirming that all the pre-disbursement conditions in CLA had been satisfied and all the necessary certificates had already been provided. As per SIFTI, IIFCL disbursed the amount in line with what the lead bank disbursed in the Project. The Ministry endorsed (June 2020) the views of Management.

The reply is to be viewed against the fact that the Inter Creditor Agreement required the lenders to decide on sanction/ disbursement of facility based on their independent judgement without reliance on information provided by any other lender.

5.1.2.3 Adjustment/ funding of overdue IDC

The loan for a project is sanctioned based on the project financials, including *inter alia*, the proportion of interest during construction (IDC) in the project cost. Audit noticed that during disbursement of loans, IIFCL adjusted a higher proportion of loan against IDC than what was approved during loan sanction. With these adjustments, the loan account remained 'standard' though no repayment was made by the borrower as per the loan servicing schedule. Audit noticed six such instances in the sample audited wherein ₹284.47 crore was adjusted against the admissible limit of ₹124.89 crore. This has resulted in excess adjustment of IDC by ₹159.58 crore and deferment of NPAs by 4 months to 43 months as detailed in table 5.1.4.

[14] *(i) BHPL, (ii) Sion-Panvel Tollways Private Limited (SPTPL), (iii) SLHL,(iv) SSRPL, (v) HHPL, and (vi) IIGTL*

[15] *NJBTPL*

Table 5.1.4
Statement showing details of selected loans wherein IDC was excess adjusted

(figures in ₹crore)

Sl.No.	Name of borrower	Inbuilt portion of IDC in loan (IIFCL)	Actual IDC adjusted by IIFCL	Excess adjustment	IDC adjustment through self disbursement	Deferment of NPA
1	BKEL	14.89	44.00	29.11	--	March 2016 to March 2017
2	BHPL	56.82	71	14.18	--	
3	IIGTL	23.98	87.42	63.44	--	July 2013 to January 2017
4	SLHL	9.66	29.7	20.04	5.88	November 2015 to September 2016
5	CPBSRPL	4.52	10.71	6.19	--	--
6	SSRPL[16]	15.02	41.64	26.62	4.02	May 2018 to December 2018
	Total	**124.89**	**284.47**	**159.58**	**--**	--

IIFCL stated (May 2020) that they have disbursed as per LCN's issued by Lead Bank to maintain the basic consortium spirit. It is to be mentioned here that all other consortium members also disbursed the fund on the basis of LCN's issued by the Lead Bank. The gap in the means of finance was funded by the Company, once the allocated IDC was exhausted. After that, IDC portion is continuously funded by the promoter to keep the account standard till date. The Ministry endorsed (June 2020) views of the Management.

Reply of IIFCL is to be viewed against the fact that the promoter had not funded the IDC after exhausting of limit. This has resulted in excess adjustment of IDC by ₹159.58 crore and deferment of NPAs by 4 months to 43 months.

5.1.2.4 Sanction of loan for cost overrun without obtaining approval from the Concessioning Authority

The CAs provided that, in the case of termination of CA, the Concessioning Authority shall make termination payment towards the 'debt dues' of senior lenders subject to the condition that the amount of debt due shall be determined with reference to the terms of Financial Agreements (including CLA). The CLAs stipulate that *'The promoter/ sponsor of the Concessionaire company gives a shortfall undertaking that they would invest additional funds in the project in case of any cost overrun and/ or gap in means of financing due to whatever reasons.'* As such, any loan disbursed towards cost overrun (by signing supplementary agreements with the concessionaire) without getting the project cost revised

[16] *Sidhi Singrauli Road Project Limited*

from the concessioning authority may not constitute the 'debt due' for the purpose of termination payment.

Audit observed that IIFCL sanctioned and disbursed loans of ₹356.88 crore and ₹347.85 crore towards cost overrun including additional IDC, without ensuring prior approval of revised project cost from the concessioning authority in four cases as detailed below:

Table 5.1.5

Detail of loans where cost overrun was sanction without approval of Concessioning Authority

(figures in ₹ crore)

Particulars	Sanction of cost overrun	Disbursement	Remarks
BHPL	58.69	53.45	The promoter company had also suffered substantial operating losses and was under Corporate Debt Restructuring with one of the directors of the promoter company being arrested in July 2015 for an alleged real estate fraud.
HHPL	51.96	51.96	At the time of sanction of both the above stated cost overruns by IIFCL, the promoter company had suffered loss of ₹773.09 crore by 31 March 2014 and was under Corporate Debt Restructuring. The release of additional fund under such circumstances was highly risky.
IIGTL	108.64	108.64	Profitability of the promoters had turned into NPA since 2012-13 and credit rating had gone down to 'D' in 2013-14.
REPL[17]	137.59	133.80	-
Total	**356.88**	**347.85**	**-**

IIFCL stated (May 2020) that after initial disbursement it is not feasible to stop further disbursement on account of non-compliance of CLA which are of regular/ renewal in nature as stopping funds availability during construction phase may had led to zero recovery for lenders as in accordance with the terms of CA project is eligible for termination payment only after achievement of PCOD/ DCCO. The Ministry endorsed (June 2020) the views of Management.

The reply is to be viewed against the fact that since cost overrun was funded by the lenders without ensuring approval of revised project cost by the Concessioning Authority and despite the deteriorating financial position of the Concessionaires/ promoters, IIFCL had written off loan amounting ₹410.42 crore in case of BHPL (₹253.46 crore), and HHPL (₹156.96 crore) as the Conessioning authority had terminated the CAs. Loan to IIGTL, had turned into NPA.

[17] *Rayalseema Expressway Private Limited*

5.1.2.5 Advances disbursed by concessionaires

The CLAs inter-alia stipulated that lenders shall review the EPC contract before making disbursement of first installment of loan. In case of all the selected projects, the EPC contracts were awarded by the concessionaires to their promoter companies and these contracts provided for allowing interest free advance without any security and any time limit for recovery, except in one case (BKEL) where provision for a BG was included. Audit noticed that there were deficiencies in release/ adjustment/ recovery of the advances in the following cases:

(i) SLHL awarded the EPC contract to SEW Infrastructure Limited i.e. main promoter of SPV. SLHL granted mobilisation advance of ₹359.19 crore to its EPC contractor which was almost equivalent to equity contribution of main promoter i.e ₹384.74 crore. This advance was given without any security. The Concessioning Authority terminated CA as only 13.61 *per cent* of work was completed which was far less than the scheduled completion. Resultantly, the outstanding amount of mobilisation advance of ₹359.19 crore, extended by SLHL to the EPC contractor remained unadjusted/ unrecovered. IIFCL has written off its portion of loan amounting to ₹89.07 crore.

IIFCL replied (April/ May 2020) that the project was delayed due to the Concessioning Authority's faults which hampered the work progress and recovery of the mobilisation advance. IIFCL also responded that Arbitration award of ₹935 crore has been given in favour of Concessionaire against the Concessioning Authority wherein lenders have the first right to recover their dues. However, the Concessioning Authority has not yet honoured the award. The Ministry endorsed (June 2020) views of the Management.

The fact remains that mobilisation advance has not been recovered so far and promoters had invested very meager amount in the SPV. Main investment of promoter was from the mobilsation advance.

(ii) CPBSRPL had awarded its EPC contract to M/s Concast Infra Tech Limited i.e. main promoter of SPV. EPC contractor was paid advance of ₹58.54 crore by CPBSRPL which was equivalent to equity contribution of main promoter i.e. ₹58.03 crore. As per LIE Report (February 2017), the project had achieved physical progress upto 51.66 *per cent.* Accordingly, 50 *per cent* of the mobilisation advance (i.e., ₹20.86 crore) was due for adjustment. However, only ₹3.73 crore could be adjusted leaving an unadjusted advance of ₹54.81 crore (March 2017) with the promoter company. Audit noticed that neither the CA certificates nor LIE's reports contained the details of the mobilisation advances paid/ adjusted. Further, the lenders including IIFCL did not monitor the utilisation/ adjustment of advance. The project was eventually delayed, and the Concessioning Authority terminated the CA in January 2018. IIFCL has written off its loan of ₹43.20 crore to the project.

While remaining silent on advance without security, IIFCL replied (April/ May 2020) that disbursement of fund of IIFCL is governed by SIFTI, whereby the lead bank is responsible for regular monitoring and periodic evaluation of compliance of project with agreed milestones. IIFCL further stated that the EPC agreement is between the Concessionaire and the EPC contractor; accordingly, lenders have limited maneuverability in the matter. The Ministry endorsed (June 2020) views of the Management.

The reply is to be viewed against the fact that as per the CLA, the lenders including IIFCL had the right to vet the EPC contract and the lenders could have insisted for inclusion of suitable clauses for ensuring safe recovery of the advances to the EPC contractor. Further, SIFTI did not restrict IIFCL from taking up the above issue with the lead bank for corrective action and also having independent monitoring mechanism. Inter Creditor Agreement required the lenders to decide on disbursement of facility based on their independent judgement without reliance on information provided by any other lender.

(iii) BKEL awarded the EPC contract to Madhucon Projects Limited i.e. holding company of the SPV. EPC contractor was disbursed an advance of ₹238.42 crore for mobilisation (₹170.21 crore) and material (₹68.22 crore), whereas promoters contributed the equity of ₹184.15 crore. The Concessioning Authority terminated CA as only 29.88 *per cent* of work was completed which was far behind the schedule completion. Out of this advance of ₹238.43 crore, an amount of ₹209.91 crore remained unadjusted. Though there was provision for BG in EPC contract, availability/ invocation of BG could not be traced.

IIFCL replied (April/ May 2020) that advance to EPC contractor is provided to meet preliminary expenses and to ensure physical progress. However, due to non-availability of RoW from the Concessioning Authority, the project witnessed delays and cost overrun, resulting in the Concessionaire terminating the project. Since the EPC agreement is between the Concessionaire and the EPC contractor, lenders have limited maneuverability in the matter. IIFCL further added that the issue has been taken up with lead bank. The Ministry endorsed (June 2020) views of the Management.

The reply is to be viewed against the fact that the above situation is a fallout of lenders agreeing for advances to the EPC contractor without any encashable security in their possession. Further, lenders' fund was also at stake as EPC contract was awarded to a related party.

(iv) In case of SSRPL, the EPC contract provided for mobilisation advance of 15 *per cent* of the contract value which worked out to ₹146.25 crore. The EPC contractor was, however, paid ₹163.10 crore as advance without any security. Neither the CA certificates nor the LIE reports gave details of mobilisation advance paid and/ or adjusted. In the absence of such details, it was not clear as to how the lenders including IIFCL monitored the release/ adjustment/ recovery of the advance paid to the EPC contractor.

IIFCL did not offer (April/ May 2020) any comments on the issue of release of mobilisation advance beyond the agreed amount and on non-reporting of details of release/ adjustment/ recovery of advance in CA certificates and LIE reports.

(v) In case of HHPL, the EPC contract provided for 10 *per cent* mobilisation advance of ₹146.23 crore and an additional advance of five *per cent* on request/ justification basis. Adjustment of the advance was to commence after certified work completion of 20 *per cent* and the said adjustment was to be over before 80 *per cent* completion of work. In this case, Audit observed that an advance of ₹190.88 crore was released based on revised contract cost of ₹1,272.54 crore whereas equity contribution from promoters was ₹215.20 crore. However, the advance recovery schedule was modified at 28 *per cent* to 90 *per cent* of the contract value, instead of 20 *per cent* to 80 *per cent* without approval of lenders including IIFCL. This led to the contractor retaining the advance for a longer period. Further, an additional advance of ₹44.66 crore was also released as mobilisation advance towards the cost overrun, after reporting of physical progress of 43.12 *per cent.* The same was financially imprudent as mobilisation of resources was not required after commencement of the work.

On termination of CA, the unadjusted/ unrecovered advance of ₹51.03 crore remained with EPC contractor, which could not be recovered in the absence of security.

(vi) In case of BHPL, mobilisation advance of ₹172.36 crore was paid to EPC contractor till December 2011. The project had achieved 75 *per cent* progress in October 2017, when contractually, the unadjusted balance of the advances was to be ₹14.36 crore, against which actual amount of unadjusted advance was ₹56.24 crore.

IIFCL replied (April/ May 2020) in respect of HHPL and BHPL that due to defaults committed by Concessioning Authority, project progress got stalled and the advance could not be recovered. IIFCL added that it is governed by SIFTI under which, IIFCL follows the lead bank. The Ministry endorsed (June 2020) views of the Management.

The reply is to be viewed against the fact that SIFTI did not restrict IIFCL to raise the visible issue of non-adjustment/ recovery of the mobilisation advance with the lead bank.

(vii) In case of NJTBPL, in the initial EPC contract (October 2010) there was no provision for mobilisation advance, however, the same was included in a supplementary EPC agreement (September 2013), whereby the EPC contractor was allowed revolving mobilisation advance not exceeding 20 *per cent* of total contract value. The set off amount from the mobilisation advance was to be decided by the Concessionaire, subject to a minimum set off of 25 *per cent* from each EPC bill. Audit observed that mobilisation advance is paid for mobilisation of resources for start of work. Hence, continuous release of mobilisation advance throughout the contract was not justified. Further, the CA certificates indicated the amount of mobilisation advance lying with EPC contractor, but neither the CA certificates nor the LIE reports gave any details of mobilisation advances released and adjusted/ recovered from time to time. In the absence of such details, it is not clear as to how the advances were being monitored by lenders including IIFCL.

IIFCL replied (April/ May 2020) that EPC advances to EPC contractor is an essential aspect which is required for mobilisation of resources including material and manpower. IIFCL further stated that as per spirit of consortium banking, lead bank monitors/ decides in regard to mobilisation advance to be given/ recovered from EPC contractor as well as certification of RA Bills. The reply was, however, silent regarding the audit observation pertaining to CA certificates/ LIE reports. IIFCL also replied that in this project mobilisation advance facility was sanctioned by consortium at later stage to expedite the work at site. In this project, on the one hand, EPC contractor was given substantial mobilisation advance while on the other hand the promoters were also infusing money in the form of subordinate debt over and above their equity commitment which was noticed by the consortium. In the consortium meeting held on 22 March 2018, the company was directed to net off the mobilisation advance given to SPV with the subordinate debt. The same was done and can be seen in the CA certificates dated 01 March 2018 and 31 March 2018 in which the outstanding mobilisation advance (advance to EPC contractor) reduced from ₹143.90 crore to ₹33.31 crore. Hence, the observation in regard to non-recovery of mobilisation advance is addressed. The Ministry endorsed (June 2020) views of the Management.

The reply is not acceptable as this does not address the audit concern on letting the EPC contractor to have a revolving mobilisation advance as the spirit behind mobilisation advance for initial mobilisation of resources by the EPC contractor has been defeated and the Concessionaire/ EPC contractor has been favoured by allowing revolving mobilisation advance in this case. The project is not yet complete and any further mobilisation advance to the EPC contractor in terms of existing conditions of EPC contract cannot be ruled out.

(viii) In case of DATRL, the EPC contract was signed with REL Utility Engineers Limited (the promoter company) on 28 March 2011 which subcontracted the EPC contract to R-Infra. The R-Infra further subcontracted the same to L&T Limited on 21 August 2012. As per EPC contract, 10 *per cent* of contract value as mobilisation advance amounting to ₹267.30 crore (10 *per cent* of ₹2,673 crore) was payable whereas, as per the sub contract with L&T, advance was only to be five *per cent* of the total contract value (₹102 crore @ 5 *per cent* of ₹2,040 crore). Thus, an interest free advance of ₹65.30 crore (₹267.30 crore - ₹102 crore) was given to the promotor company. This was an undue advantage to the Concessionaire, but neither the EPC cost nor the advance differential was objected to by the lenders including IIFCL.

IIFCL replies (April/ May 2020) are silent on the issue of undue benefit to the EPC contractor in the form of mobilisation advance which was not actually fully passed on to actual working contractor. The Ministry endorsed (June 2020) views of the Management.

Thus, it is evident that in the above cases, the lenders including IIFCL did not monitor the release/ adjustment/ recovery of advances paid by the Concessionaires to their EPC contractors which are related parties, leading to undue benefit to contractors at the cost of project and lenders. Further, non-reporting of details of advances released and adjusted, by the CAs and/ or LIE in their certificate(s)/ report(s) across the board, was also indicative of deficiency in monitoring of release and utilisation of advances.

5.1.2.6 Inadequacies in review of financial and physical progress

As per the directions of RBI (July 2015), the banks/ financial institutions should not entirely depend upon CA certificates and need to strengthen their own internal controls and the credit risk management system to enhance the quality of their loan portfolio.

Audit examination of reports of LIE on the progress of work revealed wide differences between the financial progress vis-à-vis physical progress, indicating that the project funds were not utilised efficiently for the project work.

(i) In case of BHPL, against revised project cost of ₹2,601.89 crore, total funds (i.e., loan disbursement, equity contribution by promoter and grant of NHAI) provided to the Concessionaire till July 2017 were ₹2,417.95 crore (93 *per cent*), whereas, as per LIE's monthly progress report of August 2017, the physical and financial progress of the project was only 73.50 *per cent* and 77 *per cent* respectively. However, without giving cognisance to the unutilised funds laying with the Concessionaire, the lenders' consortium made (November and December 2017) further disbursement of ₹160 crore in two more installments towards cost overrun including IIFCL's share of ₹23.70 crore.

IIFCL replied (April/ May 2020) that the lenders had disbursed in the project as the project was more than 70 *per cent* complete and nearing PCOD. The Ministry endorsed (June 2020) views of the Management.

The reply is not acceptable as disbursing the loan without verifying the progress against the previous disbursements for achieving PCOD was not prudent.

(ii) In case of CPBSRPL, as per the CA certificate (February 2017), against EPC work of ₹208.61 crore, the Concessionaire expended ₹161.98 crore (77.74 *per cent*). However, Independent Engineer (IE) of the Concessioning Authority reported (April 2017) that 50 *per cent* work was complete physically. The gap of 27 *per cent* between financial progress and physical work, reflects poor monitoring of lenders including IIFCL over work progress.

IIFCL replied (April/ May 2020) that different methodologies are applied by different agencies such as LIE, IE for measurement of physical and financial progress. Therefore, they are two different set of statements which are normally not comparable. The Ministry endorsed (June 2020) views of the Management.

The reply is not acceptable as the difference was substantial and the same should have been reconciled from the concessionaire/ LIE.

(iii) In case of HHPL, against revised project cost of ₹1,645.25 crore, total funds (i.e., loan disbursement, equity contribution by promoter and grant of NHAI) provided to the Concessionaire till February 2018 were ₹1,525.03 crore (92.69 *per cent*), whereas, as per LIE's monthly progress report of February 2018, the physical progress of the project was only 73.73 *per cent*. Reasons for slow progress of work despite availability of funds were not ascertained to take corrective action by the lenders including IIFCL.

IIFCL replied (April/ May 2020) that the lenders had disbursed in the project as the project was more than 70 *per cent* complete and nearing PCOD. The Ministry endorsed (June 2020) views of the Management.

The reply is not acceptable as disbursing the loan without verifying the progress against the previous disbursements for achieving PCOD was not prudent.

5.1.2.7 Disbursement of loan without verifying utilisation of previous disbursal

As per the provisions of CLA, borrowers are required to certify while requesting for drawal of loan that '*the proceeds of the earlier drawdown have been applied only to finance the* *estimated project cost and the proceeds of proposed drawdown shall be applied to meet this cost'*. However, audit observed that borrowers submitted only general statements in the notice, such as (i) proposed disbursement shall be applied only towards the estimated project cost, (ii) the proceeds would be used in accordance with the CLA. These certificates did not provide reasonable details of road stretches/ activities on which the proposed loan would be spent. Such details were also not given in the LIE's draw down certificates enclosed with draw down notices and the LIEs generally certified that the proposed disbursement is reasonably and timely needed by the borrower to make payments for the project costs in accordance with the project completion schedule. Details such as road stretch/ activity where the fund would be used were essential in the drawl notice, for ensuring genuineness of the fund requirement from borrower and also for verifying the progress of work in real terms against the previous disbursals at the time of next disbursement. In the absence of such details, the prevailing internal control failed to provide due assurance on utilisation of the project fund. Audit noticed that loan of ₹1,182.58 crore was disbursed to BKEL (₹563.32 crore) and SLHL (₹619.26 crore) against the work done of ₹656.58 crore. As such, there was excess disbursement of loan amounting to ₹526 crore with respect to the work done and loans turned into NPA. IIFCL has written off its loan portion (₹210.24 crore) as CAs were terminated by NHAI.

IIFCL replied (April/ May 2020) that funds were disbursed on reimbursement basis against LIE certified bills. At any point of time the project progresses on multiple chainage and as such ascertaining on what chain funds were utilised is not possible. The Ministry endorsed (June 2020) views of the Management.

The reply indicates failure of lenders to effectively monitor the project expenditure as it could not ascertain on what chain funds were utilised.

5.1.2.8 Inadequacy in site visits

Lenders, in co-coordination with the Concessionaire, conduct site visits to monitor the progress of work. Such visits also support the lenders in verifying the work progress reported by LIE, CA and the Concessionaire.

As per the Credit Policy of IIFCL of 2012 (revised in 2015), the site visit will be arranged by the lead bank or the borrower, and it was desirable for IIFCL to join the first visit before commencing any disbursement. Subsequently, IIFCL was to ensure atleast one visit in a year for each project. Audit noticed the following:

(i) In four cases {Sai Maatarini Tollways Limited (SMTL), BPMCPL, AETPL and YATL}, the lead banks had conducted the first site visit before first disbursement of loan. IIFCL, however, did not join the same. In case of AETPL, IIFCL attended only one site visit (February 2017) during the period 2016 to 2019.

(ii) In five cases (BKEL, HHPL, NJTBPL. PSTPL and SSRPL,), the lenders had not made any site visit before making first disbursement. The first site visits were conducted with a lapse ranging from 2-18 months from the dates of first disbursement.

Thus, it was evident that IIFCL did not consider the site visits as an important tool of monitoring the project, despite stipulation in their Credit Policy.

While noting the audit observation for future compliance in cases of HHPL, YATL, AETPL, BKEL and PSTPL, IIFCL replied (April/ May 2020) that in case of SMTL, BPMCPL, SSRPL and NJBTPL, it was not possible to attend few site visits due to paucity of manpower and office exigencies. The Ministry endorsed (June 2020) views of the Management.

Reply is to be viewed against the fact that site visit was one of the elements instituted for effective monitoring of the project, for securing project viability and ensuring quality of loan assets. Hence, required resources should have been put in place in the larger interest of the organisation as well as the projects.

5.1.2.9 Miscellaneous Issues

(i) Sanction and disbursement of loan on the basis of unrealistic projections of traffic/ toll revenue

While availability of RoW is essential for completion/ operational viability of road projects as discussed above, realistic projections of traffic and toll collection also have a bearing on the commercial/ financial viability of the projects. If the project is commercially/ financially unviable, the risk of the Concessionaire not being able to service the loan becomes high.

In case of SMTL (NPA), Audit noticed that the report (November 2011) of the traffic consultant, had ignored the impact of prevailing imposition of restrictions on illegal mining in State of Orissa on the toll revenue. However, in addendum traffic report of September 2012 considering the restriction on illegal mining, number of trucks was considered as 3,600 per day (no. of 2 axle – 1,980 and no. of 3 axle – 1,620) and number of other vehicles remained unchanged as presented in earlier traffic report. IDBI Bank (the lead lender), in its loan appraisal (November 2012) for projected traffic, however, increased the traffic flow exponentially to 29,154 (2 and 3 Axle) trucks with hypothetical assumptions that there would be future increase in demand of iron ore due to proposed Tata Steel plant in Duburi, improvement in the iron ore export by 2016 and improvement in condition of road which would further increase the traffic etc. The project was completed in August 2017. LIE, on the basis of survey conducted in December 2017 over a period of seven days, reported actual average daily traffic of 1,069 (2 and 3 Axle). As the toll revenue was lower than anticipated, the Concessionaire failed to service the loan, leading to turning the IIFCL loan of ₹278.66 crore into NPA on 31 December 2017. Later, the Concessionaire issued notice of termination on 27 March 2019 on the grounds of force-majeure[18] clause.

IIFCL, while accepting the audit observation, replied (April/ May 2020) that the project was found viable based on other factors viz. increase in demand of iron ore in the existing industries in the Kalinga Nagar area and proposed Tata Steel plant in Duburi, improvement in the iron ore exports, expected development in cargo handling capacity in Paradip Port etc.

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[18] ***unforeseeable circumstances that prevent someone from fulfilling a contract***

IIFCL added that they followed the lead bank appraisal/ sanction as per SIFTI. The Ministry endorsed (June 2020) views of the Management.

The reply is to be viewed against the fact that IIFCL is mandated to finance viable projects only under SIFTI and the toll revenue, projected and considered at the time of appraisal was not based on realistic traffic.

(ii) Non-cognisance of apparent risk while sanctioning a loan under Takeout finance

In case of Sion-Panvel Tollways Private Limited *(*SPTPL), the Concessioning Authority (PWD, Government of Maharashtra) allowed toll collection from 01 Jnauary 2015 but exempted certain category of local vehicles from payment of toll, even though no such exemption was agreed in the CA. On 30 June 2015, PWD, further exempted light motor vehicles such as car, jeep etc., having capacity of upto 12 passengers, from payment of toll. This affected the toll collection of SPTPL and consequently, the loan of IIFCL in the project amounting to ₹160 crore turned NPA on 30 September 2016. SPTPL issued notice to the Concessioning Authority on 28 November 2017 for termination of the CA and PWD has since taken over the project. The issue of the termination payment under the CA is under arbitration (January 2020).

Audit noticed that IIFCL did not take cognisance of similar risk in another project (MEPIPL) in the same State (Maharashtra), wherein IIFCL sanctioned (February 2016) additional Takeout Finance of ₹269.90 crore for an operational project in Mumbai. Thus, the known risk of exempting the toll collection from certain category of vehicles arbitrarily by Government of Maharashtra was not given due cognisance in this Takeout Finance.

IIFCL replied (January/ April/ May 2020) that Toll notification issued by PWD, Government of Maharashtra is not applicable to MEP infrastructure Private Limited and MEPIPL is collecting the toll to service the debt obligation (interest plus Principal payment) to all the lenders. Hence, the risk to SPTPL is not applicable to MEPIPL. Therefore, the comparison between the two projects is not appropriate. The exemption of vehicles by PWD was a force majeure situation which could not be predicted. The Ministry endorsed (June 2020) views of the Management.

The reply is to be viewed against the fact that the toll exemption was given arbitrarily by Government of Maharashtra without an acceptable compensation to the Concessionaire leading to termination of contract by the Concessionaire. In the instant case, the said risk of Government of Maharashtra exempting certain categories of vehicles from toll collection and its fallouts were already experienced by IIFCL and therefore, the risk should have been considered and mitigated by IIFCL before sanction of the loan under takeout finance.

(iii) Credit rating of the concessionaire

Under the CLA, lenders were mandated to take punitive action if the credit rating[19] is not submitted or is below the prescribed rating.

[19] ***Credit rating is a warning mechanism on the likelihood of default in servicing of loan asset on the part of the Concessionaire***

In case of BATL, the CLA required that 'the borrower unconditionally agrees and undertakes to get itself rated by credit rating agencies within six months from date of first drawdown notice and thereafter within every 12 months and/ or such other intervals as may be required by the lead lender. In the event, the borrower does not obtain credit rating in time and/ or obtains a credit rating lower than BBB-, the lenders have a right to charge an additional interest of one *per cent* per annum'. First external rating of BATL was done on 03 December 2013 as BB+, which was downgraded as B+ on 06 May 2016.

IIFCL, without ensuring compliance to timely submission of credit rating by the Concessionaire, continuously disbursed the loan without charging additional interest of one *per cent* per annum, resulting in loss of revenue of ₹3.12 crore[20] (up to July 2017).

IIFCL replied (April/ May 2020) that the matter has been taken up with lead bank for charging additional interest. The lead bank has also confirmed (November 2019) that they were not charging additional interest. The matter is being pursued further with borrower and other consortium members. The Ministry endorsed (June 2020) views of the Management.

(iv) Equity infusion and Shareholding Pattern

As per RBI directions (July 2009), the funding agencies should not depend entirely on the Certificates of Chartered Accountants (CA Certificate). Rather, they should strengthen their internal controls and the credit risk management system to enhance the quality of their loan portfolio. One of the measures suggested by RBI in this regard was the periodical scrutiny of borrowers' books of accounts and the 'no-lien' bank accounts.

CLAs required that (i) the promoters shall bring upfront equity in Escrow Account, before the disbursement of loan, and (ii) Management of, and control over, the Concessionaire shall not change, without the prior written consent of the Lenders. The CAs also required that the Concessionaire shall not undertake or permit any change in ownership, except with the prior approval of the Concessioning Authority. Examination of selected cases in Audit revealed the following:

a) In case of CPBSRPL**,** the CLA stipulated that the promoter would bring in equity contribution into an Escrow Account opened with Oriental Bank of Commerce, which was also the lead bank. The promoter made deposits in 16 tranches, each of ₹0.50 crore, during 21 to 30 May 2015, as share application money, in a non-escrow bank account, opened with Allahabad Bank. The funds, so deposited in each tranche, were withdrawn on the same day. In the CA Certificates dated 06 January 2015 and 15 June 2015, attached with the Concessionaire's drawdown notices, the total amount of above 16 tranches of deposit was treated as equity infusion of ₹08.00 crore in the project by the promoter. Considering any deposit made by the promoters in a non-escrow bank account as equity infusion was irregular.

IIFCL replied (April/ May 2020) that as per SIFTI, monitoring is the primary responsibility of the lead bank. The Ministry endorsed (June 2020) views of the Management.

[20] ***@ one per cent per annum on the amount of loan disbursed during December 2014 to January 2017***

The reply is not acceptable as IIFCL did not apply due diligence in line with RBI guidelines and the provisions of Inter Creditor Agreement which required independent decision making. Further, any deposit, made in a non-escrow account, cannot be treated as equity infusion in the project as certified by CA.

b) As per annual accounts of 2013-14 of CPBSRPL, the shareholding of PATH, one of the two promoters in CPBSRPL, was reduced to 0.02 *per cent* whereas the shareholding of Concast Infrastructure Limited had gone up to 99.98 *per cent,* which remained so till 31 March 2016. Records of IIFCL did not indicate any approval for the change in shareholding pattern by the Concessionaire. Yet, IIFCL disbursed the loan despite the change in shareholding pattern, in contravention of the pre-disbursement condition stipulated in the CLA.

IIFCL replied (April/ May 2020) that in meetings held with the Concessioning Authority, PATH agreed to actively participate in the project. However, PATH did not honour its commitment and the lenders have filed an application against PATH in NCLT. The Ministry endorsed (June 2020) views of the Management.

The reply is not acceptable as records of IIFCL did not indicate that the lenders including IIFCL took any action against the Concessionaire during currency of the CA. Further, the financials of the Concessionaire showed that there was a change in shareholding pattern which was either overlooked or not given due consideration which led to disbursement of the loan despite non-compliance to the pre-disbursement condition stipulated in the CLA.

5.1.3 Conclusion

In road sector, the projects do not have physical assets to provide as security against loan. Viability of the project is the only comfort for securing the quality of loan asset. As such, due diligence on the project before signing of the CLA, compliance to the conditions set in the CLAs before disbursement of loan and monitoring of project work progress for timely corrective action are vital activities to be undertaken by lenders for financing the road projects.

Lenders including IIFCL did not give due cognisance to the risks of RoW availability, the EPC contracts being awarded to promoter company and the restrictions on change in shareholding pattern in concessionaire company. In seven out of nine NPA cases, non-availability of required RoW was the leading factor for non-completion of projects and turning of the loans into NPA. In one NPA case, unrealistic traffic projection affected the project's commercial viability while in another NPA case, low traffic revenue led to unviability of the project.

Vital risks were also not mitigated in many cases by inclusion of suitable pre-disbursement conditions. Although the CLAs contained other valid pre-disbursement conditions for ensuring sustained viability of the project, the loans were disbursed, in many cases including NPA cases, without ensuring the compliance to the conditions relating to environment/ forest/ tree cutting clearances, infusion of required equity through escrow account and funding of cost overrun/ IDC by promoters. This led to delay in work progress, risk of misuse of fund by promoters and avoidable additional loan to badly managed projects.

Monitoring of project progress was weak due to inadequacies in internal control systems established by the lenders, particularly incomplete/ deficient information contained in LIE reports and CA certificates relating to the RoW availability, the equity infusion by promoters, the changes in shareholding pattern, the physical work progress *vis a vis* funds available with the project and the advances released/ unadjusted/ unrecovered. The deficiency in monitoring led to the promoter taking undue benefits out of project fund, at the cost of project work progress.

The CA provided that on termination of CA debt due would be worked out on the basis of lowest project cost which would normally be as mentioned in the CA. However, IIFCL agreed to finance the cost overrun of ₹347.85 crore without seeking approval from the Concessioning Authority for increase in total project cost which was not only irregular but also imprudent, as this encouraged incapable promoters to continue with the project, increased loan exposure to badly managed projects, delayed corrective action and most importantly exposed the lenders to risk of non-recovery of debt given on account of cost overrun/ IDC on termination of CA in view of provisions of CA.

Due to NHAI not making the RoW available and huge loan amount disbursed to the Projects including IIFCL's loan of ₹1,895.50 crore without ensuring availability of RoW and clearances, not only the loan turned NPA, but the country also could not reap the benefit of these road projects due to non-completion of the roads.

5.1.4 Recommendations

Audit suggests the following recommendations in order to address the issues highlighted in this report:

1. Efforts may be made at the level of Ministry of Finance to get the issues related with non-issuance of PCOD Certificates by the Concessioning Authorities despite achievement of progress stipulated in the Concession Agreements, resolved amicably with the Concessioning Authorities/ Ministry of Road Transport and Highways.
2. A separate Tripartite agreement among the Concessioning Authority, the Concessionaire and the consortium of lenders may also be entered into with a view to ensure improved communication in the interest of successful completion of the projects under execution and also to safeguard the financial interest of all the stakeholders including lenders.
3. IIFCL should include loan disbursement conditions in sanction letter/ CLA on availability of RoW to cover the risks flowing out of restrictive clauses like termination payments, conditions in concession agreement or stricter conditions to safeguard its financial interest.
4. A mechanism may be developed to restrict the Concessionaire from allowing any advance, other than mobilisation advance, to the EPC contractor, that too backed by

sufficient encashable security, in the possession of the lenders and such advances should be recovered in a time bound manner.

5. Audit observations are based on selected sample. There is need to get entire population examined to assess the prevalence of the problem and fix the responsibility, wherever required. Cases with indications of mala-fide, if any, may be referred to professional agencies for further examination.

5.2 Avoidable loss due to extension of loan in terminated projects

IIFCL sanctioned and disbursed two loans under Takeout Finance Scheme without ensuring compliance of critical requirement of obtaining 'No Objection Certificate' from Concessionaire Authorities, and without ensuring required debt servicing capacity of the borrowers from their audited annual accounts. Further, in one case, the project had already been terminated before execution of the takeout financing documents between IIFCL and the original lender banks, while in the other case, the notice of termination of project happened before disbursement of loan by IIFCL. Resultantly, the loans of ₹26.20 crore became irrecoverable.

Raipur Waste Management Private Limited (RSWPL) and Bhilai Durg Waste Management Private Limited (BDWPL) were two concessionaire Special Purpose Vehicles (SPVs), for operation of solid waste management projects of Raipur Municipal Corporation (RMC) and Bhilai and Durg Municipal Corporation (BMC), respectively, in the State of Chhattisgarh. The Concession Agreements were signed between RSWPL and RMC on 03 September 2012 and between BDWPL and BMC on 17 July 2012, for a period of 30 years, each. The project viability was fully dependent upon the revenue to be generated/ received by the SPVs from RMC/ BMC under the concession agreements.

IIFCL sanctioned (22 September 2014) two loans of ₹13.71 crore and ₹12.74 crore to RSWPL and BDWPL, respectively, under its 'Takeout Finance Scheme'[21], by partially taking over the outstanding amount of loans, which had been extended to the SPVs by different banks. The loans (₹13.71 crore and ₹12.74 crore) were disbursed on 03 December 2014.

Considering the poor performance of both the concessionaires (RSWPL and BDWPL), the Concessioning Authorities (RMC and BMC) served notices of termination of concession agreement on 24 December 2013 and 21 October 2014. The concession agreements were finally terminated on 25 November 2014 and 24 November 2014, respectively. Resultantly, servicing of the loans was not being done by these SPVs since January 2015. Eventually, both the loans turned into non-performing assets (NPA) as on 30 June 2015 (i.e. within seven months of disbursement) and finally ₹26.20 crore (₹13.59 crore and ₹12.61 crore) due from RSWPL and BDWPL, respectively, were written off (March 2016).

With regard to sanction and disbursement of above loans, Audit observed the following:

- As per Credit Policy (2012) of IIFCL for takeout finance, No Objection Certificate (NOC) from the Concessionaire Authority, lenders and the consortium of lenders was

[21] *Under the takeout financing scheme, loans given by banks to infrastructure projects are taken out of their books by IIFCL. This helps banks in avoiding an asset-liability mismatch and also frees up their funds to be loaned to new projects*

required to be obtained before scheduled date of occurrence of takeout. However, NOC from the Concessionaire Authority was not obtained.

- IIFCL was also required to consider only those proposals, which had Debt Service Coverage Ratio (DSCR) of at least 1:00. However, sufficiency of the stipulated DSCR was also not ensured by IIFCL at the time of sanction of loans.
- In case of RSWPL, notice for termination of concession agreement was served (24 December 2013) before the date of sanction of the loan by IIFCL (22 September 2014), and in case of BDWPL, signing of financing documents by IIFCL took place (27 November 2014), i.e., after termination of the concession agreement (24 November 2014). Moreover, the disbursement of funds in both the cases was done after termination of its concession agreements, which indicates injudicious disbursements of loans to the SPVs.

IIFCL replied (November 2019) that NOCs dated 28 October 2014, 29 October 2014 and 26 November 2014 were obtained from all the lenders before effecting the takeout. It was further replied that the loan was disbursed, based on the DSCR for the period July 2013 to June 2014, certified by a Chartered Accountant.

Replies of the IIFCL is not tenable due to the following:

- NOC, as required to be obtained from the Concessionaire Authority as per the Credit Policy of the Company, was not obtained.
- The legitimacy of three of the four NOCs obtained (dated 28 October 2014 and 29 October 2014) could not be established as these were not dated and contain reference to a future date {i.e., signing date of 'Amended and Restated Facility Agreement' was 27 November 2014}.
- Regarding DSCR, it was seen from the annual accounts of the borrowers for the year 2013-14 that DSCR was only 0.13 for RSWPL and 0.48 for BDWPL i.e. less than the stipulated ratio of 1.
- Further, the fact remained that the disbursement of funds in both the cases were done after termination of its concession agreements.

Thus, due to non-adherence of the provisions of its own Credit Policy, IIFCL extended loan in the projects which had already been terminated and resultantly suffered a loss of ₹26.20 crore (₹13.59 crore plus ₹12.61 crore written off). It is recommended that responsibility may be fixed for the lapses pointed out by Audit.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

NABFINS Limited

5.3 Non-Performing Assets

5.3.1 Introduction

NABFINS Limited which was earlier known as NABARD Financial Services Limited (Company) was formed with the objective to provide financial services in the two broad areas of agriculture and micro finance. Its registered office is at Bengaluru. It is a registered Non-Banking Financial Company (NBFC) and conducted its activities in 11 States[22] during the period covered under audit i.e. 2015-16 to 2018-19. As per the regulations of Reserve Bank of India, the Company is a systemically important Non-Banking Financial Company - Micro Finance Institution (NBFC-MFI).

The objectives of the Company are:

- to provide credit and other facilities for promotion, expansion, commercialisation and modernisation of agriculture and allied activities, and
- to provide micro finance services to the needy and disadvantageous sections of the society for securing their prosperity in both rural and urban areas.

5.3.2 Audit objectives

Audit was conducted to assess whether:

- the Company achieved its financial and physical targets;
- there was an effective mechanism for sanction of loans; and
- there was a robust mechanism for collection of dues.

5.3.3 Audit criteria

- Instructions issued by the Reserve Bank of India from time to time,
- Memorandum of Understanding (MoU) entered into with NABARD,
- Provisions of the Operations Manual on Loans of the Company,
- Internal working instructions issued by the Company,
- Agenda and Minutes of Board meetings of the Company, and
- Guidelines for One Time Settlement (OTS) scheme

5.3.4 Audit scope and methodology

An Entry Conference was held with the Company on 05 October 2018 after which the audit was conducted and the draft para was issued to the Management in March 2019. The reply of Management was received in May 2019. An Exit Conference was held with the Management on 13 September 2019 to discuss the audit findings, after which the draft para was issued to the Ministry of Finance (Department of Financial Services) in December 2019. The reply of the Ministry was received in January 2020, which has been duly considered while finalising the draft audit para.

Loan accounts were selected from five States having highest overdues as on 31 March 2018. In the selected States, the district/ branches having highest overdues were selected. The details of the selected branches/ districts are given as under:

[22] ***Andhra Pradesh, Chhattisgarh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Mizoram, Tamil Nadu, Telangana and Tripura***

Table 5.3.1

State	Districts/ Branches selected
Karnataka	Sirsi, Vijayapura, Tumkur
Tamilnadu	Cuddalore, Dindugul, Madurai, Erode
Maharashtra	Gondia, Yavatmal, Nanded, Amravati
Andhra Pradesh	Chittoor
Telangana	Warangal

Details of the accounts selected are shown in ***Annexure-III***. Audit was conducted for the period 2015-16 to 2017-18 and the audit findings were updated up to 2018-19.

5.3.5 Business models of NABFINS

The Company operates loan disbursements in three major business verticals, viz., Second Level Institutions (SLIs), Business and Development Correspondents (B&DCs) and Direct Lending (DL) to borrowers.

(i) **Second Level Institutions (SLIs):** It is a registered body having a distinct legal identity comprising first level organisations such as Self Help Groups[23] (SHGs), Joint Liability Groups[24] (JLGs) and Farmers' Groups/ Societies. Prospective SLIs are identified by field (Branch/ District) offices of the Company and designated teams from Headquarters (Bangalore) of the Company visit to conduct project assessment[25] and due diligence. The SLIs carry out onward lending to first level organisations out of the loans disbursed by the Company. The SLIs are entitled to the surplus arising out of the interest differential, i.e., the difference between the interest payable by SLIs to the Company and interest receivable from the onward lending activity.

(ii) **Business & Development Correspondents (B&DCs)**: These are intermediaries between the Company and SHGs. They are responsible for identifying SHGs, processing loans, collecting instalments and remitting the same to the Company. For these services, they are entitled to be paid commission at the rate of two *per cent* of the loan disbursed (0.5 *per cent* on the disbursement of loan and 1.5 *per cent* on completion of collection and remittance).

(iii) **Direct Lending (DL):** Under DL, the staff of the Company directly supervises the activities of lending and collection. This business vertical commenced its operations during the year 2016-17 and created a business of ₹88.38 crore and ₹193.35 crore during 2017-18 and 2018-19 respectively.

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[23] *Self Help Groups are small informal group of 10-20 individuals, who are homogenous with respect to social and economic background and come together voluntarily for promoting savings habit among members and for a common cause to raise and manage resources for the benefit of group members*

[24] *A Joint Liability Group is an informal group comprising of 4-10 individuals coming together for the purpose of availing bank loan on individual basis or through group mechanism against mutual guarantee*

[25] *The Company has to make an assessment of the projects intended to be taken up by the first level institutions out of the loans to be obtained from SLIs*

The outstanding loans and Non-Performing Assets (NPAs) as on 31 March 2019 under the above three major business verticals of the Company were as under:

Table 5.3.2

(₹ in crore)

Particulars	SLIs	B&DCs	DL
Outstanding Loans	141.59	1101.41	196.31
NPAs	3.01	47.45	0.86

Out of the three major business verticals, 95.31 *per cent* of total NPAs as on 31 March 2019 (₹52.94 crore) were accumulated under B&DC and SLIs.

5.3.6 Audit Findings

5.3.6.1 Targets and Achievements

The details of financial and physical targets and achievements of the Company for the years 2015-16 to 2018-19 are shown in ***Annexure-IV***. The Company was able to achieve satisfactory levels of growth in the achievement of financial and physical targets during all the four years. The growth in financial achievement in terms of overall loan disbursement was 56 *per cent* over the four years' period 2015-16 to 2018-19. The growth in physical achievement in terms of number of Self-Help Groups (SHGs), number of States covered, Districts covered and Business & Development Correspondents (B&DCs) covered, increased by 50 *per cent*, 100 *per cent*, 36 *per cent* and 87 *per cent* respectively during the years 2015-16 to 2018-19.

The Company concurred (May 2019) with the facts reported by Audit.

5.3.6.2 Non-Performing Assets

Non-Performing Asset (NPA) is any account, wherein either the principal or the interest or both are due for a period of 90 days or more. The details of NPAs of the Company for the four years ended 31 March 2019 are shown in ***Annexure-V.***

It was observed that:

- NPAs of the Company increased from ₹36.53 crore to ₹85.11 crore (including prudential write-offs[26] made in the years 2016-17 & 2017-18) which recorded a growth of 133.02 *per cent* during the preceeding four years ended 31 March 2019.
- The Company made prudential write-offs of ₹32.17 crore.
- During the period 2015-16 to 2018-19, outstanding loan portfolio was increased by 67.72 *per cent* whereas NPAs recorded a growth of 133.02 *per cent*. NPAs constituted 4.24 *per cent* (2015-16), 6.17 *per cent* (2016-17) and 6.12 *per cent* (2017-18) and 5.89 *per cent* (2018-19) of total outstanding loan portfolio ***(Annexure-VI)***.

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[26] ***Prudential write-off is the amount of non-performing loans which are outstanding in the books of the branches, but have been written-off (fully or partially) at Head Office level***

The Company concurred (May 2019) with the facts reported by Audit. The Ministry replied (January 2020) that Management had strengthened their Stressed Assets Management Section in order to follow-up with overdue customers and address the issue of loan becoming NPA. Special Recovery Team (SRT) had been constituted to undertake field visits and recover the overdues. Audit will review the performance of SRTs in subsequent audits.

5.3.6.3 Sanction of loans

i) Sanction of loans through SLIs

There were 36 SLIs covering 39 loan accounts whose NPA stood at ₹3.83 crore as on 31 March 2018. Out of these 36 SLIs, Audit covered 19 SLIs in the selected branches whose NPA stood at ₹2.23 crore. SLIs, by definition, were supposed to extend loans to the first level institutions.

As per para 5.5 of the Operations Manual on Loans (September 2015), an SLI would be eligible for sanction of loans, if it was in existence for a minimum period of one year of operations after registration. The loan eligibility would be the lowest of the following:

- 85 *per cent* of the project outlay excluding cost of land;
- up to debt-equity ratio of 10:1 (10 times of net worth);
- up to 100 *per cent* of the value of collateral security.

Every such loan would have the following securities:

- hypothecation of goods/ assets procured out of loan amount;
- mortgage of land and buildings if purchased out of loan amount;
- collateral by way of mortgage of properties of SLI or its promoters, wherever available; and
- guarantee of promoters or directors, wherever available.

Further, as per para 5.8 of the Operations Manual on Loans, Post Disbursement Visits (PDVs) were to be conducted to ensure proper end-use of loan amount.

Audit, however, observed that the loan eligibility criteria for SLIs and appraisal requirements were not duly followed while sanctioning loans, as discussed in the succeeding paragraphs.

(a) Six SLIs promoted by Pragati Seva Samiti, Warangal

The Company extended (March 2015) loans aggregating to ₹299.80 lakh to six SLIs promoted by Pragati Seva Samiti, Warangal, Telangana. The loan eligibility in terms of the amount of loan to be sanctioned was to be determined on the basis of 10 times of the net worth of SLI *minus* amount of existing debt of the SLI. Audit, however, observed that the loan eligibility was not determined correctly due to errors in calculation, due to which the loans were sanctioned even though the SLIs were either not eligible for it or were eligible for a much lesser amount than was sanctioned, as shown below:

Table 5.3.3

(₹ in lakh)

Sl. No	Name of the SLI	Amount sanctioned	Net worth	Existing Debt	Loan eligiblity	Remarks
1.	Jhansilaxmi Mahila Paraspara Sahayaka Sahakara Parimitha Sangham	50.00	(0.52)	14.78	Nil	Net worth is negative, so not eligible for loan.
2.	Mother Therissa Mahila Paraspara Sahayaka Sahakara Parimitha Sangham	50.00	0.15	20.97	Nil	Existing debt exceeds 10 times of net worth, so not eligible for loan.
3.	Munneru Mutually Aided Cooperative Credit & Marketing Society Limited	50.00	6.15	62.97	Nil	Existing debt exceeds 10 times of net worth, so not eligible for loan.
4.	Priyadarshini Mahila Paraspara Sahayaka Sahakara Parimitha Sangham	49.80	(0.03)	13.95	Nil	Net worth is negative, so not eligible for loan.
5.	Sarojini Naidu Mahila Paraspara Sahayaka Sahakara Parimitha Sangham	50.00	2.30	22.85	0.15	10 times of net worth *minus* existing debt
6.	Swarna Bharati Mahila Paraspara Sahayaka Sahakara Parimitha Sangham	50.00	0.38	22.85	Nil	Existing debt exceeds 10 times of net worth, so not eligible for loan.
	Total	**299.80**			**0.15**	

The primary reason for incorrect determination of loan eligibility was that the Company considered thrift (savings) of members of SLIs as part of their net worth. The thrift of the members was an outstanding liability of the SLIs as this amount was liable to be repaid along with interest upon demand from the members. As such, thrift should have been excluded in calculation of net worth of SLIs. Further, the following deficiencies were noticed in sanction/ appraisal of loans:

- Loans were extended by the SLIs to individuals directly, and not to the first level institiutions. Thus, the principle of collective group responsibility was not ensured and the above six borrowers did not meet the definition of SLIs.
- Loans were extended with book debts as only collateral and the list of book debts of the SLIs were not certified by the auditor, as required.
- Loans were sanctioned without considering the existing NPAs of the SLIs.
- Third party guarantee/ personal guarantees of the promotors were not obtained.
- The loan repayments were rescheduled without verifying the intended utilisation of the loans sanctioned.

As on 31 March 2019, the NPAs from these six SLIs stood at ₹62.24 lakh and remained at the same level as on 30 September 2019.

Management replied (May 2019) that the above referred six borrowers can be construed as SLIs. They are registered as Mutually Aided Co-operative Society (MACS) with the Government of Andhra Pradesh and MACS falls under SLI category as per loan policy of the Company. Due to non-payment by borrowing members, the SLIs had prayed for rescheduling of loans and the same was acceded to.

The Ministry replied (January 2020) that these MACS extend loans to SHGs affiliated to them and maintain disaggregate borrower-wise loans outstanding and the same had been submitted in the form of book debts. The accounts were being followed up regularly.

The reply is not acceptable as the lists of book debts of the SLIs contained only individual beneficiaries, instead of groups/ societies. As per clause 5.3 of the Operations Manual on Loans of the Company, an organisation would be called as SLI if it was formed by a group of first level organisations like SHGs, JLGs, farmers/ artisans groups/ society and may include federations. Therefore, these six organisations were only first level institutions but not SLIs. Further, before rescheduling of loans, the Company should have verified and satisfied itself about the purpose of the loan and that there was adequate possiblity of recovery of loans.

(b) Navjeeven Mutually Aided Cooperative Thrift Society, Nellore

Audit observed that loans were extended by the above SLI to individuals directly, instead of to the first level institutions. Thus, the principle of collective group responsibility was not ensured and the borrower did not meet the definition of an SLI. The loan eligibility was enhanced by considering thrift (savings) amount of members as part of net worth. The Company sanctioned loans with only book debts as collateral and it was observed that out of the initial loan of ₹30 lakh disbursed in December 2013, the chances of disbursement of the loan to members of SLI were doubtful since as much as ₹25 lakh was paid to a single person.

Out of another loan amount of ₹50 lakh disbursed in March 2015, an amount of ₹2.42 lakh was transferred to Navjeevan Organisation (NGO of SLI) and an amount of ₹11.25 lakh was paid to the Company towards repayment of its outstanding loan which tantamounted to diversion of sanctioned loan.

In respect of the loan of ₹50 lakh given in March 2015 to SLI, the Company recorded that the outstanding loan amount was "0.00", instead of ₹42.98 lakh as of 1 March 2015 (out of a loan of ₹50 lakh sanctioned in August 2014) and a further loan of ₹50 lakh was sanctioned. Further, it was observed that neither the list of book debts was certified by auditor as required nor any third-party guarantee/ personal guarantee of the promoter was obtained. The outstanding loan amount as on 31 March 2019 was ₹44.81 lakh and the same amount was lying outstanding as on 30 September 2019.

Management accepted (May 2019) that the inclusion of savings of members for arriving at net worth was due to lack of understanding on the part of the loan appraiser and stated that the Company was pursuing the recovery through legal means. It was further stated that

₹25 lakh was drawn by Secretary of the Society for disbursement to its members. In respect of non-certification of book debts, it was stated that it obtained the details of some of the borrowers on a sample basis and disbursements were made.

The reply of Management is not acceptable. There was no recorded evidence available that the said Secretary of SLI had actually disbursed the loan amount to the intended beneficiaries. The Company did not obtain any third-party guarantee/ personal guarantee of the promoters. Further, Management did not respond to the audit observations on diversion of loan funds by the SLI for repayment of earlier loan.

The Ministry replied (January 2020) that the loan was periodically monitored by obtaining book debt statement. Hence, there was no deviation of funds.

The reply is not acceptable as the SLI utilised ₹11.25 lakh for repayment of previous outstanding loan which is nothing but diversion of loan funds.

Similar deficiencies were noticed in sanction of loans by the Company to Sri Soundarya Mahila Mutually Aided Cooperative Thrift Society, Chittoor (Andhra Pradesh) and Kongunadu Vivasaigal Sangam, Erode (Tamil Nadu). These cases have been discussed at ***Annexure-VII***.

ii) Sanction of Loans through B&DCs

As on 31 March 2019, the outstanding amount of loans disbursed through B&DCs was ₹1,101.41 crore. Out of this, there were 53 B&DCs in the branches selected for audit, against whom the NPAs amounted to ₹37.27 crore. A review of business activities of the B&DCs in the selected branches/ districts revealed that:

- As on 31 March 2015, NPAs of B&DCs stood at ₹7.77 crore which increased to ₹40.34 crore by 30 September 2019, recording an increase of more than five times.
- As on 31 March 2019, NPAs of top 10 B&DCs stood at ₹28.23 crore which constituted 76 *per cent* of total NPAs as on 31 March 2019.
- Even though the model agreement with B&DCs provided for investigative audit as per discretion of the Company, no such reports were made available for scrutiny.

Management replied (May 2019) that even though there have been no specific reports of investigation, high NPA cases under B&DC were covered under regular audit and business with such institutions had been put on hold.

(a) Retention of ₹12.10 crore by B&DC, Chittoor

The Company entered into an agreement (March 2013) with a B&DC namely, Society of Noble Oath & Welfare (SNOW), a registered society at Chittoor, Andhra Pradesh. On the recommendations of SNOW, the Company sanctioned loans of ₹19.62 crore in cash to 442 SHGs during 2013-14 to 2015-16. Examination of records revealed the following:

- SNOW operated only in Somala Mandal in Chittoor district and had got sanctioned a maximum loan amount of ₹20.40 lakh for 36 SHGs identified by it during 2006-07 to

2009-10. However, during the three years 2013-14 to 2015-16, a substantial amount of ₹19.62 crore, which was 95 times of the loans that were sanctioned during the previous four years, was sanctioned by the Company to SNOW.

- After the loan of ₹19.62 crore was disbursed, SNOW took back major portion of the loan from the SHGs. The Company was unaware of this activity until the loans became NPA.
- No periodic review was carried out by the Company after disbursement of loans. As a result, an amount of ₹12.10 crore became NPA and the same was yet to be recovered (September 2019).

Management replied (May 2019) that this was a fraud, where the agency had carefully designed a process to defraud the Company and the borrowers. Even though the loans were disbursed to beneficiaries in person, the agency had managed to obtain the loan proceeds (either fully or in part) through deceit. The agency had ensured that the Company could not detect the fraud. Management admitted that the Company should have been more vigilant and stated that the monitoring mechanism with respect to loans given had since been strengthened. The investigation of the three criminal cases filed at Chittoor had been completed by the police and the matter was pending before the Court. In addition to the criminal cases, the Company had filed civil suit against the NGO and its Board of Directors in Bengaluru City Court and civil suit had been filed against three SHGs at Chittoor for recovery. Management further stated that credit was extended from time to time based on previous satisfactory performance of B&DC. It assured that now the Company was not making any cash disbursements and loans were being disbursed through bank accounts of beneficiaries.

Reply of Management is not acceptable in view of the fact that there was a total failure of appraisal systems and other allied internal control systems during sanctioning and disbursement of loans which led to the non-recovery of loans.

The Ministry replied (January 2020) that based on the experience, the Company had put in place a strong monitoring mechanism and periodicity of the audit had been increased to give early warning signals.

5.3.6.4 Inadequate Post Disbursement Visits

Para 3.13.1 of Chapter 3 of Operations Manual on Loans stipulated that Post Disbursement Visits (PDVs) were to be conducted periodically to ensure that the loan was utilised for its intended purpose and the same was not slipping into NPA. However, it was observed that PDVs were conducted only in 35.26 *per cent* of cases during the last four years from 2015-16 to 2018-19 as shown below:

Table 5.3.4

Year	No. of loans sanctioned	No. of PDVs to be conducted as per Operations Manual	No. of PDVs actually conducted	Percentage of actual PDVs conducted w.r.t PDVs to be conducted
2015-16	36,367	1,45,468	41,585	28.58
2016-17	39,633	1,58,532	52,336	33.01
2017-18	41,576	1,66,304	1,31,875	79.29
2018-19	2,26,661	7,52,192	2,05,231	27.28
Total	**3,44,237**	**12,22,496**	**4,31,027**	**35.26**

Source: Data provided by the Company

Management concurred with the audit findings and replied that efforts were being made to increase the quantum of PDVs. It was also stated (September 2019) that 90 *per cent* and 74 *per cent* of PDVs were conducted in I and II quarters of 2019-20 respectively.

Ministry replied (January 2020) that the Company had linked the incentive policy to achievement of threshold limit of conduting PDVs.

5.3.6.5 Loan collection mechanism

In order to ensure timely recovery of outstanding amounts from loan accounts and prevent them from becoming NPAs, the collection mechanism has to be robust and effective. The mechanism should also provide signals for early detection/ identification of probable NPAs so that corrective actions can be taken in time. For this, the Operations Manual on Loans of the Company provided detailed procedure.

(a) Monitoring System for early warnings of Portfolio at Risk

Chapter 9 of the Operations Manual on Loans stipulated that any loan account, overdue for 30 days or more, had to be classified as Portfolio at Risk (PAR). Any loan account entering into PAR category was a warning signal of incipient NPAs. These loan accounts were to be closely monitored and effective steps should be initiated to avoid slippage of any account into NPA category. The details, as provided by the Company, of the number of accounts with overdues less than 30 days, 30-60 days and 60-90 days along with the number of such accounts contacted by the Company are at ***Annexure-VIII***. However, in the absence of any documentary evidence, Audit could not verify the existence of any such mechanism in place.

Management replied (May 2019) that the mechanism of collecting information regarding conduct of visits is carried over telephone on a regular basis by Stressed Assets Team at Head Office.

Ministry replied (January 2020) that the Company had strengthened its Stressed Asset Management Section in order to follow-up with overdue customers and address the issue of loan becoming NPA. Special Recovery Team had been constituted to undertake field visit and recover the dues.

The Company needs to strengthen their monitoring system to take prompt action as and when early warning signals are noticed.

(b) NPA management

Chapter 10 of the Operations Manual on Loans laid down the procedure regarding NPA management. It stipulated, *inter alia*, that:

- Within 30 days from the date of any account becoming NPA, a written demand notice in vernacular language would be sent to borrower groups by the District Office. The notices were to be preferably delivered in person by the District Staff. If there was no response for such notice, a second reminder would be issued by the Head Office, within 60 days of account becoming NPA. In case of no progress in recovery even after these two stages, legal action would be initiated by the Head Office of the Company.
- Detailed investigative audit would be conducted in cases where the number of accounts with outstanding amount more than ₹1,000 per account, reached 20 *per cent* of total accounts linked through a B&DC.

Audit scrutiny, however, revealed that out of 2360 loan accounts with NPAs of ₹33.32 crore as on 31 March 2018 in the selected districts ***(Annexure-IX)***, demand notice (first reminder) was issued by the District Offices in 71 *per cent* cases covering NPA amount of ₹29.20 crore (88 *per cent*). Further, the Company took steps to initiate legal action in respect of 683 loan accounts (29 *per cent*) covering NPA amount of ₹18.09 crore (54 *per cent*) only.

With respect to investigative audits, Management informed (October 2018) during course of audit that they had undertaken field visits of B&DCs where NPA accounts had crossed 20 *per cent* of total accounts, but no specific reports were available on investigative audits. This could, however, not be verified by Audit as no supporting documents were provided.

Management replied (May 2019) that it had not been able to cover all the B&DC cases (where NPA had reached 20 *per cent* limit) under investigative audit. However, investigative audits had been conducted in respect of some important cases such as Society of Noble Oath & Welfare (SNOW), Mahatma Gandhi Trust (MGT), Manuvikasa, and Rural Education & Environmental Development Service (REEDS). Management, however, did not furnish documentary evidence in support of the investigative audits stated to be undertaken.

The Ministry in its reply furnished (January 2020) some of the investigative audit reports. From the investigative audit reports furnished by the Ministry it was observed that (i) maximum loan was availed by a single member, (ii) loans were taken by members beyond their repayment capacity, (iii) loans were sanctioned despite poor grading given by Field Survey Officer, etc. Thus, it is evident that proper due diligence was not made by Management in sanctioning of loans and post sanctioning of loans which led to loan amounts becoming NPAs.

(c) Non-recovery of decreed amount in cases decided by Lok Adalat

In order to expedite recoveries from NPA accounts, the Company evolved a policy to approach the Lok Adalat[27] to amicably settle the outstanding loans with the borrowers. The guidelines of the Company regarding settlement before the Lok Adalat stipulated that:

- The Company was authorised to forego accumulated interest fully or partially based on the NPA amount;
- Managing Director of the Company was authorised to waive upto 50 *per cent* of the total principal outstanding in exceptional cases by recording reasons;
- On receipt of the decree from Lok Adalat, the amount of sacrifice to be made by the Company shall be arrived at and approval of Competent Authority would be obtained; and
- In case repayments were not regularised even after two months, the Stressed Assets Team should initiate legal proceedings and reverse the settlement benefits accorded to the borrower.

Accordingly, the Lok Adalat was approached in 108 cases and settlement was arrived at through decree of Lok Adalat for an amount of ₹1.42 crore as on 30 September 2018. As against this, only ₹0.19 crore was remitted by the borrowers and the balance amount of ₹1.23 crore was yet to be recovered (September 2019).

Management replied (May 2019) that Execution Petitions (EPs) were filed against SHGs on a sample basis. However, it was found that the women borrowers did not own enough physical assets, based on which recovery could be affected, even after EP decision came in favour of the Company. In addition, undertaking such action had a huge reputational risk and political risk for the organisation.

The reply is not acceptable since in the case of judicial decision in the form of a decree, the Company had no legal recourse except filing Execution Petitions for their implementation. Thus, not initiating such action in all the cases on the grounds of reputational/ political risk was not correct and would result in further accumulation of NPAs.

The Ministry replied (January 2020) that against the decreed amount of ₹1.42 crore, the Company recovered an amount of ₹0.26 crore as on 30 December 2019.

However, an amount of ₹1.16 crore was pending for recovery as against the decreed amount of ₹1.42 crore, which needs to be watched.

(d) Non recovery of dues under One-Time Settlement

To expedite recoveries from chronic NPA accounts, the Company decided (September 2018) to initiate One-Time Settlement (OTS) with borrowers. The OTS scheme was valid during the period from 15 December 2015 to 14 June 2016. During this period, the Company

[27] ***Lok Adalat is one of the alternative dispute redressal mechanisms; it is a forum where disputes/ cases pending in the court of law or at pre-litigation stage are settled/ compromised amicably. The award (decision) made by the Lok Adalats is deemed to be a decree of a civil court***

pursued OTS in respect of 938 NPA accounts of SHGs with an outstanding principal amount of ₹10.16 crore, whereby it agreed for waiver of outstanding interest to the extent of ₹1.24 crore.

It was observed that the borrowers did not honour the agreed timelines of OTS. There were defaults in remitting the agreed amount as only ₹0.05 crore was remitted by the borrowers. Thus, the remaining amount of ₹10.11 crore remained unrecovered.

Management replied (May 2019) that the OTS agreement or verbal understanding was between the SHGs and the Company. In case the borrowers did not go by the agreement, the Company also did not give any kind of benefit, as had been agreed upon. The legal action initiated did not yield any substantial results in terms of recovery, including cases where Executive Petitions had been filed and upheld. Management further stated that the assets held by the beneficiaries were not worthy of recovering the loans, e.g., cattle and poultry, etc.

Ministry in its reply (January 2020) reiterated views of the Management.

From the above replies, it is evident that the OTS mechanism was ineffective and did not yield the required results.

(e) Non-remittance of amounts collected by B&DCs

Examination of records revealed that during the years 2015-16 to 2017-18, there were 10 cases (other than the SNOW) of fraudulent activities by B&DCs wherein they had collected ₹1.85 crore as monthly instalments from the borrowers but did not remit the same to the Company. The details are given below:

Table 5.3.5

(₹ in lakh)

Sl.No.	State	Name of B&DC	Amount involved
1.	Tamil Nadu	Krupalaya, Villupuram	42.41
2.	Karnataka	Social Education Activity for Rural Child Health Development Society, Bagalkot	37.29
3.	Karnataka	Karnataka Integrated Development Services, Tumkur	26.74
4.	Karnataka	Mahatma Gandhi Trust, Kodagu	19.09
5.	Karnataka	Social Welfare and Rural Development Society, Tumkur	17.64
6.	Karnataka	Abhivruddhi Society for Social Development, Tumkur	14.53
7.	Karnataka	Sneha Sampanmula Samasthe, Kolar	8.41
8.	Karnataka	Sree Soogoreshwar Seva Sangh, Vijayapura	7.59
9.	Maharashtra	Swayam Shasan Bahudeshiya Mahila Sanstha, Washim	6.82
10.	Karnataka	Sadhana Education & Rural Development Society, Mysore	4.87
		Total	**185.39**

Management replied (May 2019) that the Company was continuously pursuing with the B&DCs for recovery of the misappropriated funds to avoid time consuming process of filing fidelity insurance claims. They were able to recover an amount of ₹0.95 crore as of 31 March 2019. However, ₹0.90 crore was yet to be recovered.

The Ministry in its reply (January 2020) reiterated views of the Management.

5.3.7 Conclusion

The Company incorrectly included the thrift of members of SLIs in the calculation of their net worth while determining their loan eligibility. Consequently, loans aggregating to ₹299.80 lakh were sanctioned to six SLIs, even though five of them were not eligible for any loan and one was eligible for a loan of ₹0.15 lakh only against ₹50 lakh sanctioned to it. There were deficiencies in appraisal of loans as the list of book debts provided by the SLIs were not certified by the auditor and the third party guarantees or personal guarantees of promoters were not obtained. The findings of investigative audits of B&DCs were not properly recorded. Post disbursement visits in respect of loans disbursed were not conducted as per the Operations Manual of the Company. The follow-up mechanism in respect of the NPA accounts was weak and needed to be strengthened.

5.3.8 Recommendations

1) The Company may establish a robust appraisal system with the objective of assessing creditworthiness of prospective borrowers, in order to avoid sanctioning of loans to ineligible borrowers and to prevent slippages of loans into NPAs.

2) The Company may evolve an effective system to record the findings of investigative audits and ensure follow-up action thereon.

3) Post Disbursement Visits in respect of all disbursed loans may be conducted to ensure that the loans are utilised for intended purpose.

4) Field operations should concentrate on identifying early warning signals for loans slipping into NPAs and prompt corrective action in such cases should be taken. The information collected during field visits and follow-up with borrowers should be recorded in computerised system to facilitate proper storage, analysis and retrieval.

5) The Company should continuously engage with the NPA accounts in order to effect recoveries promptly.

6) The Company may review the position in all the branches/ district offices in all the States taking into consideration the audit observations and take necessary remedial action.

National Insurance Company Limited

5.4 Review of Underwriting of Group Mediclaim Insurance Policies

5.4.1 Introduction

National Insurance Company Limited (NICL), nationalised in 1972, has been servicing in the general insurance industry. NICL with its Head Office (HO) at Kolkata, operates through 33 Regional Offices (RO), 377 Divisional Offices (DO), 584 Branch Offices (BO) and 740 Business Centers (BC) across the country and provides services to its policyholders in fire, marine, motor, engineering, health and miscellaneous sectors of general insurance.

Health insurance portfolio of NICL is broadly categorised into "Individual Mediclaim" and "Group Mediclaim" policies (GMPs). GMP is further sub-divided into Tailor-made[28] policy and Standard Group Mediclaim[29] Policy. Corporate Entities, Banks, Government and semi-Government organisations accept GMPs for health coverage of their employees, members, customers etc.

Insurance companies undertake risks in consideration of premium to protect the financial loss of the insured by payment of claim subject to fulfilment of agreed policy terms. In the insurance sector, incurred claim ratio (ICR)[30] is an important parameter for evaluating the financial performance of any portfolio, as reduced ICR represents more profitability of the portfolio. Audit observed that during 2014-15 to 2018-19, NICL earned maximum premium income in health insurance business (after motor insurance business) which ranged between ₹3,388.41 crore and ₹3,893.45 crore. However, the performance of health portfolio was adverse with ICR ranging between 104 *per cent* and 128 *per cent* during the same period.

Audit made a comparative analysis of the premium income and ICR of GMPs (excluding government sponsored schemes) of NICL *vis-à-vis* Private Sector Insurance Companies as per IRDA data during the last five years ending 2018-19 as given below:

Table 5.4.1

(Premium in ₹ crore and ICR in percentage)

Years	NICL			Private Insurance Companies		
	Total premium for Health portfolio	Premium and ICR of Group Insurance Schemes excluding Govt. Sponsored Schemes		Total premium for Health portfolio	Premium and ICR of Group Insurance Schemes excluding Govt. Sponsored Schemes	
		Premium	ICR		Premium	ICR
2014-15	3,589.09	1,649.27	128.00	5,485.56	2,123.53	96.12
2015-16	3,893.45	1,680.97	127.50	6,675.20	2,484.25	88.86
2016-17	3,746.73	1,702.40	150.00	8,122.04	3,042.11	87.76
2017-18	3,743.53	1,695.06	125.00	10,401.24	4,053.63	85.39
2018-19	3,388.41	1,704.40	115.00	14,652.10	6,462.81	87.88

Source: IRDA website

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[28] *A policy where coverage, terms and conditions are customized according to the policyholder's requirements and premium derived accordingly*

[29] *A policy where coverage, terms and conditions are fixed and applicable for all policyholders.*

[30] *Claims paid plus claims outstanding at the year end minus claims outstanding at the beginning of the year over premium earned*

It is evident from Table 5.4.1 that the share of premium income of GMPs (excluding Govt. sponsored schemes) to total premium income of health portfolio of NICL ranged between 43.17 *per cent* and 50.30 *per cent* during 2014-19. Corresponding ICR was consistently adverse over the years and ranged between 115 *per cent* and 150 *per cent*.

Therefore, a Complianc Audit was undertaken to review the performance of underwriting of GMPs (excluding government sponsored schemes) in NICL during 2014-19.

5.4.2 Audit objectives and scope

The objectives of audit of GMP were to assess whether NICL:

- adopted effective mechanism/ followed IRDA guidelines for pricing of products;
- followed prudent underwriting practices, adhering to relevant rules, regulations and guidelines; and,
- put in place an effective control mechanism for monitoring of underwriting practices of GMPs for sustainability of health portfolio.

Audit test checked the GMPs issued for a period of five years ending 2018-19 at the HO, Kolkata and eight ROs of NICL across the country. ROs were selected for scrutiny based on the maximum number of policies involving premium income of ₹3 crore or more. The sample selection under RO was made based on the premium amount of ₹3 crore or more, more than ₹50 lakh but less than ₹3 crore and less than ₹50 lakh at 100 *per cent*, 10 *per cent* and one *per cent* respectively, adopting Stratified Random Sampling method.

5.4.3 Audit findings

The audit findings are discussed in the subsequent paragraphs.

5.4.3.1 Pricing of product

As per IRDA (Health Insurance) Regulation 2013, all particulars of any product shall, after introduction, be reviewed by the company at least once a year. If the product is found to be financial unviable, or is deficient in any particular aspect, the company may revise the product appropriately.

In the light of high ICR experienced in health portfolio, Audit Committee of NICL instructed (February 2014) its Health Department to prepare a focused action plan for reduction of ICR. The committee took (May 2014 and February 2015) the note of the action plan submitted to it, which *inter alia* included actions initiated to revise prices of all policies, including bank tie-ups, considering the burning cost[31] *plus* other expenses. Audit, however, observed that revision of product pricing was not undertaken despite the ICR of GMPs being consistently adverse from 2014 to 2019.

While accepting the audit observation, Management replied (March 2020) that the revision of GMP was long overdue. They also stated that GMP products would be revised following

[31] ***Estimated cost of claims in the forthcoming insurance period calculated from previous years'experience adjusted for change in the numbers insured, the nature of cover and medical inflation***

IRDA directives on certain modifications and inclusions, and along with such changes, the product price was also proposed to be reviewed and revised.

5.4.3.2 Underwriting

i) Issuance of policies without approval of HO

NICL mandated (February 2013) for approval of HO for all proposals of policy renewal where the claim experience in expiring policy was more than 70 *per cent.* Such policies were to be referred to HO for approval.

Test check of 820 policies revealed that 344 policies (41.95 *per cent*) were renewed by the concerned operating offices without obtaining approval of HO.

Audit also observed that there was no monitoring system available in HO of NICL to identify the policies due for renewal and required approval of HO. Further, there was no control to check whether the operating offices issued the policies as per terms and conditions approved by HO and collected the approved amount of premium.

Management replied (February 2020) that it was time and again emphasised to all ROs that no tailor made GMP be accepted without approval of HO. But due to operational issues, at times ROs failed to refer proposals on time to HO and such non-references were generally procedural lapses on the part of ROs and operating offices. They also claimed that "approval process has been more streamlined now". Entry of HO approval numbers in the system while underwriting tailor made Group Health Policies had been made mandatory, since December 2018. NICL also stated that they have introduced alert mails in their system to monitor underwritten policies without HO approval number.

However, no such documentary evidence in support of the system introduced was made available to audit. NICL also needs to ensure that polices issued by operating offices complied with the rate, terms and conditions as approved by HO.

ii) Under recovery of premium

HO instructed (April 2011) that policies renewed by the operating offices/ ROs without approval of HO, be referred to HO for ratification. In case, the amount of premium collected was found to be inadequate or any deviations were made from the approved terms and conditions of the policy, the offices concerned were to collect the additional premium within a specified time line, failing which the policy was to be cancelled after notification.

Test check of 820 policies in audit revealed that in 111 cases (13.54 *per cent*) the operating offices collected lesser amount of premium than the premium amount approved by HO. These policies were also not cancelled as per the directives. Non-compliance of approved terms resulted in loss of premium amounting to ₹42.35 crore (***Annexure-X)***.

Management replied (February/ March 2020) that guidlines of HO were generally followed by the ROs but due to market conditions, ROs were compelled to collect lesser premium in order to retain their renewals. However, the audit observation has been noted and intimated to ROs so that premium would be collected as approved by HO.

iii) Short charging of premium due to non-imposition of desired loading

HO instructed (February 2012) that premium of policies due for renewal involving ILR[32] above 70 *per cent,* need to be computed on outgo basis[33]. Further, for reduction of high ICR in health portfolio, Audit committee of NICL, in the action taken note (May 2014), considered factors like claim outgo, medical inflation, TPA charges, intermediaries commission and management expenses in underwriting of renewals of GMPs. Further Health Insurance Underwriting Policy, 2016 of NICL also stipulated that necessary loading be imposed during renewal of GMPs experiencing adverse claim with the objective of recouping the burning cost. Besides, Ministry of Finance (MoF) directed (June 2017), to take into account likely increase in quantum of claims due to ageing of covered group, increase in size of group and other associated factors in addition to the above during renewals.

Audit test checked 820 policies and observed that in 238 policies (29 *per cent*), desired loading was not imposed during renewal despite having high claim experience in the expiring policies resulting in loss of premium income amounting to ₹372.27 crore (***Annexure-XI***) during 2014-15 to 2018-19.

As per HO instructions (February 2013), the premium was further to be loaded at a fixed percentage for coverage of family floater, pre-existing diseases, maternity benefit, corporate buffer *etc*. Audit however observed that during 2015-16, a new GMP[34] policy was issued without imposing desired loading for additional benefits *viz.* family floater coverage, pre-existing diseases, maternity benefit *etc*., which resulted in loss of premium income amounting to ₹0.68 crore.

While accepting the audit observations, Management replied (February/ March 2020) that they have been taking necessary measure for pricing in most of the policies in the financial year 2019-20 and issued a circular on 21 February 2020 focusing on the importance of keeping the GMP at a sustainable level.

In this context, reference is invited to the C&AG's Report No. 9 (Commercial) of 2017 wherein repeated instances of undercharging of loading and non-collection of additional premium (₹89.29 crore) on account of adverse claim ratio ranging between 181 *per cent* and 398 *per cent* during 2011-12 to 2015-16 in respect of GMPs issued to Kolkata Police were highlighted. Though, NICL discontinued the policy from 2018-19, however, focused action was found lacking in the organisation to streamline the imposition of loading during renewals of GMPs having adverse claim experience, for which NICL is incurring losses over the years.

iv) Avoidable loss due to non-revision of bank tie-up health insurance policies

As per IRDA (Health Insurance) Regulation 2013, all particulars of any product shall, after introduction, be reviewed by the company at least once a year. If the product is found to be financial unviable, or is deficient in any particular aspect, the company may revise the product appropriately.

[32] ***Incurred loss ratio***
[33] ***Projected claim outgo of an expiring policy including claim incurred but not reported (IBNR).***
[34] ***Policy No. 10060046158500000254***

NICL entered into agreements with various leading banks like Bank of Baroda, Bank of India, Nainital Bank, *etc*. and introduced health policies for the account holders and their family members. Premium rates under these policies were fixed for individual account holders and their family members on the basis of sum insured. Loading of 25 *per cent* on premium was, however, applied for the account holders above 65 years of age.

Due to consistent adverse ICR, NICL in the action taken note (May 2014) considered for price correction in all policies including bank tie-ups. Further, in Product Performance Review Meeting, IRDA pointed out (July 2014) that the bank policies were loss making propositions for NICL.

Audit observed that huge loss was incurred by NICL in the tie-up business with banks during the last five years ending 31 March 2019 as detailed below:

Table 5.4.2

(Premium, Incurred Claims and Loss - ₹ in crore/ ICR in percentage)

Year	2014-15	2015-16	2016-17	2017-18	2018-19	Overall
Premium Income (A)	98.83	118.47	130.96	147.28	103.70	**599.24**
Incurred Claims (B)	197.74	246.37	275.40	309.78	397.12	**1426.41**
ICR [(B) / (A) x 100]	200.08	207.96	210.29	210.33	382.95	**238.04**
Loss (C) = (B) - (A)	**98.91**	**127.90**	**144.44**	**162.50**	**293.42**	**827.17**

(The above loss has been computed without considering Management Expenses, Medical Inflation, Commission, etc.)

However, NICL continued the tie-up business for a considerable period without any action for price correction and finally NICL decided (September 2018) to withdraw two tie-up health policies (Baroda Health Policy and Bank of India National Swasthya Bima Policy) with effect from October 2018 citing high incidence of ICR.

Thus, due to non-revision of bank tie-up policies in time and continuing with the same despite having high ICR, NICL sustained loss of ₹827.17 crore during 2014-15 to 2018-19.

Management replied (February 2020) that they were aware of the low rates and losses and therefore discontinued two loss making co-branded health polices with effect from 03 October 2018. NICL had offered alternate products National Parivar Mediclaim Policy (for family) and National Mediclaim Policy (for individual) to the existing customers of both the bank policies and extended continuity benefits to protect the interest of the existing policy holders.

However, the fact remains that due to delay in non-revision/ withdrawal of bank tie-up health policies, NICL had to suffer a loss of ₹827.17 crore.

v) Loss of premium due to imprudent underwriting of policies

Audit observed instances of imprudent practice of underwriting group health polices due to non-adherence to the underwriting guidelines for GMPs as detailed below:

- As per instructions issued (August 2010) by HO, extension of discount for low or young age profile, technical discount, etc. are prohibited.

Test check of 820 policies revealed that in 15 cases (1.8 *per cent*), an amount of ₹7.61 crore was allowed as discount on account of low/ young age profile or as special discount which were not permissible ***(Annexure-XII***).

- Age of the insured is a vital factor in computing the premium. NICL issued (January 2016) a GMP[35] for covering the risk of the employees and the family members of Kolkata Metropolitan Development Authority (KMDA). Instead of considering the actual age of the insured, NICL calculated the premium considering the average age of 45 years as declared by KMDA. Thus, the consideration of average age of the employee instead of their actual age for computation of premium, resulted in undercharging of premium amounting to ₹0.82 crore.

- Calculation of premium during renewal is computed based on the incurred claim data of expiring policy received from TPA. The process of renewal usually commences 30 days prior to expiry of the policy. In terms of instructions (February 2013) of NICL, the operating offices are required to cross check the information submitted by TPA within 30 days of expiry of the current policy. Thus, consequent to reconciliation of TPA data with actual incurred claim data, if computed premium is found less, the balance premium is to be collected in a given timeline.

  Test check of 820 policies revealed that in 10 cases (1.2 *per cent*) the incurred claim data submitted by TPA before expiry of the policies were not reconciled by the operating offices within the period of 30 days of expiry of the policies, which resulted in under recovery of premium income amounting to ₹21.95 crore ***(Annexure-XIII)***. No action was taken to collect the differential premium.

While accepting the audit observations, Management in their replies assured to adhere to the instructions related to prudent underwriting practice and issued a circular on 21 February 2020 in this regard.

vi) Excess payment of brokerage and commission

Brokerage and commission are paid to the intermediaries like brokers, agents for procuring business for the insurance companies. NICL fixed the percentage of agency commission and brokerage payable under health business. Further, as per IRDA (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations, 2016, no commission or remuneration is payable either to insurance agents or intermediaries in case the policies are procured directly.

Test check of 820 cases in audit revealed that in 10 cases (1.2 *per cent*) NICL procured the business directly from the Government organisations. Notwithstanding this, ₹0.27 crore was paid towards commission or remuneration to the agents in contravention of the guidelines (***Annexure-XIV)***.

Further, in 14 cases (1.7 *per cent*), excess payment of ₹2.37 crore towards brokerage/ commission was made disregarding NICL guidelines ***(Annexure-XV)***.

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[35] ***Policy No. 103000/46/15/850000170***

Management (March 2020) replied that in their circular dated 21 February 2020, they have instructed in detail about the payment of brokerage/ commission in the light of audit observation. Management also stated that it would ensure that all offices strictly adhere to HO guidelines and instructions.

vii) Control and Monitoring

a) Non-compliance of directives, regulations and guidelines

For controlling and monitoring activities of the insurance companies, Department of Financial Service (DFS), MoF and HO of NICL issued directives, regulations, circulars *etc.* from time to time. Audit observed the following deficiencies in the compliance of the above directives:

- DFS, MoF directed (September 2012) that full details of all the Group Health Insurance Policies (whether standalone or part of the overall insurance portfolio of any company/ corporate with other profitable segments of business) needs to be brought to the notice of the Board of Directors of the Company every quarter without fail and the matter be reviewed periodically.
- The Health Insurance Underwriting Policy (HIUP) 2016 and 2017 of NICL stipulated that there should be an Underwriting Procedural Manual.

Audit observed that the above directions/ stipulations were not adhered to.

Management replied (March 2020) that NICL submitted all the information as and when required by the Board of Directors and there was no recent requirement from the Board to provide policy wise details. Further, NICL issued internal circulars for underwriting of group health policies from time to time.

The reply of Management is not acceptable in view of the fact that non-submission of full details of group health policies on quarterly basis before Board and its non-review tantamount to deficient adherence of Ministry's instructions. Further, in the context of high ICR of GMPs, non-existence of underwriting procedural manual vitiates seamless adherence of good underwriting practices of health policies and instructions of HO by all the operating offices.

b) Non-implementation of Action Plan

Due to consistent adverse performance of health insurance portfolio over the years, an action plan was placed before the Audit Committee (May 2014/ February 2015) highlighting measures for reduction of ICR which include tuning up of underwriting practices through centralised approval at HO, consideration of factors like claim outgo, medical inflation, intermediary and management expenses, monthly review of the performance of ROs with high ICR and adoption of remedial measures, price corrections of all policies including bank tie-up policies *etc.*

Audit noticed deficiencies in implementation of the plan. Instances were noticed of non-revision of prices of products, renewal of policies having high ICR without having approval of HO, short charging of premium which have been highlighted in the preceding paragraphs. The action plans were formulated to bring down the overall loss ratio in health portfolio, however, the benefits as envisaged in the action plan did not fructify.

Management replied (March 2020) that over the years NICL had given considerable attention to the loss-making segment and company level strategies were evolved. All endeavors were made to arrest high ICR and to make the health portfolio sustainable. Loss control measures helped to achieve a progressive decline in net ICR in the group segment from 2016-17 to 2018-19.

The reply of Management is not acceptable as there was consistent adverse performance of group health insurance policies over the years. The ICR still remained 115 *per cent* in 2018-19 which calls for strict adherence to the action plan for achieving the breakeven.

5.4.4 Conclusion

Despite growth in the volume of business of health portfolio, consistent adverse performance has been noticed under the health portfolio over the years. Instances were noticed having issuance of policies without approval of HO, non-revision of prices of its products, short charging of premium, excess payment of brokerage/ commission and non-adherence to the circulars of IRDA and its own laid down norms and guidelines, which indicate deficiencies in the monitoring and control in the organisation.

5.4.5 Recommenations

NICL needs to:

1. ensure compliance of regulatory stipulations in relation to product pricing, underwriting of policies and review the adequacy of pricing of product to achieve break-even in the GMPs;
2. take necessary steps to build health insurance database for improving underwriting of policies;
3. develop a robust system for monitoring of underwriting performance of GMPs by various operating offices of NICL, and
4. review all the cases of GMPs taking into consideration the audit observations and fix the responsibility for lapses, wherever required.

The para was issued to the Ministry in April 2020; their response was awaited (June 2020).

5.5 Avoidable expenditure on rent due to delay in relocation of offices

Despite taking possession of office premises which was purchased in Scope Minar Building, Delhi in July 2016, National Insurance Company Limited failed to relocate its offices till March 2019. Delay in relocation of its offices from rental premises to the purchased premises resulted in avoidable rental outgo of ₹8.53 crore.

In order to minimise higher rental outgo of its offices located in Delhi, National Insurance Company Limited (NICL), acquired (June 2016) office premises, having super built area of 24,576 sq.ft.[36], in Scope Minar Delhi from Tourism Finance Corporation of India Limited at a cost of ₹31.50 crore. The possession was obtained by NICL in July 2016. NICL envisaged relocation of its three offices located in Delhi *viz*., Delhi Regional Office-III (DRO-III), OD Claim Hubs (ODCH) and National Legal Vertical (NLV) at vacant premises in the Scope Minar. It was also decided to shift Delhi Regional Office-I (DRO-I) to the premises of DRO-III (having lesser rent), once vacated. NICL estimated that the above relocation would entail an annual savings of ₹5.87 crore towards rental outgo.

To undertake interior furnishing work at the purchased premises, NICL constituted a Committee in December 2016, after five months of possession. The committee proposed (February 2017) to utilise the services of NBCC (India) Limited (NBCC), as Project Management Consultant to carry out the entire process of interior furnishing. Approval of the Board was accorded in July 2017. A MoU was executed in August 2017 between NICL and NBCC, which provided that the work was to be completed in all respects within a period of six months (including two months for engagement of contractor by NBCC).

In November 2017, it was noticed that area of the vacant space was insufficient to accommodate all the three offices as envisaged in its original plan and accordingly it was decided to shift only two offices, *i.e*. NLV along with DRO-III in December 2017. However, in December 2018, NICL changed the decision and decided to relocate ODCH in place of NLV along with DRO-III. Thus, NBCC had to execute necessary changes due to modification in the relocation plan. NICL finally shifted its offices (i.e. DRO-III and ODCH) to Scope Minar in April 2019.

Audit observed that despite having possession in July 2016, NICL failed to shift their offices from the rented premises to the Scope Minar till March 2019. Audit noticed lack of planning, indecisiveness and delays in decision making, grant of administrative approval, formation of committee to oversee the tasks, firming up of the consultant and subsequent approvals of the Board.

As per the negotiations, NBCC was required to complete the work in all respects within a period of six months. Thus, even on conservative basis, after allowing additional six months to complete the work, NICL should have completed relocation of offices by July 2017 i.e. within one year from obtaining the possession of the purchased premises.

Management in its reply (November 2019) stated that NICL did not have any experience of handling work relating to interior furnishing and agreed that better planning could have been

[36] ***Including 10,800 sq.ft. already occupied by Delhi Regional Office-II of NICL on rental basis***

made in this regard. It further assured that adequate care would be taken in all future exercises.

Thus, lack of planning in relocation of offices and delay in decision making resulted in avoidable payment of rent amounting to ₹8.53 crore[37] for the period from August 2017 to March 2019.

The para was issued to the Ministry in November 2019; their response was awaited (June 2020).

5.6 Failure to collect motor insurance premium from discontinued dealer outlets resulted in loss

Despite having specific provision in the tie up agreement, for daily collection of motor insurance premium from the dealer outlets of Hero Corporate Service Private Limited, National Insurance Company Limited failed to collect the premium in time. This resulted in a loss of ₹16.58 crore which was recoverable from the dealer outlets which had discontinued business dealings with NICL.

National Insurance Company Limited (NICL), in pursuit of business expansion through partnership agreement with automobile manufacturers, executed (January 2004) a Service Level Agreement (agreement) for granting corporate agency to Hero Corporate Service Private Limited (HCSPL) under pan India auto tie-up business. The agreement was entered into initially for three years which was subsequently renewed from time to time.

The agreement, *inter alia*, provided for the following:

- HCSPL was to act as a corporate agent of NICL to promote, sell and distribute insurance policies being marketed by NICL from outlets and/ or such other places as mutually agreed upon.
- In consideration for the business generated by HCSPL, NICL was to pay to HCSPL, commission at such rates as may be mutually agreed from time to time, on monthly basis.
- NICL was to implement appropriate technology so as to issue policy online at HCSPL specified outlets and handover the completed policy to the customer instantly upon receipt of premium and necessary documents.
- NICL was to arrange collection of all the documents and instruments of payments pertaining to the business from specified HCSPL outlets on each working day.

Audit observed that by virtue of the agreement, designated dealer outlets of HCSPL issued insurance policies on behalf of NICL from time to time and collected the policy premium from the customers. However, the premium received by the dealer outlets from the customers, on sale of insurance policies, was not collected by NICL on daily basis as

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[37] *Annual rental outgo of DRO-III (₹1,61,36,784) + ODCH (₹19,05,000) + ₹3,31,63,216 being the difference in annual rental outgo of DRO-I (₹4,93,00,000) and DRO-III (₹1,61,36,784) for shifting of DRO-I to the vacant premises of DRO-III = ₹5,12,05,000. Rental outgo for 20 months (August 2017 to March 2019) = ₹5,12,05,000/ 12 X 20 = ₹8,53,41,667*

provided in the agreement. Consequently, amount of premium outstanding towards the dealer outlets accumulated to ₹131.94 crore as on March 2019. Audit further observed that the amount of ₹32.95 crore[38] which was outstanding upto March 2018, included ₹17.10 crore, recoverable from the dealer outlets who had discontinued business dealings with NICL. NICL, however, recovered only ₹0.52 crore during the first quarter of 2019-20, leaving an amount of ₹16.58 crore pending for recovery (August 2019).

Lack of internal control is evident from the fact that there was no provision in the agreement for obtaining security deposit/ bank guarantee from the dealers to protect the financial interest of NICL. Audit also noticed that to ensure the realisation of premium, the Board of NICL approved (September 2012) opening of Escrow accounts for collection of advance premium under tie-up business, so as to enable them to issue policies only to the extent of advance payments available in the escrow account. However, NICL initiated action to open Escrow account only in October 2018. The system was not implemented till August 2019.

Management replied (September 2019) that:

- The dealer outlets of HCSPL were spread across the length and breadth of the country and due to lack of infrastructure to implement the system in a foolproof manner, collection of premium could not be ensured.
- Out of ₹17.10 crore receivable as pointed out by Audit, ₹7.64 crore was receivable from dealer outlets which were still working in the tie-up but were not placing business with NICL and that NICL was pursuing for recovery of amount from these dealer outlets.
- An amount of ₹15.16 crore existed in form of cash deposit (₹2.37 crore) and unidentified credits (₹12.79 crore) in respect of those dealer outlets which could be utilised for the purpose of adjusting the amount receivables and that remained unadjusted for want of bifurcation of amounts in pay-in slip and reconciliation respectively. Management further stated that NICL implemented the system of premium payment by the dealer outlets through electronic mode from June 2019 so as to eliminate outstanding receivables from the dealer outlets in future.

Management's reply is not acceptable as the issue of large network of dealers as stated in the reply was already factored in while fixing the periodicity of collection of premium from dealer outlets, *i.e.* on daily basis. Further, claim of Management regarding the amount receivable from dealer outlets which were still working in the tie-up is also not acceptable as the dealer outlets were not patronising NICL in their business dealings and are not placing any business with NICL. With regard to the amount lying in cash deposit and unidentified credits, the reply is not acceptable as NICL is having a total outstanding of ₹131.94 crore from the dealers outlets as on March 2019 and Management has failed to reconcile the amount lying in cash deposit and unidentified credits even after considerable period of time (August 2019).

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[38] ***Since year 2012-13 onwards till March 2018***

Thus, NICL suffered a loss of ₹16.58 crore due to absence of provisions to secure its financial interests in the agreement, non-collection of premium in time and weak internal controls.

The para was issued to the Ministry in November 2019; their response was awaited (June 2020).

The Oriental Insurance Company Limited

5.7 Imprudent underwriting and arrangement of injudicious reinsurance cover leading to loss

The Oriental Insurance Company Limited accepted co-insurance share without having net retention capacity and further availed reinsurance cover on Excess of Loss basis which resulted into a net loss of ₹6.60 crore.

As per Reinsurance (RI) Programme of The Oriental Insurance Company Limited (OICL) for the year 2017-18, after placing obligatory cession of five *per cent*, the maximum net retention capacity for event insurance (sports) was ₹15 crore and beyond this it was required to arrange Facultative Reinsurance[39] arrangement. The Company issued (June 2017) four Policies No.111700/ 48/ 2018/ 238 to 241 to M/s Oppo Mobiles India Private Limited (Oppo) for the period from 7 June 2017 to 6 June 2018 covering the risk of loss of sponsorship revenue due to event cancellation for 51 matches. The total loss limit under these policies was ₹50 crore and after retaining ₹15 crore in net capacity of OICL, remaining ₹35 crore was placed with reinsurance arrangement.

Another insurance company, The New India Assurance Company Limited (NIACL) issued in favour of M/s Star India Private Limited (September 2017) a Special Contingency Policy covering risk of loss of broadcasting revenue due to event cancellation of cricket match series for a period from 29 September 2017 to 28 September 2018 with sum insured of ₹543.52 crore. The policy covered three cricket match series having 23 Matches of T-20/ One Day/ Test to be played in different cities in India between India-Australia, India-New Zealand and India-Sri Lanka. The same matches were already covered under policy issued to Oppo as stated above.

Further, NIACL offered ₹138.68 crore of sum insured with a premium of ₹6.10 crore to OICL under a co-insurance arrangement. Maximum limit of liability under the policy was ₹45 crore per match (OICL share being ₹12 crore @ 26.67 *per cent*) and policy loss limit was ₹150 crore (OICL share being ₹40 crore). Since the net retention capacity of OICL had already been exhausted in June 2017 on issuance of policies to Oppo, it invited quotes for proportionate facultative[40] re-insurance arrangement from General Insurance Corporation (GIC) and JLT broker (i.e. a Private Firm). GIC refused to quote and JLT broker demanded a premium at the rate of six *per cent* of proportionate sum insured to be ceded. Considering the

[39] ***A reinsurance contract under which the ceding insurer has the option to cede and the reinsurer has the option to accept a specific risk of a specific insured.***

[40] ***A type of Reinsurance Cover wherein claim loss is shared between insurer and reinsurer within predetermined proportion without any initial layer of loss***

rate of premium of 4.4 *per cent*[41] offered by NIACL under co-insurance arrangement, the offer of JLT was not found viable. Therefore, the company approached (September 2017) GIC to provide support on Excess of Loss (XOL)[42] basis for co-insurance share of ₹40 crore. However, GIC agreed to provide cover up to ₹30 crore in excess of ₹10 crore for a premium of ₹2.6 crore. With the approval of the Chairman of the Company, the offer of GIC was accepted. Accordingly, the Company accepted the offer of NIACL and issued (September 2017) a policy no.530000/ 48/ 2018/ 256 in favour of M/s Star India Private Limited for a period from 29 September 2017 to 28 September 2018 at a premium of ₹6.10 crore.

In the instant policy, five claims amounting to ₹10.32 crore (₹10.02 crore paid and ₹0.30 crore outstanding) have been reported and after recovery from GIC against five *per cent* obligatory cession (i.e.₹0.52 crore), net claim was left at ₹9.80 crore (total claim of ₹10.32 crore minus obligatory recoverable of ₹0.52 crore) which was below ₹10 crore. The entire net claim of ₹9.80 crore was borne by the company. As the Company has earned a net premium of ₹3.20 crore[43] after five *per cent* obligatory cession and RI facultative cover on XOL basis, it incurred a net loss of ₹6.60 crore. (Net claim borne by the company of ₹9.80 crore minus ₹3.20 crore being net premium earned).

Audit observed the following:

- By accepting the offer of NIACL, risk against 23 matches was got covered twice as those 23 matches were already covered in the policy issued to M/s Oppo Mobiles Private Limited. Further, the company had underwritten the policy beyond its net retention capacity.
- By reinsuring risk on XOL basis, the Company increased its net retention by ₹10 crore, thereby increasing the exposure of losses. Further all the claims were borne by OICL which could have been shared with reinsurer in case of proportionate facultative cover. It is worth mentioning that the availability of adequate Reinsurance cover is an essential prerequisite for underwriting any risk and if the company does not get a suitable and safeguarding reinsurance cover, it is implicitly prudent not to accept such risks so that the commercial interests of the company could be protected. Thus, in the absence of proportionate facultative cover, the company should not have ventured to underwrite the risk in case of M/s Star India Private Limited on XOL basis.

Management replied (December 2019) that the acceptance of risk was based on merits, prudent underwriting practices and a commercial decision to bring overall growth to the sports portfolio with profitability. Further, the proposal was referred for proportional support from the reinsurers and international reinsurers which considering their own experience were

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41 ***6.10/138.68*100 = 4.4 per cent***

42 ***A type of Reinsurance Cover wherein Reinsurer agree to share claim losses incurred beyond a predetermined limit up to a specified maximum last limit e.g. in this case XOL cover of ₹30 crore in excess of ₹10 crore means that Reinsurer will bear claim liability only in excess of ₹10 crore and up to ₹30 crore maximum***

43 ***Net Premium ₹3.20 crore =Gross Premium of ₹6.10 crore minus ₹0.30 crore ceded to GIC towards 5 per cet obligatory cession minus ₹2.60 crore premium ceded to GIC RI facultative cover on XOL basis***

able to rate it, though they were high as submitted by JLT broker, evidently establishing that proposal is doable and merited in the terms provided by insured. Management further added that its experience under the policy for the year 2016-17 was profitable and as a measure of abundant caution that additional loss beyond ₹10 crore could be protected, excess of loss arrangement was considered.

Management reply is not acceptable as the fact that facultative rates quoted by JLT broker for proportionate cover were high and GIC refused to quote on proportional basis substantiates the audit contention that the risk was higher under the instant case and it was not a prudent business decision to reinsure it through facultative cover on XOL basis. It is also pertinent to mention that it is a case of double insurance viz. coverage of sponsorship as well as broadcasting risks for the same events. It would have been prudent to reinsure the risk on proportional basis so that the commercial interest of the Company could be protected.

Thus underwriting the risk without having net retention capacity and reinsuring the risk on XOL basis was an imprudent decision which caused avoidable net loss of ₹6.60 crore.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

SBI Global Factors Limited

5.8 Non-liquidation of factoring facility to a client despite clear signs of incipient sickness leading to non-recovery

SBI Global Factors Limited sanctioned a factoring facility of ₹35 crore to a client and did not take timely action to reduce and liquidate the facility despite early warning signals of stress in the asset, leading to non-recovery of ₹28.37 crore.

SBI Global Factors Limited (Company), sanctioned (March 2014) Domestic Factoring Facility[44] to M/s. Fabtech Projects & Engineers Limited (FPEL) with the maximum Funds in Use (FIU)[45] limit of ₹15 crore. The FIU limit was increased (October 2014) to ₹35 crore for six approved debtors[46], which are companies in the energy sector. The performance of FPEL under the facility deteriorated from August 2015 onwards and the Company reduced the FIU limit to ₹30 crore in September 2017 and ₹25 crore in January 2018. The Company, however, continued the factoring of invoices and the amount of ₹25 crore turned into a Non-Performing Asset (NPA) in the books of the Company as on 31 March 2019. The total amount due from FPEL as of August 2019 was ₹28.37 crore (Principal - ₹25 crore and Interest - ₹3.37 crore). The Company has claimed (October 2019) the amount of ₹28.37 crore in proceedings before National Company Law Tribunal (NCLT) and a decision

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[44] *Domestic Factoring Facility is a financial service whereby the client gets orders from domestic buyers located within India, raises invoices for goods supplied/ works executed, assigns the invoice to the Company and receives prepayment up to 80-90 per cent (or as approved by the appropriate authority) of the invoice value immediately. At the end of the credit period (60 days) offered by the client to the buyer, the Company collects payment for the full value of the invoice from the domestic buyer (referred to as 'debtor')*

[45] *The amount of funds disbursed by the Factor to the Client against bills factored at any point of time is called Funds in Use (FIU)*

[46] *Approved Debtor means any debtor who is indebted in respect of receivables to the Client for supply contract(s)/ Purchase Order(s)*

is awaited. The post-dated cheques obtained by the Company from FPEL bounced (April 2019) and a case in this regard is pending in the High Court of Mumbai.

The compliance audit of SBI Global Factors Limited was conducted during February – March 2019. Audit noticed that the Credit Manual of the Company prescribed 'Early Warning signals' for detecting stressed assets and when such signals appear, the Company was required to put in place a gradual reduction-cum-liquidation plan for the asset. The early warning signals include 'direct payments' (wherein the client first gets payment from the Company by factoring the invoices and later collects payments from the debtors also and eventually pays back the Company through direct payments called 'seller cash'), downgrading of credit rating, delays in payment, adverse remarks in Auditor's report etc. The early warning signals started appearing in this case from August 2015 onwards but the first reduction (by ₹5 crore) in the asset happened only in September 2017 i.e. after more than two years and all along the factoring of invoices continued up to the ceiling amount, as tabled below:

Table 5.8.1

Nature of warning signal (As per extant- Credit Manual)	Earliest date noticed	Invoices factored after this date (till December 2018)		Violation of extant Credit Manual		
		No.	Amount (₹ in crore)	Chapter No.	Para No.	Clause No.
Direct Payments/ Seller Cash	03.08. 2015	656	436.91	6	1	2nd bullet
				12	-	-
Delays in payment						
by 31 to 60 days	15.08. 2016	423	276.25	8	C	a & e
by 61 to 180 days	12.02.2017	326	224.90	8	C	a & e
Forged signatures on invoices submitted by client	11.05.2017	241	166.14	12	1	1
Adverse remarks in Statutory Auditor's Report/ Downgrading of external credit rating of client to 'C Negative'	06.02.2018	112	73.18	12	Table 1	5

Further analysis by Audit revealed that Management failed to reduce and liquidate the asset and there were non-compliances, as discussed below:

- The Conduct Report (July 2016) of the Debt Management Team of the Company on FPEL brought out instances of payments through seller's cash amounting to ₹24.79 crore for the past one year, delay in receipt of payment by 15-25 days for the last six months and non-response on follow up for payment of overdue invoices. However, instead of implementing a reduction cum liquidation plan, the Corporate Credit Committee (CCC) of the Company allowed (December 2016) temporary enhancement in the limit from ₹25 crore to ₹30 crore, for one of the debtors (BPCL) valid till 31 March 2017, citing cash crunch faced by FPEL. The Company, thus unduly favoured FPEL by factoring the additional invoices beyond the limit of ₹25 crore, applicable for the debtor and released ₹3.50 crore by way of funding against invoices and balance amount by way of non-factored cash.

- Earlier also, the Company offered relaxations to FPEL – when the FIU limit was increased from ₹15 crore to ₹35 crore in October 2014, instead of obtaining additional security, the prevalent security was diluted from second charge on fixed assets to residual charge. Also, by the time FPEL executed the Deed of Charge on 21 August 2015 (though it was due by December 2014), the early warning signal of direct payments had started (3 August 2015).

- The Direct Payments/ Sellers Cash during the period from August 2015 to December 2018 in respect of the six debtors is given below:

Table 5.8.2

(₹ in crore)

Name of debtor	Invoices factored		Direct payments		Percentage	
	No.	Amount	No.	Amount	No.	Amount
BPCL	283	193.99	80	66.10	28.27	34.07
Cairn India Limited	1	0.52	0	0.00	0.00	0.00
IOCL	94	45.40	71	35.34	75.53	77.84
NPCL	5	0.99	5	0.99	100.00	100.00
Numaligarh Refinery Limited	42	18.74	15	9.74	35.71	51.97
Oil India Limited	231	177.27	54	66.70	23.38	37.63
Total	**656**	**436.91**	**225**	**178.87**	**34.30**	**40.94**

The high level of direct payments by more than 50 *per cent* in the case of three debtors indicates that the facility was becoming more of a lending business than a factoring facility. This was because the debtors were required to make payment to the Company and in case they fail to do so, the Company can collect payment from the client as a recourse or a fall back option. But the Company had to resort to the recourse option more often than not.

- The client was required to get the invoices certified by the debtors for claiming payment from the Company. One of the debtors (IOCL), informed (May 2017) the Company that the signatures on the invoices were not of their Engineer-in-charge and are forged signatures. The Company responded by terminating the sanctions of the concerned three locations and discontinuing factoring in the IOCL's Debtor Account. The Company neither corresponded with other debtors to ascertain the authenticity of their invoices nor took any penal action against the client, indicating a muted response to a grave transgression by the client.

- The Company allowed concession/ discounts by way of deferment of levies/ charges amounting to ₹2.63 crore[47] to FPEL despite their poor performance under the facility.

- Due cognisance was not given to the early warning signals at the time of annual renewal of the facility and the ceiling amount was retained till Spetember 2017.

- All payments under the facility were required to be routed through an Escrow Account opened for the purpose. The Escrow Agent (State Bank of India, Parent of the

[47] ***Discount Charges (₹1.50 crore), Factoring Charges (₹0.80 crore) and Facility Continuation Fee (₹0.33 crore)***

Company) suo motu diverted funds of ₹1.90 crore from the Escrow Account during September to October 2017 to another account of FPEL being maintained by them. The Company took up (November 2017) the matter with the Escrow Agent but the diversion continued and an amount of ₹19.39 crore was diverted from the escrow account during April to December 2018, for reducing the irregularities in the other account of FPEL i.e. for reducing the bad debts of the Parent Bank. Thus, the escrow mechanism also failed to protect the interests of the Company.

- The Executive Committee of the Board of Directors (ECB) in their Meeting (March 2018) had approved for filing of Arbitration, Civil Suit (s), NCLT and any other legal proceedings against FPEL for recovery of outstanding dues to the Company. However, the Company did not initiate any legal action against FPEL and instead continued the factoring of invoices till December 2018. It was also known to the Company that the debtors released the payments for invoices directly to FPEL/ its vendors but FPEL was not making payment to the Company, citing cash crunch. The Company directed (February and March 2019) FPEL to clear its dues through Seller's Cash in a bid to prevent the asset becoming an NPA. Nevertheless, the asset became an NPA with effect from 31 March 2019 and only after the post-dated cheques of FPEL bounced, legal action was initiated by the Company. Thus, too much leverage was given to the client by the Company, disregarding its own interest.

It is evident from the above that the Company failed to insulate its financial resources and is now dependent on legal remedies to recover its dues, the possibility of which appears grim.

Management stated (June, November & December 2019 and June 2020) that they took steps/ initiatives to exit from the account and were able to successfully reduce the FIU limit to ₹24.27 crore in January 2018 from ₹35 crore sanctioned in October 2014. Management added that they planned to implement further downward capping to ₹20 crore, but it did not materialise since FPEL failed to submit plan for reduction due to their working capital constraints. Management contended that had they stopped the factoring of invoices in the early stages, the entire amount of ₹35 crore would have become NPA and added that the main focus of the Company was to recover maximum assets in a gradual way. Management expressed the hope that they would recover the dues through legal remedies which are underway.

The reply is to be viewed against the fact that the Company failed to take affirmative action to exit from the facility when the early warning signals appeared in August 2015. Though eventually the Company could achieve a reduction of ₹10 crore, the bulk of the amount i.e. ₹25 crore along with interest of ₹3.37 crore became NPA in March 2019. The fact that the client was facing liquidity issues was well known and under the circumstances, it was not realistic on the part of the Company to expect that the client would submit the reduction plan. Rather, the FIU ceiling should have been curtailed at least during the annual renewals, if not earlier, leading to liquidation within a definite time frame and adequate and effective collateral securities should have been obtained for the exposure until then.

Thus, despite being aware of the incipient sickness of FPEL right from August 2015 onwards, the delay in taking timely action by the Company in managing the factoring facility led to avoidable litigation and the possibility of recoverability of the dues is also remote as it is an unsecured creditor in the legal process.

The para was issued to the Ministry in November 2019; their response was awaited (June 2020).

United India Insurance Company Limited

5.9 Loss due to less charging of premium

United India Insurance Company Limited (UIICL) did not adhere to the guidelines issued by the Ministry of Finance for pricing and while underwriting the group health insurance policies. Consequently, the Company suffered a loss of ₹112.28 crore due to less charging of premium during 2016-17 to 2018-19.

In view of continued losses suffered by Public Sector General Insurance Companies (PSGICs) in the group health insurance portfolio, Department of Financial Services, Ministry of Finance (MOF), Government of India (GoI) issued guidelines (July-2012/ September 2012) for pricing of health insurance policies. As per the guidelines, the Group Health Insurance Policies (GHIPs) should be appropriately priced, duly considering the burning cost[48], Management Expenses (ME), Medical Inflation (MI) etc. to ensure that the Combined Ratio (CR)[49] should be less than 95 *per cent* of the premium charged. Policies not conforming to this ratio should not be renewed. It was also emphatically laid down in the aforesaid guidelines (July 2012/ September 2012) that no discount would be given in the Standalone GHIPs where the CR was more than 100 *per cent* and these guidelines were mandatory and no discretion in this regard was available to the PSGICs.

The MoF, GoI, citing the reference to the violations of aforesaid directions, reiterated (June 2017) and stressed the need for strict observance to the aforementioned directions in order to appropriately price the GHIPs and to avoid uneconomical and unviable discounts causing unnecessary strain on financial health of the PSGICs.

In pursuance of the aforesaid guidelines (July 2012/ September 2012) of the MoF, the Corporate Office of the United India Insurance Company Limited (UIICL) had also issued a Circular on 24 July 2012 (subsequently modified on 26 October 2012) for underwriting of the Health Insurance Policies which stipulates that the pricing of “Standalone” GHIPs should be such that the combined ratio i.e. the expected claim outgo, the acquisition cost, the TPA charges and Management expenses to the premium is below 95 *per cent*.

Audit reviewed Standalone GHIPs having premium of ₹50 lakh and above underwritten or renewed by Delhi Regional Office (DRO)-I, Delhi Regional Office (DRO)-II, and Large Corporate Branch Office (LCBO), New Delhi of the UIICL pertaining to the period from 2016-17 to 2018-19.

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[48] ***Estimated cost of claims in the forthcoming insurance period calculated from previous years' experience adjusted for change in the numbers insured, the nature of cover and medical inflation***

[49] ***The Combined Ratio (CR) is the sum of annualised claim outgo (i.e. incurred claim) adjusted with proposed number of lives, TPA charges, commission/ brokerage, medical inflation and management expenses divided by the premium charged in the previous year***

Audit observed that in case of 61 GHIPs, where claim ratio incurred was higher than 100 *per cent* ***(Annexure-XVI)***, premium was not worked out to ensure that the CR was within 95 *per cent*. The Company considered only the previous year's annualised claim outgo, adjusted with the proposed numbers of lives to be covered, TPA charges and brokerage but did not consider ME and MI which stood at 4.57 *per cent* (2016-17), 4.37 *per cent* (2017-18) and 7.14 *per cent* (2018-19) as per the consumer price index reports of the Ministry of Statistics and Programme Implementation (MOSPI), GoI.

While arriving at appropriate pricing of the GHIPs proposals, audit has considered all the pricing factors as per the aforesaid guidelines of the MoF and the UIICL except ME in the absence of any benchmark and compared with the actual premium collected for the GHIPs under audit review. The minimum premium thus worked out by Audit comes to ₹527.80 crore in respect of total 61 GHIPs ***(Annexure-XVII)*** considering the annualised claim outgo adjusted with the proposed lives, TPA charges, Brokerage/ Commission and MI[50] only without considering ME (as there was no benchmark available). Against this, the DRO-I, DRO-II and LCBO of UIICL charged premium of ₹415.52 crore only by violating the specific guidelines of the MoF/ UIICL, which led to loss of the revenue due to less charging of premium of ₹112.28 crore.

Management replied (December 2019) that premium cannot be charged based on a fixed rate/ formula and various factors including the market conditions and other premiums from the same source have to be taken into account. That audit has not taken into reckoning such factors in arriving at the 'Minimum premium to be charged' and hence the perceived loss of premium of ₹112.28 crore reported is not real. The premium has been charged in accordance with the company's health underwriting policy which has been framed taking into account all factors including the guidelines of the MoF. Further, out of the 61 accounts cited by audit only 24 are currently on their books and remaining 37 have not been renewed.

Management's reply that premium cannot be charged based on a fixed rate/ formula is not acceptable as the Guidelines issued (July 2012/ September 2012) by the MoF for pricing of health insurance policies provide for the underwriting methodology and stipulates that such guidelines are mandatory and no discretion is available to the company. Moreover, management's reply that the premium has been charged in accordance with the company's health underwriting policy which was framed taking into account the guidelines of the MoF, is also not acceptable as the company charged the premium in violation of its own health underwriting policy in all 61 GHIPs as pointed out by the audit. In fact, the figure of loss would have been higher if ME were also factored in. Further, management's reply that other premium from the same sources have to be taken into account while underwriting the GHIPs, is also not acceptable as the cases pointed out by audit are standalone cases wherein premium for health segment only, was collected by the company. Management's submission that out of 61 cases as pointed by audit, 37 accounts have not been renewed by the company, is in line with and validates the audit contention.

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[50] ***As per the consumer price index report of the Ministry of Statistics and Programme Implementation (MOSPI), Government of India***

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

IFCI Factors Limited

5.10 Factoring and Loan Services by IFCI Factors Limited

5.10.1 Introduction

IFCI Factors Limited (IFL) is registered as a NBFC-Factor with Reserve Bank of India (RBI) and is primarily engaged in the business of factoring[51] and short-term corporate loans. It is a subsidiary of IFCI Limited.

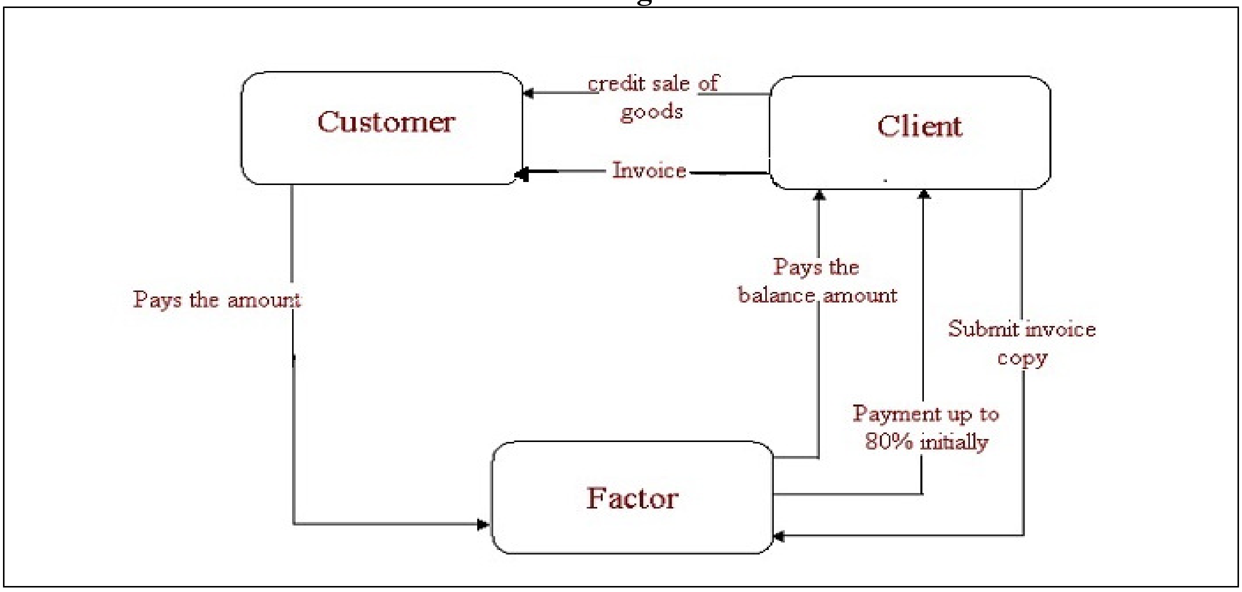
Factoring is a continuing financing arrangement where a business concern (client) assigns its accounts receivable (debtor) to a third party called a "Factor" at an agreed discount rate and factoring/ service fee, which provides immediate liquidity to finance the operations of the business concern. An entity requiring working capital finance in relation to a transaction involving receivables may avail of factoring.

There are generally three parties involved in a factoring arrangement: -

- the client, who is originally entitled to the accounts receivables and requires immediate working capital;
- the debtor, who is obliged towards such accounts receivable to the client; and
- the factor, who agrees to liquidate the accounts receivable towards the client.

Chart No.5.10.1

Factoring Mechanism



[51] *As per Factoring Regulation Act, 2011, Factoring Business is defined as "the business of acquisition of receivables of assignor by accepting assignment of such receivables or financing, whether by way of making loans or advances or in any other manner against the security interest over any receivables"*

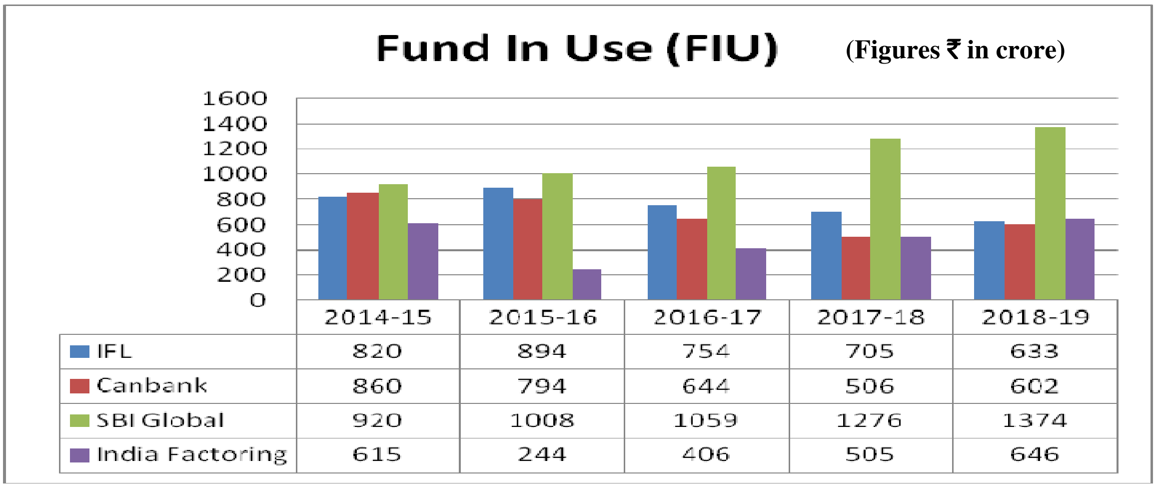
5.10.2 Financial Performance of the Company vis-à-vis other factoring companies in India

Fund in Use

Fund in Use (FIU) is the amount of facility utilised by the client, out of the total sanctioned limit. It includes both principal and interest. In the IT system[52] of the Company, the interest is charged at the end of the month (like banks).

Audit selected two Government owned/ controlled entities viz. SBI Global Factors Ltd and CanBank Factors Limited and one private entity viz India Factoring and Finance Solution Private Limited for comparison of performance of IFL and comparative position of FIU in these companies is shown in Chart given below:

Chart No.5.10.2



	2014-15	2015-16	2016-17	2017-18	2018-19
IFL	820	894	754	705	633
Canbank	860	794	644	506	602
SBI Global	920	1008	1059	1276	1374
India Factoring	615	244	406	505	646

Source of data: Annual reports of respective companies

FIU of the Company decreased over the last three years ending 2018-19. FIU of CanBank has also decreased during the period from 2014-15 to 2017-18 but increased in 2018-19, whereas FIU of SBI Global has increased during last five years ending 2018-19. FIU of India Factoring (private company) decreased in 2015-16 but has increased during the last three years ending 2018-19.

It was observed that the asset quality of the Company has deteriorated over last five years as the gross NPA ratio has increased continuously for four years with slight decrease in 2018-19. Similarly, in case of CanBank the gross NPA ratio has increased continuously for four years with decrease in 2018-19. However, the gross NPA ratio of SBI Global has continuously declined during the last five years ending 2018-19. In India Factoring the gross NPA ratio has declined during the period from 2014-15 to 2016-17 but has increased in 2017-18 and 2018-19 as shown in the Chart given below:

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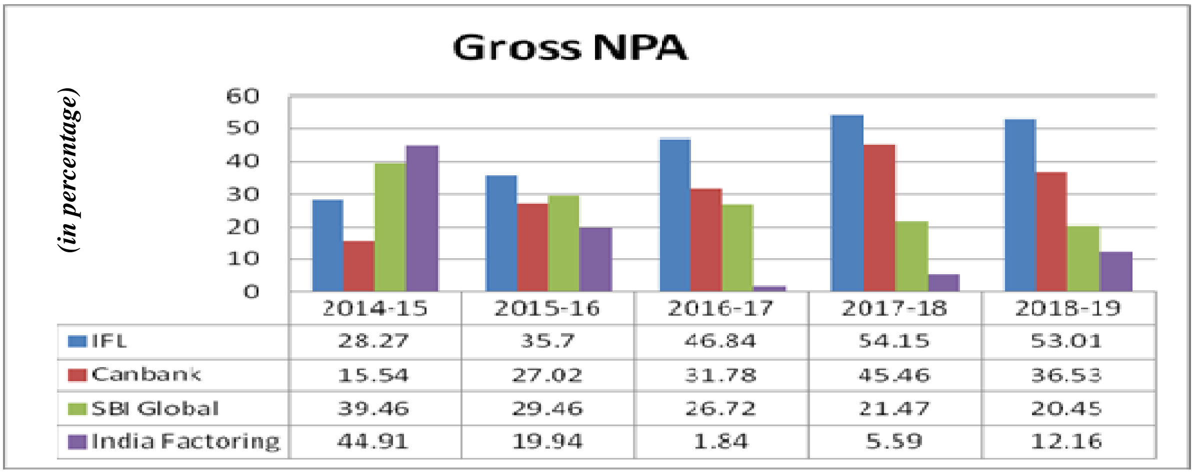
[52] *Named IFL Trade Free System*

Chart No.5.10.3



5.10.3 Audit scope, objectives and criteria

Audit inspected records at the Head Office/ Corporate Office of the Company (Delhi) and two regional Marketing offices (Chennai and Kolkata) for the period of five years i.e. 2014-15 to 2018-19 wherein cases of sanctions and disbursements of Factoring and Loans services, the Non Performing Asset (NPA) and written off cases were scrutinised with the following audit objectives to:

- examine compliance with the annual credit policy and business plan of the Company,
- review the credit appraisal mechanism and examine whether due diligence has been exercised in sanction and disbursement of loans, and
- examine the efficiency of credit monitoring mechanism.

The audit criteria included Business Plan of the Company, Credit Policy of the Company, Field Audit Survey Reports, internal Risk Rating Model of the Company, agreements entered into with the client and RBI prudential norms for provisioning in respect of NBFCs.

5.10.4 Sampling Method

Audit reviewed the cases of sanctions and disbursements of factoring and loan services approved during 2014-15 to 2018-19, written off cases during 2014-15 to 2018-19 and the NPA cases (as on 31 March 2019). The sample selection has been done on the basis of stratified random sampling as under:

Table 5.10.1

Particulars	Total Population	Sample Selected
Sanction & Disbursements	49	26(53 *per cent*)
NPA Cases	44	23(52 *per cent*)
Write Off Cases	21	11 (52 *per cent*)
Total	**114**	**60[53]**

[53] *Out of total 60 cases, nine NPA/ write off cases were declared NPA prior to April 2014 and are not included in the Report*

5.10.5 Compliance with the annual Credit Policy and business plan of the Company

5.10.5.1 Business plan

The Company prepares an annual business plan specifying the targets for sanctions, disbursement, recovery etc. for the ensuing year, which is then approved by the Board of Directors. The plan also describes the actual performance of the Company against the targets set for the previous year and discusses the variances and reasons thereof.

5.10.5.2 Targets and Achievements

The targets and achievements of the Company during the last five years with regard to FIU and recovery are given as under:

Table 5.10.2

(₹ in crore)

Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
Target and Achievement for FIU					
Target	850	1150	1000	1100	865
Achievement	820	893.76	754.93	705.41	632.95
Shortfall	(-) 30	(-) 256.24	(-) 245.07	(-) 394.59	(-) 232.05
Variation in *per cent*	-3.53	-22.28	-24.50	-35.87	-26.83
Recovery target and achievement thereof					
Target	25	62	30	32	50
Achievement	11.01	58.57	27	41.25	39.11
Shortfall	-13.99	-3.43	-3	9.25	-10.89
Variation in *per cent*	-55.96	-5.53	-10	28.90	-21.78

As can be seen from the above, the Company could not achieve the targets fixed for FIU during the period 2014-15 to 2018-19. In 2014-15, the shortfall was 3.53 *per cent*, which further increased from 22.28 *per cent* to 35.87 *per cent* during 2015-16 to 2017-18 and decreased to 26.83 *per cent* in 2018-19. Similarly, the Company also could not achieve the recovery targets during 2014-15, 2015-16, 2016-17 and 2018-19. The target fixed for the year 2017-18 was achieved by the company, however, it was seen that targets of recovery were lower in 2016-17, 2017-18 and 2018-19 as compared to 2015-16 despite NPA being higher[54].

5.10.6 Audit findings

5.10.6.1 Compliance with the annual Credit Policy of the Company

Board of Directors of the Company approves the credit policy for each year based on which the facility is sanctioned to the borrowers. Before sanctioning of facility, proposal is reviewed by the credit team and the same is put up to the competent authority for approval. All the

[54] ***NPAs during 2014-15 to 2018-19 were ₹219.25 crore, ₹319.08 crore, ₹353.59 crore, ₹381.96 crore and ₹335.51 crore respectively***

cases upto ₹5 crore would be considered for approval by the Credit Committee[55] (CC) and exceeding ₹5 crore would be put forth to Committee of Directors[56] (CoD), duly recommended by the CC. CC is also empowered to approve modifications in proposals sanctioned by CoD except for modifications relating to pricing and security (Credit Policy 2018-19).

Audit reviewed 26 out of 49 cases of sanctioning and disbursement approved during 2014-15 to 2018-19. Out of 26 approved cases, 20 proposals ***(Annexure XVIII)*** i.e 77 *per cent* of proposals were approved with one to seven deviations and in 10 cases monitoring as per credit policy was not adhered to. Although the competent authority (Managing Director/ CC/ CoD/ BoD) is empowered to approve the deviation but it should be approved in exceptional circumstances. Further, the credit policy is silent regarding number of deviations and degree of deviation, which can be approved by the competent authority. Four[57] cases out of 26 cases selected for review turned into NPA.

5.10.6.2 Sanction of corporate loan to an ineligible client

As per the credit policy credit risk rating should be done before the proposal is placed before CC/ COD. The Company assigns the final risk score on the basis of a model provided (December 2014) by ICRA Management Consulting Services Limited (IMaCS) for the various factoring loans such as domestic sales bill factoring (DSBF)[58], export bill factoring (EBF), reverse factoring[59] (RF) and Advance against Future Receivables (AFR)[60]. The same model was used for credit rating for providing corporate loans also. IFL uses the AFR option to arrive at the final rating in case of sanction of corporate loans. The minimum final risk grade for a credit proposal to be eligible for sanction is stipulated as IFL5 which signifies moderate safety. In case of internal risk rating for AFR facility, the client rating is calculated and then the notch up/ upgrade based on comfort for security is given to arrive at final account rating. At the time of introduction (December 2014) of this rating model provision of security was not a necessary eligibility criteria for sanction of AFR facility. However from the year 2015-16 onwards, provision of security was made a necessary eligibility criteria for

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[55] ***The Credit Committee (CC) consists of Managing Director (MD), Heads of Marketing/ Operations/ Risk/ Credit departments and one nominee of IFCI Limited. The MD is the head of CC***

[56] ***The Committee of Directors (CoD) consists of four members of the Board of Directors of IFL including MD. The Chairman of the Committee would be any Board member present in the meeting other than MD***

[57] ***VNR Infrastrucuture Limited, Trend Flooring Private Limited, GHV India Private Limited and Navrang Roadlines Private Limited***

[58] ***This is a credit facility whereby the client invoices the goods to a domestic buyer located within India, assigns the invoice to Company and receives prepayment up to 80-90 per cent (or as approved by appropriate authority) of the invoice value immediately. The DSBF is offered either as disclosed or as silent/ non disclosed facility***

[59] ***This is a credit facility provided to the client wherein the purchases of raw materials etc. made by the client are financed by IFL thereby facilitating payment directly to the suppliers for purchases made locally. This facility is intended only for top rated clients and backed by tangible collaterals and generally not extended on a standalone basis i.e. generally accompanied with sale bill factoring facility***

[60] ***Credit facility/ Advance extended to a client repayable in monthly/ quarterly installments through cash flows emanating from identifiable future receivables of the client backed by Notice of Assignment or Debtor's confirmation to pay to the designated escrow account or under silent factoring***

sanction of AFR facility. In case of sanction of corporate loan, provision of security has always been a necessary eligibility criteria since its introduction (July 2010) as a credit product. In essence, Company necessarily obtained collateral security for sanction of corporate loans.

Audit observed that while sanctioning the loan in eight cases ***(Annexure XIX)*** the Company unduly upgraded/ notched up the rating of the clients by two points (from IFL7 signifying 'inadequate safety' to IFL 5 signifying 'moderate safety' in seven cases and from IFL 8 signifying 'risk prone' to IFL 6 signifying 'inadequate safety' in one case). This notching up/ upgradation was done on the basis of comfort of security (collateral security mortgaged) despite collateral security for an amount of at least twice the amount of loan, based on distress sale value of the property being basic and essential eligibility criteria for sanction of Corporate Loans. Even the credit policy of the Company did not provide for sanction of Corporate Loan without obtaining adequate security cover. Thus notch up/ upgrade based on comfort of collateral security in the process of sanction of corporate loan was improper as it was neither in line with the provisions of credit policy nor the risk rating model.

Management replied (December 2019) that the Risk Model will be revisited and updated with the help of IMaCS to validate the products of corporate loan and advance against Future Receivables along with the factoring. Further, the rating model primarily caters to factoring facilities, where security is not mandatory. Notching up of rating in case of security is a provision in the risk model, be it Domestic Factoring, AFR or Corporate Loan.

Management further stated (January 2020) that risk rating model was developed for capturing various structures with primary focus on DSBF. In case of AFR and corporate loan, provision of notching up was understood and agreed upon during the development of the model. It may be noted that notching up happens based on strength of security (in case of AFR and CL/ TL) as such provision has been allowed in the system. Sanction with deviations is a part of commercial decision making. A client fulfilling all the eligibility criteria is an ideal situation. But, considering the cost of fund of IFL, it has to make a trade-off between an ideal client and a doable client with appropriate risk mitigation measures. In this process, some of the decisions go wrong, sometimes because of wrong judgment and sometimes because of the external environment for a particular industry/ economy.

Management accepted to revisit and update with the help of IMaCS to validate on the products of Corporate Loan. Reply of Management regarding upgrading of rating needs to be viewed in light of the fact that as per the credit policy from 2015-16 onwards submission of security was a basic and necessary eligibility criteria for sanction of AFR and therefore upgrading the rating considering the security offered was not in line with credit policy. Further, sanctioning of loan deviating the eligibility criteria may be the conscious business decision without compromising the financial interest of the Company but determining the credit rating should be as per the credit policy of the Company and therefore upgrading the rating considering security offered was not justified.

A review of the 26 sample cases revealed that the criteria for sanctioning of credit facility were deviated/ relaxed and not timely monitored. Few illustrative cases of major relaxations/ deviations from eligibility criteria, poor monitoring and operation are discussed below:

(i) M/s VNR Infrastructures Limited (VNRIL)

The Company sanctioned (December 2014) a corporate loan of ₹18 crore to M/s VNR Infrastructures Limited (VNRIL- the client) which was secured by equitable mortgage of two parcels of land in Telangana and performance guarantee (PG) of two promoters/ director. The loan was repayable in eight equal quarterly instalments (30 April 2016 to 31 January 2018). The client paid the interest only for the period from January 2015 to August 2015 and defaulted in repayment of all the principal instalments. The account was classified as NPA in March 2016. The total outstanding as on 31 March 2019 was ₹33.85 crore (principal outstanding of ₹18 crore and interest of ₹15.85 crore). Complaint has been filed by Company u/s 138 to 141 of Negotiable Instruments Act (February 2016). Proceedings for liquidation of client was going on in NCLT, Hyderabad and claim of the Company was admitted before liquidator provisionally (November 2017). IFCI, the parent Company, has lodged a complaint against client before CBI, Banglore including claim of the Company.

Audit observed that the credit rating of the client was CARE A3[61] which was lower than the stipulated credit rating of CRISIL P2[62]. As per the credit policy, the minimum final risk grade for a proposal to be eligible for sanction is stipulated as IFL5 (moderate safety). In the instant case the client rating was LC07 (it is same as IFL 7 and indicates inadequate safety) which was unduly upgraded by two rating grades to IFL5 (moderate safety) based on comfort of collateral security mortgaged despite the fact that requirement of mortgage of property providing security cover of two times was one of the basic and necessary eligibility criteria for a proposal to be eligible for corporate loan.

As per the initial valuation report (January 2015) the Fair Market Value (FMV) of the two collateral properties was ₹52.92 crore (₹33.77 crore and ₹19.15 crore respectively) which was arrived at by considering the per sq yard value of ₹2,750 and ₹2,500 respectively. The Distressed Sale Value (DSV) was considered as ₹38.23 crore. This valuation was accepted by the Company despite the fact that the Government value of land of these properties was ₹300 per sq yard only. Accordingly, the total value of mortgaged property considering the Government rate was ₹5.97 crore as against the accepted DSV of ₹38.23 crore.

In view of default, the Company initiated (August 2016) action under the Securitisation and Reconstruction of Financial Assests and Enforcement of Security Interest (SARFAESI) Act, 2002. A fresh valuation (March 2017) was carried out by the company and FMV was assessed as ₹21.08 crore and the DSV was assessed as ₹18.02 crore. Thus, the fresh valuation was 60.16 *per cent* and 52.86 *per cent* lower than the valuation at the time of sanction respectively. In order to recover the outstanding dues both the properties were put

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***61** Instruments with this rating are considered to have moderate degree of safety regarding timely payment of financial obligations*

***62** Instruments with this rating are considered to have strong degree of safety regarding timely payment of financial obligations. Such instruments carry low credit risk* up for sale twice in October 2017 and March 2019. However, the auction for the mortgaged property was not successful despite reduction in the reserve price and thus Company could not manage to recover its outstanding dues amounting to ₹33.85 crore.

Management replied (December 2019) that the long-term debt rating of the client at the time of sanction was 'BBB+', which is investment grade. The rating notch up is given for tangible security in case of AFR and in a similar way notch up for tangible security is given for Corporate Loans.

Management further stated (January 2020) that the stipulated rating as per the prevailing credit policy was CRISIL equivalent minimum BBB and P3 (short term). Accordingly, there was no deviation as long term/ short term rating of the client was 'BBB^{+}/ A3^{+}'. The rating model of IFL is conservative as prudence demands that, and therefore it is a normal phenomenon of rating upgrade with the consideration of collateral in many other similar sanctions. IFL fully depends on valuers' report as it has no expertise to carry out valuation and the entire valuation exercise was carried out by APITCO (IFCI empaneled valuer). IFL had taken up the matter of value climb-down with M/s APITCO in a very stringent manner and IFCI Limited has blacklisted and de-empaneled it. IFL is still upbeat of getting a favorable response in the near future with some uptake in market sentiment in the real estate sector for recovery through SARFAESI. Also, there is a government initiated project, wherein land parcel is being acquired covering one of our mortgaged land also, which is underway.

The reply of Management is not acceptable as the minimum short-term credit rating of P2 was stipulated in the credit policy (2014-15) and not P3 as claimed by Company. The notch up on the basis of tangible security for sanction of corporate loan was improper because the credit policy clearly mentioned that tangible security is a pre-requisite for a proposal to be eligible for sanction of corporate loan. The Company should have deliberated on the huge difference between Government rate of land and that considered by the valuer and given proper justification for accepting the higher rate suggested by the valuer at the time of credit appraisal.

(ii) M/s Trend Flooring Private Limited

The Company sanctioned (December 2017) Domestic Sales Bill Factoring (DSBF) facility of ₹1 crore to a trader viz M/s Trend Flooring Private Limited, (client) on the security of receivables, Notice of Assignment (NOA) accepted by its debtor viz. Vasisht Agencies Pvt Limited (debtor) and PG of two directors. The Company appraised (Dec. 2017) and assessed the various criteria (minimum net worth, net sales, profit making for last two years, credit rating etc.) stipulated in the credit policy for the debtor based on financial statements of the debtor for the year 2014-15. The debtor did not fulfil the eligibility criteria as its networth was ₹1.82 crore and net revenue was ₹6 crore against the required net worth of ₹2 crore and revenue of ₹25 crore as per the credit policy of the Company. Further, the debtor was also a trader and unrated against the requirement of CRISIL equivalent investment credit rating of minimum BBB and short-term rating of minimum A2. The prepayment limit of the client was capped at ₹0.50 crore. The client made partial payment till December 2018 with delay.

IFL reassigned[63] (December 2018) the overdue invoices by accepting the general reasons (GST related issue and other industry related reasons) given by client for non-payment against overdue invoices. Despite reassignment the outstanding amount was not received and the account was finally classified as NPA on 30 June 2019. As on 31 March 2019, the outstanding dues were ₹48.08 lakh (Principal ₹45.55 lakh and interest ₹2.53 lakh).

Audit observed that instead of insisting for the latest financial statements for last two years i.e. 2015-16 and 2016-17, the credit appraisal was made on the basis of Financials of 2014-15. Further, tangible security required to be taken in case of an unrated debtor as per the credit policy was not obtained. The facility was sanctioned/ disbursed despite several adverse remarks[64] in the Field Survey Report (FSR) (1 November 2017) of the client. In the FSR, the debtor was assigned rating score of 4 and it was categorically stated to reject debtors where the score is above 3. The Company ignored the concerns raised by its risk department pertaining to client's significant dependency on sales to the debtor (being 57.7 *per cent* of total sales) indicating high concentration risk and client's low Debt Service Coverage Ratio (DSCR) of 0.75. Also, Company did not obtain debtor's latest audited financials (FY 2015-16 and 2016-17) and status of filing of same with Registrar of Companies (ROC) before disbursement as strictly advised by its risk department. Reassignment of invoices was intended towards ever greening of the sales ledger/ financial statements to avoid the classification of account as NPA.

Management replied (December 2019) that the financials for 2014-15 were available on the Ministry of Corporate Affairs (MCA) website, so the available financials were considered for analysis. All the deviations including the debtor being an unrated one were approved by the CC. The invoices were reassigned as balance payment was expected in coming days and the facility was allowed against new set of invoices due to health issues of the promoter. Management further stated (7 January 2020) that the deviations are allowed and mentioned in the Credit Policy itself. The facility was sanctioned looking at the long business association between the client and the debtor and the strength of the transaction being backed by debtor's Post-dated Cheques (PDCs). The assigned score of 4 to debtor Vashisht Agencies Private Limited as mentioned in the FSR is a reflection of the deviation from the standard practices but does not mean negative about the client debtor relationship. The lesser score of 4 as against acceptable score of 3 was due to the reason of the specific trade between client and debtor. Things went in the wrong direction only when health of the promoter deteriorated, which ended with his disability post brain haemorrhage.

Management reply needs to be viewed against the fact that the credit policy states that *"to assess the bankability of the proposal, the credit proposal should conform to credit policy guidelines. The proposal which does not fulfil the criteria would be summarily rejected*

***63** When payment against factored invoices is not received from the client/ debtor, the client offers new/ fresh set of invoices against the old invoices already factored. This does not lead to fresh factoring but alters the due date of payment of old invoices and is known as Reassignment of invoices*

***64** No fixed credit terms between client and debtor, the aging of debtors as provided by the client did not match with the ledger balance of the buyer and there was huge deviation as per aging and ledger balance.No purchase order, invoice copy, detailed trial balance, top suppliers ledger and related details were provided to the surveyor* *giving specific reasons"*. In the meeting of the Board of Directors of IFL (30 April 2015), it was categorically stated that Company has learned from its past experience that major problems have been experienced in case of factoring facilities sanctioned to purely trading Companies. Despite this learning, the facility was sanctioned though the client and debtor were both trading Companies. The financials of the debtor for the last two years should have been insisted for at the time of credit appraisal to ascertain current financial health of the debtor, who was to make payments to the Company. Obtaining PDCs from the debtor was not a valid and safe recourse in view of the policy, which stipulated taking tangible security where debtors are unrated. The Field Survey was done by an empaneled external agency who categorically stated to reject the debtor, which was finally approved. The reassignment was improper as it was done after a gap of almost five months from the due date of payment without assigning any specific reasons for the same.

5.10.6.3 Examination of efficiency of credit monitoring mechanism

Credit policy of the company approved by the Board envisages a broad procedure for monitoring of credit portfolio which includes aggressive use of field audits, random verification of invoice and debtors account balance through periodic interaction with debtors, unscheduled/ scheduled visit to clients as well as to the debtors (at least once in a year) and visit to the client to be made at least once in every half year in case of sanction limits of ₹10 crore and above, periodical verification of Notice of Assignment/ Escrow acceptance letter (at least once in a half year) etc.

Audit reviewed 25 cases (17 NPA and 8 write off cases) and observed non- compliance of credit policy in 21 cases **(*Annexure-XX*)** with respect to sanctioning and monitoring of the facility which led to account turning into NPA/ write off. Some issues observed by Audit are discussed in detail below:

(i) Debit note funding

The IT system put in place by the Company for disbursement of funds against the invoices received from the client allows disbursement of funds till the invoices do not go into recourse[65] (30 days after due date of payment) and/ or the client has not availed the full prepayment limit sanctioned. When the invoices already factored become recoursed or the client utilises full prepayment limit, no further factoring/ disbursement against invoices can be done through the IT system without special approval of MD.

Audit observed that the Company continued to fund the clients despite invoices being in recourse, by way of debit note funding with the approval of the Competent Authority (MD). In this practice of debit note funding, the client first makes partial payment to the Company against overdue invoices and also submits fresh invoices for further funding. This payment received from client is returned to the client in a short period (0 days to 6 days) after deduction of a certain percentage from the amount received from the client. This practice

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[65] ***In a DSBF facility if payment of an invoice is not received within prescribed period (due date plus 30 days) from debtors the further recovery action shifts on client instead of debtor and invoice is said to have gone into recourse***

leads to knocking off/ settling of the old overdue/ recoursed invoices and allows funding against the new invoices received. Thus, this practice leads to rotation of money between client and the Company and in essence delays the classification of an account as NPA thereby ever greening the accounts. The Company generally takes legal action after the account is declared as NPA. Since NPA recognition is delayed it leads to delay in initiation of legal action. During audit it was noticed that IFL resorted to funding through operation of debit note in 13 cases (***Annexure XXI***).

(ii) Non-compliance with RBI Guidelines on NPA classification

As per the RBI guidelines for an NBFC-Factor, a receivable acquired under factoring which is not paid within six months of due date as applicable, shall be treated as NPA. Further RBI circular stipulates that *"In respect of accounts where there are potential threats to recovery on account of erosion in the value of security and existence of other factors, such as frauds committed by borrowers, such accounts should be straight away classified as doubtful asset or loss asset, as appropriate, irrespective of the period for which it has remained as NPA"*.

Audit observed that the Company did not classify the account as NPA in 16 cases (***Annexure XXII***) where the overdue were more than six months. Further, Account of M/s Navrang Roadlines Private Limited was not declared NPA even after it was established (July 2019) that a fraud had been committed by the client.

Management replied that it follows the practice of recognising an account as NPA at the end of accounting period (quarterly). However, as per advice of RBI, Company is now classifying an account as NPA on the date when it crosses 180 days, but if the same is regularised before the closure of books, the account would be treated as standard asset.

The reply of management is not acceptable as the RBI Master Directions (September 2016 as updated from time to time) for an NBFC-Factor, clearly states that a receivable acquired under factoring which is not paid within six months of due date as applicable, shall be treated as NPA; and once an account is declared as NPA, it can be treated standard only after a period of one year from the commencement of the first payment of interest or principal, whichever is later.

5.10.6.4 Fraud cases resulting in loss/ doubtful recovery

Out of 51 sample cases (after excluding nine cases where facility was declared NPA before March 2014), in four cases company reported a fraud committed by the client/ debtors whereby company had to incur a loss (doubtful recovery) of ₹50.33[66] crore. The major lapses on part of the company which resulted in fraud are: -

- Sanctioning the credit facility to the client who did not meet the eligibility criteria as laid down in the credit policy for the client and the debtors.
- Lack of due diligence at the time of sanctioning and addition of new debtor.

[66] ***(i) M/s Navrang Roadlines Private Limited- ₹9.11 (ii) M/s Leeway Logistics ltd – ₹21.61 crore (iii) M/s Kalyani Engineering Works–₹6.73 crore and (iv) M/s Accurate Transformers Limited-₹12.88 crore***

- Non-monitoring of the account as per the procedure laid down in the credit policy.
- Delay in declaration of the account as NPA by reassignment of invoices and debit note funding.
- Non-compliance with the terms of sanction as per sanction letter, disbursement condition and waiver of crucial pre-disbursement condition.

Three cases where major shortcomings were noticed on the part of management allowing the clients to commit fraud are discussed below and one such case is included in ***Annexure XXIII.***

(i) M/s Leeway Logistics Limited

The Company sanctioned (January 2011) DSBF facility to Leeway Logistics Limited (LLL-the client) of ₹5 crore, which was enhanced (May 2013) upto ₹18 crore in relaxation to the eligibility criteria. The Total Outstanding Liabilities/ Total Net Worth (TOL/ TNW) ratio was 9.33:1 instead of maximum TOL/ TNW ratio of 6:1, and existence of the client was only one year instead of required minimum three years and profit making for last two years. As per sanction letters, notice of assignment of debt (NOA), duly accepted by approved debtors was submitted by LLL wherein it was agreed that debtors were required to make all payments against the invoice raised by LLL in favor of the Company. The conduct of account initially remained satisfactory. However, when the factored invoice remained unpaid beyond the stipulated credit period and the account became NPA in September 2016, the client and the debtors were approached several times for payment of the outstanding amount, but no payment was received. Company took legal action against client and debtors by filing a case with Delhi Police under Negotiable Instruments Act and invoking arbitration clause.

When the Company approached the debtors for payment of outstanding dues, all the debtors alleged that the outstanding invoices were fake, forged and fabricated. One of the debtors *i.e.* M/s Berger Paints India Limited replied that all the outstanding invoices demanded have never been raised on them, the stamps and signature used in invoices had never been used by them, billing address shown in bill was the office which had been closed in 2012. Further, the LLL has changed its corporate office address on 30 December 2013 but the address mentioned in the invoices was of old address of the company till 2016.

Scrutiny of realisation statement further revealed that payments were received from the debtors either within the credit period or with delay from January 2011 to May 2013 but after May 2013 most of the payments were received from client which is against the practice followed in factoring facility (DSBF) and which shows that either the debtor was making payment to client directly in violation of NOA or forged invoices were factored by the Company. It is evident that random verification of invoices, personal visit to debtors/ client and monitoring as per credit policy was not done which led to fraud of ₹21.61 crore (principal ₹12.85 crore and interest ₹8.76 crore).

Management replied (7 January 2020) that deviations were approved looking at the business model, management capability, strength of the transactions between LLL and the debtors which were A rated companies and MNC's, having long standing in the market. As deviations were allowed in the Credit Policy by respective sanctioning authority, this was not a violation of Credit Policy. Periodic visit to the debtors were not stipulated in the policy. In case of subject client, since payments were coming from the debtors in the escrow account as seen from escrow statement, periodic physical verification of debtors was not done. The client visit could not be undertaken due to the overdue position and focus to reduce the overall exposure in the account. The escrow statement shows regular payments from the debtors in FY 2016 as well.

Management reply is to be seen in light of the fact that deviations from the Credit Policy should have been resorted to in exceptional cases, but it was done as a routine as most of the cases selected were sanctioned in deviation of credit policy. Further, periodic visits of debtors/ clients were required to be made as per credit policy. Non-visit to the client/ debtors indicates lackadaisical approach by company in monitoring of factoring account. As per realisation statement made available to audit, most[67] of the payments were made by the client and not the debtor in the year 2016.

(ii) M/s Navrang Roadlines Private Limited

Company sanctioned (January 2013) DSBF facility of ₹1.5 crore to Navrang Roadlines Private Limited (NRPL- client) which was enhanced (November 2017) to ₹9 crore. As per sanction letter, an escrow agreement was entered into amongst the client, the Company and HDFC Bank Limited, whereby it was agreed that all the receivables accruing from the sales to approved debtors or any other debtors by the client shall be deposited in the Escrow Account only and the company was the sole beneficiary of the said escrow account. In pursuance thereof, escrow letters duly accepted by all approved debtors were submitted by the client to the company. The client was making payment till December 2018 against the factored invoices, but after that no further payment was received against the invoices of ₹9.11 crore factored during January-March 2019. When the company enquired/ contacted the debtors regarding payment of pending invoices, the debtors informed that the pending invoices were fake and forged and never raised on them. The company filed (July 2019) a police complaint regarding cheating and forgery against the client and its directors. Proceedings in NCLT have also been started against the client wherein IFL has also filed its claim (March 2020).

Audit observed that at the time of enhancement of credit limit to ₹9 crore the external rating of the client was not available and the internal rating of the client was IFL 7 which was not acceptable as per credit policy, however, internal rating of IFL 4 was assigned on the basis of credit rating of client and approved debtors. Moreover, the rating of debtors was considered without proper verification of their actual business with the client e.g. in case of Fine Tech Corporation Limited, credit rating of Reliance Industries Limited was considered.

[67] ***Out of a total of 252 invoices for which payment was received during 2016, payment for only 9 invoices was made by the debtors***

It was also observed that the monitoring as per credit policy was not adhered to as two debtors[68] denied that they ever signed the NOA/ Escrow Account. Further, no periodical visit was made to debtors and no field audit conducted during the period of 2014 to 2019. As per the records of M/s Carrier Air Conditioning and Refrigeration limited only ₹7 lakh was due to the client against ₹2.94 crore outstanding as per the company.

Further, the company did not (30 September 2019) declare this account as NPA in violation of RBI's guidelines although it had the replies of debtors dated 2 May 2019 and 17 June 2019 in which they had denied the acceptance of invoice and Escrow letter.

Management replied (December 2019) that verification of Escrow Acceptance letter was done through e-mail and mobile from the person who had signed the letter. There was some connivance between the borrower and the debtors, which was difficult to trace out especially when the borrower had a relationship with IFCI for more than six years with impeccable track record of making timely payment. Learning lessons from this fraud, IFL has made its debtor verification system more robust. The client was doing business since 2013 and never observed any misconduct in their account. Payments of factored invoices from debtors were being received well within time limit. FCL being a RIL group company, rating of the same was thought to be significant as there was strong parentage by way of RIL. In July 2019, it was conclusively established that the client had committed fraud. Accordingly, in terms of RBI guidelines, the entire outstanding principal is being provided for in four equal quarterly instalments, the first of which (₹2.25 crore) has been done in September 2019 quarter and the remaining will be done in December 2019, March 2020 and June 2020 quarters.

Management further stated (January 2020) that after detection of this fraud, IFL has made changes to the Credit Policy and made physical verification of Escrow Letter with the person who has signed the same at their office/ plant compulsory, by company's RM/ Credit Manager, before the first client disbursement. Verification of Escrow Acceptance Letters was always conducted through Email and Mobile phone, from the person who had signed the letter, as per the guidelines of the prevalent credit policy.

Management reply needs to be seen in light of the fact that even if the verification was done through e-mail, the genuineness of the e-mail ID should have been verified before accepting the escrow letter. Though, management has accepted to make changes in its credit policy, the same has not been done yet. Further, as per RBI circular in the case of fraud entire amount should be straight away classified as NPA.

(iii) M/s Kalyani Engineering Works

The Company sanctioned (August 2012) DSBF facility of ₹5 crore (enhanced to ₹7.50 crore in February 2013) to M/s Kalyani Engineering Works (KEW – the client) despite the fact that the client did not meet eligibility criteria pertaining to TOL/ TNW ratio in terms of credit policy (2012-13). The TOL/ TNW ratio was 4.59:1 as against the stipulated maximum of

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[68] ***(1) M/s TVS logistic Services Limited (o/s ₹3.46 crore) informed (2 May 2019) that the person who signed the Escrow letter is not an employee of company (2) M/s Carrier Air conditioning Refrigeration limited (o/s ₹2.94 crore) informed (17 June 2019) that no one from Carrier office had signed and stamped on Escrow account***

4:1. The facility was for factoring of invoices drawn on Bharat Heavy Electricals Limited (BHEL) at Haridwar and Bhopal.

As per the sanction letter dated 30 August 2012, each factoring transaction was to be supported by the following documents.

- Notice for transfer of Receivables (NTR)
- Copy of purchase order
- Certified true copy of invoice duly acknowledged by the debtor.
- A copy of lorry receipts/ delivery challan/ gate pass
- Inspection and dispatch certificate by BHEL appointed third party or BHEL
- Material receipt duly acknowledged by the debtor to be submitted within 25 days of the invoice date.

The transaction structure between the client and BHEL was such that once the final product is manufactured as per the buyer's specifications, buyer's engineers or a third party appointed by the buyer would visit for Pre-delivery Inspection (PDI) and clear the goods for delivery. Once inspection report is obtained, client delivers the goods to the prescribed location of the debtor along with relevant invoice by road mostly through buyer's approved transporter. Before the facility could take off, the Company waived the condition of *"Inspection and dispatch certificate by BHEL appointed third party or BHEL"* citing the reason that it was not possible for the client to provide inspection report with each set of invoices and revised it with material receipt duly acknowledged by the debtor to be submitted within 45 days of the invoice date (snapshot of the online BHEL portal duly evidencing as due for payment/ material receipt for the invoices provided for factoring was to be treated as material receipt).

The Company factored 32 invoices amounting to ₹6.73 crore (20 invoices amounting to ₹4.09 crore raised on BHEL, Bhopal from 22 October 2013 to 20 June 2014, and 12 invoices, amounting to ₹2.64 crore, raised on BHEL, Haridwar from 1 November 2013 to 9 January 2014) without complying with even the revised factoring conditions. Out of the 20 invoices submitted by the client, the material against six invoices were rejected and 12 invoices were not received by BHEL Bhopal. Though payment against two invoices was stated to have been made by BHEL but it was not received by the Company. Similarly, 12 invoices made on BHEL Haridwar were not received and accordingly, no payment was due against these invoices.

Audit observed that non-compliance with the revised terms of sanction letter resulted in avoidable fraud by the client which led to a loss of ₹6.73 crore as the account was declared NPA in September 2014. Complaint u/s 138 to 141 of Negotiable Instruments Act was filed by Company (October 2015). A case on alleged cheating and forgery was also filed (August 2017) by the Company before CBI, New Delhi for registration of FIR. Response was not received from CBI.

Management accepted (January 2020) the audit observation of non-compliance of eligibility criteria regarding TOL/ TNW ratio. Further, the disbursement against invoices was made upon approval of the competent authority. The fact of non-receipt of invoices, material rejection against invoices etc. from BHEL was subsequently brought out when IFL took up the matter with BHEL pertaining to non-receipt of payments.

The reply of Management needs to be seen against the fact that the Company factored and financed invoices of the client raised on BHEL, Bhopal and Haridwar without even receiving acknowledgment from the debtor or snapshot of the online portal duly evidencing as due for payment/ material receipt for the invoices provided for factoring as per revised factoring condition.

5.10.6.5 Deviations and relaxation in monitoring and operation (NPA/ write off cases)

A review of the sample cases of NPA/ write off revealed that the criteria were deviated from/ relaxed and monitoring/ operation as per the policy was not adhered to. Out of 25 cases (sample), audit observed deviations in 15 cases out of which nine cases of major relaxations/ deviations from eligibility criteria, monitoring and operation are discussed below and remaining six cases are included in the ***Annexure XXIV***. Recovery of ₹212.31 crore was doubtful in these 15 cases.

i) M/s Archon Engicon Private Limited

The Company sanctioned (April 2011) DSBF facility of ₹7.50 crore to M/s Archon Engicon Private Limited (AEPL – the client) which was increased (December 2013) upto ₹17.50 crore. Facility was secured by NOA duly accepted by the approved debtors and PDCs for the facility along with PG of promoters. The client account was in stress since May 2014. Due to non-receipt of payment from debtors, Company inquired (March 2015) about the balance payment of invoices of ₹13.01 crore from a debtor (M/s Diamond Power Infrastructure Limited), who stated that the entire lot was rejected and returned to client long time back and the same was intimated to the Company. Audit observed that initially payments were received from the debtor (M/s Diamond Power Infrastructure Limited) but during May 2014 to September 2015 most of the payments were received from the client. However, no efforts were made to know the reasons of non-receipt of payments from debtors directly.

Audit further observed that instead of taking action against the client or said debtor (M/s Diamond Power Infrastructure Limited), the Company modified (June 2015) the facility wherein the facility was reduced from ₹17.50 crore to ₹15 crore and also included AFR (as sublimit) of ₹12.50 crore. Security against the said facility was equitable mortgage of land (valuing ₹81.48 lakh) and PG of promoters.

Moreover, payment against AFR and DSBF from another approved debtor i.e. GETCO was not received since November 2015. Accordingly, the facility was declared as NPA in March 2016 and company filed a case under section 138 r/w 141 of Negotiable Instrument Act.

Audit observed that the credit policy of the Company stipulates that in the case of AFR facility the security coverage should be 1.5 times of the sanctioned facility and the same should be in the form of immovable property or pledge of listed shares. However, Company collected security of land of ₹81.48 lakh only. Had the company collected the stipulated security against the AFR facility of ₹12.50 crore, the outstanding amount could have been recovered by sale/ disposal of that security.

Audit further observed that payment against invoices of ₹31.72 crore of GETCO are overdue since November 2015 despite having POA (Power of Attorney) issued to GETCO by the client which stipulates that 80 *per cent* payment against the invoices shall be made to the Company and rest 20 *per cent* payment will be made to client if the request is not routed through the Company. Further, Company did not raise the issue with GETCO to recover the outstanding dues of ₹24.88 crore (principal ₹13.12 crore and interest ₹11.76 crore) as on 31 March 2019 despite a lapse of more than four years.

Management replied (January 2020) that periodical visits to the client and debtors were made for the purpose of client plant/ office visit, invoice ledger verification with debtors etc. Company was following up with both the client and the debtors. POA was the arrangement for the AFR facility from GETCO and Company officials followed up the matter with GETCO by visiting personally and through other communications.

Management reply needs to be viewed against the fact that records related to visits and invoice ledger verification with debtors were not made available to audit. The Company never enquired about the reason for non-receipt of the payment from debtors. POA cannot be treated as collateral security as the policy requires tangible security/ listed shares. No correspondence/ records were made available to audit which shows that efforts were made to realise the dues from GETCO.

ii) M/s Elder Pharmaceuticals Limited

The Company sanctioned (August 2010) factoring facility of ₹15 crore (₹15 crore DSBF facility and ₹5 crore PBF) to M/s Elder Pharmaceutical Limited (EPL-the client) subject to satisfactory field audit. The factoring facility was to be secured by security cheques, PG of Directors, NOA and transaction backed PDCs. Initially 10 debtors were approved (including four unrated debtors). In September 2010, conditions of the facility were modified wherein DSBF facility changed to silent basis and field audit was also waived off. The Company approved (February 2011) addition of new debtor M/s Kash Medicare Private Limited with credit line of ₹5 crore which was enhanced up to ₹15 crore during February 2012 to September 2012. The client became irregular in making payments from March 2013 onwards. The total overdue was ₹16.48 crore in April 2013. The client agreed to convert silent factoring into disclosed DSBF facility (April 2013). The Company facilitated the client through debit note funding during July 2013 to August 2016. The Company renewed the facility in August 2013 for further one year. The account was declared NPA on 30 September 2016. The total outstanding as on 31 March 2019 was ₹25.61 crore (principal ₹15 crore and interest ₹10.61 crore).

Audit observed that the Company approved PBF facility without obtaining collateral tangible security in contravention of credit policy. Further M/s Kash Medicare Private Limited who was an unrated debtor (distributor and trader of pharmaceuticals) was added as debtor in contravention of credit policy which stipulates that DSBF (silent basis) deals pertaining to well accredited clients where the debtors being Government entities/ large corporates do not acknowledge Notice of Assignment or Escrow arrangement and the collection of debts is done directly by the client.

Further, the Company renewed the account of the client without proper monitoring even though the client account was in stress since March 2013. In August 2013, it was decided to monitor the account closely and efforts to be made to reduce the exposure with better transaction structure. However, instead of reducing exposure in the stressed account, the Company continued to fund it through Debit Note Funding.

Management replied (January 2020) that Credit Policy prevalent then, permitted silent factoring and unrated debtors on the basis of the financial strength of the client; which was fairly good. It was purely a business decision to improve the topline of IFL with adequate risk mitigations. We have since made our policy more stringent and as of today, we do not accept debtors below 'BBB+' rating. The RMs and Credit Department used to regularly and closely monitor all client accounts and its debtors, as per policy, usually over phone and emails. The Company aimed to continuously reduce the overall FIU and exposure and recover as much money from the client between 2013 and 2016, as was practically possible.

Management reply needs to be seen in light of the fact that as per credit policy the field audit is required for DSBF and PBF and may be waived off in the case of BG backed DSBF only. Though Management made its policy more stringent the fact remains that the company did not comply its own credit policy regarding criteria relating to financial strength of M/s Kash Medicare Private Limited which led to non-recovery of ₹25.61 crore.

iii) M/s Era Infra Engineering Limited

The Company sanctioned (15 February 2010) DSBF facility of ₹7.5 crore on silent basis to M/s Era Infra Engineering Limited (EIEL-the client) which was enhanced (June 2011) to ₹15 crore. The account became irregular (May 2013) and outstanding overdues was in the range of 40-69 days. The company renewed (July 2013) the facility for another 12 months, despite the conduct of account not being satisfactory. Further, the company continued the facility despite the fact that the rating of the client was downgraded (October 2013) from CARE BB+/ A4 to CARE D (Instruments with this rating are in default or are expected to be in default soon).

The renewal of facility was till 30 June 2014 and funding was done through operation of Debit Note from December 2012 to January 2016 and the account was classified as NPA in March 2016. The company waived off the penal interest amounting to ₹1.36 crore (31 December 2014) and ₹0.29 crore (28 September 2015). The complaint u/s 138 to 141 of Negotiable Instruments Act was filed by the Company in February 2016.

The Company wrote to NTPC (approved debtor) (eight invoices of ₹13.15 crore) and Bhartiya Rail Bijlee Company Limited (approved debtor) (BRBCL) (five invoices of ₹12.63 crore) in March 2016 for confirmation of status of the payment(s) due against the invoices raised by EIEL. In response to these letters, NTPC Moudha and BRBCL replied that mentioned invoices are settled and no further payment is to be made. The client was under corporate insolvency resolution process w.e.f. 8 May 2018. The claim of the company amounting to ₹22.58 crore was admitted by the Interim Resolution Professional against the dues of ₹25.47 crore as on March 2019. The insolvency process was under way (December 2019).

Audit observed that field audit was not conducted in this case on the ground that EIEL was an existing client having satisfactory financials and whose conduct was satisfactory.

Management replied (January 2020) that the field survey was waived, since it had an existing relationship (purchase bill discounting) with IFL, having satisfactory track record. Levying of penal charges for a stressed account is primarily to discourage any default and for the purpose of adherence to the sanctioned term and conditions and the penal interest was waived off to keep the account standard while ensuring timely servicing of interest and repayment of principal. The renewals were done despite irregular conduct & stress, to keep the account regular with a hope to salvage the account. The funding through debit note was not to delay the reporting of account as NPA, rather to support the company/ client in its tough times.

The reply of Management needs to be viewed against the fact that existing relationship cannot be the ground for waiver of field survey, more so when the new facility (DSBF) was different from the existing facility. Further, as the account was already in stress and payment was not coming from the client, waiver of penal interest was not justified and even after waiver the account was not regularised. As per the conditions of sanction, in the event of default by the client on the payment of the outstanding dues or payment of interest on the due dates, the company shall have an unqualified right to disclose the name of the client and its directors as defaulters to the RBI/ CIBIL and take necessary action to recover the outstanding dues. However, the company did not comply with the conditions of sanction but renewed the facility despite irregular conduct & stress in the account.

iv) Concast Steel and Power Limited (CSPL) and Concast Exim Limited (CEL)

The Company sanctioned (August 2011) DSBF facilities of ₹15 crore to CSPL (a subsidiary of Concast Group). The factoring facility was to be secured by PDCs, PG of promoters and NoA duly accepted by debtors. The facility was renewed by the Company from time to time. The payments were received from debtor/ client regularly till October 2014 thereafter the payments were delayed by the debtors.

Similarly, DSBF facility of ₹10 crore sanctioned (January 2012) to CEL (a subsidiary of Concast Group). This client account became irregular/ stressed after December 2014.

Subsidiary companies of Concast Group were amalgamated with Concast Steel and Power Limited under the scheme of amalgamation in December 2015. After September 2017, no further payment was received against the factored invoices, therefore, the client account was declared NPA in December 2017. The total outstanding amount as on 31 March 2019 was ₹32.23 crore[69].

Audit observed that the Company continued the facility till September 2017 despite irregular/ part payment received, NPA declared (March 2016) by the parent company (IFCI Limited) and information received (September 2014) from other lenders about the default of the client. Review of accounts of the client also revealed that Company made two payments (₹67 lakh and ₹60 lakh) to the IFCI Venture Capital Limited directly on the request (June 2016) of client.

Further, the Company released capping of ₹4 crore (July 2015) on the request of CSPL and continued facility even though the client suffered loss during 2013-14 and 2014-15. Union Bank of India (UBI) also furnished (Nov 2015) the credit status of CSPL wherein overall assessment of the client was shown as below par. UBI also informed that the client has not served interest since July 2015 and the promoter of Borrower Company was charge sheeted by CBI.

On merger of subsidiary companies under Concast group, the Company's exposure ranged between 17.83 *per cent* to 57.62 *per cent* of its Net Owned Fund (NOF)[70] against the exposure norms of 15 *per cent* fixed by RBI/ Company. It was further revealed from records that the client was not able to serve principal and interest timely against the factored invoices, therefore, company facilitated the client funds through debit note from December 2015 to September 2017.

Management replied that (January 2020) post-merger of both the companies, the exposure on combined entity went more than the sanctioned/ prescribed exposure. Also by that time the company was in stress, it became difficult to immediately call off the facility as the company was facing difficulties in its operations. The company was not in a position to close the account immediately, so efforts were made to reduce the exposure. Payments to IFCI Limited and IFCI Venture Capital Funds Limited were done at the request of the client. IFL made all efforts for regularisation of the account, since during the period mentioned in observation client had paid more than ₹3 crore towards discount and factoring charges. Facility sanctioned by IFL is nowhere related to facility sanctioned by IFCI Limited. Both the companies are different and so are their facilities. The facility was subsequently partly secured to protect the interest of IFL. No undue favour was given to the client by funding through debit note. In many instances, IFL has been able to reduce the exposure in the stress clients and in fact closed some accounts through debit note transactions.

Management reply needs to be viewed against the fact that as the account was in stress the company should have made efforts to reduce the exposure to comply with the RBI guidelines and therefore, the request of the client to make payment to IFCI Venture Capital Funds Limited should not have been accepted. The value of security (land) obtained being ₹6.7 crore against the facility of ₹25 crore was not sufficient. Further, instead of taking

[69] ***(₹19.34 crore (CPSL) and ₹12.89 crore (CEL))***

[70] ***Net Worth plus Perpetual Debt minus Intangibles***

action to disclose the name of the company/ client and its directors as defaulters to the RBI/ CIBIL and stop further funding, the company continued funding.

v) M/s Arch Pharma Labs Limited

The Company sanctioned (May 2011) DSBF facility of ₹10 crore and PBF facility of ₹6 crore to Arch Pharma Labs Limited (APLL - the client). The factoring facility was to be secured by PDCs, PG of promoters and NOA duly accepted by proposed debtors. The account was in stress since May 2012. The client was not in a position to serve principal and interest timely against the factored invoices, but the Company continued the facility through debit note funding from December 2012 onwards. The client informed (July 2013) that it had applied for Corporate Debt Restructuring (CDR) and requested Company's support for the same. The Company (September 2013) accepted the CDR proposal. As per CDR proposal, total outstanding including interest was to be converted as Working Capital term Loan (WCTL) and Funded interest term Loan (FITL) against which a security in the form of first *pari passu* charge on current Assets (CA) and second *pari passu* charge on Fixed Assets (FA) was to be obtained. Meanwhile, the account was declared as NPA in September 2013. A master restructuring agreement was executed in December 2013. The client again defaulted in payments, therefore, Company declared the account as NPA in September 2015. The total outstanding was ₹19.05 crore as on 30 September 2016. Against which JMFARC[71] offered total consideration of ₹3.13 crore which includes cash contribution of ₹0.47 crore and ₹2.66 crore as Security Receipts. The proposal of sale of NPA to JMFARC was approved by the Board of Directors of the Company in December 2016.

Audit observed that facility of ₹6 crore was approved for PBF without obtaining any tangible security as required under credit policy of the Company. Credit policy of the company also envisaged a broad procedure of monitoring of client account. However, no such monitoring was done by the Company as it became evident from the fact that when the company enquired about the balance payment of invoices from the debtor (Dr. Datsons Labs Limited) (May 2014), it was intimated that the material sent through mentioned invoices were returned due to quality issue and thereafter fresh supplies never came to them. It was further observed that before sale of account to JMFARC, Company did not explore other legal options to recover the maximum outstanding dues.

Management replied (January 2020) that the facility of PBF was not on a standalone basis but was in addition to the ₹10 crore of DSBF. As the client was one of significant pharmaceutical companies of India, being assigned the highest credit quality, call was taken to waive security requirement. Problems started mainly after the renewal with liquidity issues affecting both the client as well as the approved debtor (Aanjaneya Lifecare Limited) resulting in stress and overdues. The liquidity crunch forced the company/ client Arch Pharma to approach its lenders for being considered for CDR. The duly debtor acknowledged LR from client was received with all other supporting documents based on which fund was released to client. Later, as the material was found not as per the quality standard, debtor ‘Datsons Labs Limited’ had sent the material back to client. The incident was neither

[71] ***J M Financial Asset Reconstruction Company***

informed by client nor the debtor. The matter came to light during overdue invoice payment follow up with the debtor. Immediately, the client was contacted for the same, when the client refused the blame of quality issue imposed by debtors. The company was already facing a plethora of other liquidation issues through its other lenders, which would have made recoveries a very bleak prospect, had IFL not gone the ARC mode.

Management reply needs to be viewed against the fact that Credit policy of the company (2011-12) stipulated that the PBF was intended only for top rated clients and should be backed by tangible collaterals. The invoices against which there were quality issues pertained to August 2012, whereas it was noticed by Management in May 2014, which indicates poor monitoring. Further, the fact remains that no alternative option was explored except sale of account to JMFARC.

vi) M/s Ind-Swift Limited

The Company sanctioned (July 2011) DSBF facility of ₹10 crore on silent basis to Ind- Swift Limited (ISL- the client) which was secured by PG of two promoter directors and PDCs of ₹10 crore. The factorable debtors included eight rated debtors and 10 unrated debtors having total credit line of ₹7.75 crore and ₹13 crore respectively. The client serviced its account as per the terms of sanction from July 2011 to June 2012 after which the account became irregular due to default by client. The account was classified as NPA on 30 June 2016. Against outstanding dues (31 March 2018) of ₹15.48 crore (principal- ₹10.50 crore and unrealised interest/ other charges- ₹4.98 crore) which was entirely on part of unrated debtors, Company entered (13 April 2018) into One Time Settlement (OTS) with the client for ₹6 crore.

Audit observed that company credit policy (2011-12) states that silent factoring means DSBF pertaining to well accredited clients where the debtors would generally be listed Companies, blue chip Companies, PSUs, Central/ State Government entities and MNCs which should be profit making in last two years and should be in existence for minimum three years.

However, the 10 unrated debtors approved by Company did not fall in any of the above listed parameters as they were mainly C&F agents/ distributors of the client who were partnership/ proprietorship concerns whose details/ financials were not readily available. Despite field audit/ examination being vital aid in pre sanction appraisals, it was not conducted on the ground that the client had satisfactory financials and a group Company of the client was an existing client whose conduct was satisfactory.

The prepayment limit was initially capped (8 June 2012) at ₹9 crore and subsequently reduced to ₹8 crore (29 June 2012). Due to liquidity issues faced by the client, the Company decided (July 2012) to reduce the exposure to the client gradually by deducting 20 *per cent* from each payment till the facility is fully repaid which was reduced (Nov 2012) to 10 *per cent*. However, capping on prepayment limit was lifted and limit was increased (3 July 2013) to ₹8.50 crore and subsequently (27 February 2015) to ₹10 crore after which an *ad hoc* limit of ₹1 crore was also sanctioned (26 May 2016) on the request of the client. The capping on limit was removed and *ad hoc* limit sanctioned despite the fact that the account had become highly irregular (since July 2012) and the conduct of account was not satisfactory due to which the Company decided to reduce the exposure. Further, the client had already undergone restructuring of its debts under the CDR mechanism (December 2012), had incurred net losses during 2011-12 to 2014-15/ 2015-16 and was referred (August 2015) to BIFR under provisions of Sick Industrial Companies (Special Provisions) Act 1985. As a result of removal of capping on sanction limit the FIU which was ₹8 crore in June 2012 eventually increased to ₹11.32 crore in June 2016 when the account turned NPA.

The client availed factoring of invoices raised on six debtors which included five unrated debtors and only one rated debtor though there were eight approved rated debtors. The invoice value of six debtors which were factored from July 2011 to November 2012 (before start of debit note funding in December 2012[72]) amounted to ₹53.04 crore of which invoices of rated debtor amounted to ₹1.65 crore only which was 3.11 *per cent* of the total invoice value factored till November 2012.

The Company charges penal discount charges at the rate of four *per cent* over the sanctioned discount charges in case of delay in payments. Accordingly, the Company levied (1 April 2013 to 1 March 2015) penal charges amounting to ₹45.81 lakh out of which an amount of ₹34.36 lakhs was waived (May 2015) which was against the terms of sanction.

Company increased the credit limit of one unrated debtor (Justin Pharmaceuticals) periodically from ₹1.5 crore (4 July 2011) to ₹4.5 crore (29 August 2011) and then from ₹6.5 crore to ₹10 crore (December 2012) in absence of laid down norms/ parameters for the same. The payments from this debtor were not realised later.

Company resorted to debit note funding for a period of more than 41 months (13 December 2012 to 27 May 2016) despite the invoices being overdue and lack of timely payment by the client after which it was finally classified as NPA.

While considering and approving the proposal for OTS, Company neither considered nor put on record the personal net worth of the promoter directors to assess the repayment capacity of the promoter directors as it was a security offered at the time of sanction of facility. Further, OTS was done without initiating legal action though the approval note stated that *"recovery suit against Company and guarantors has to be filed before Delhi High Court"*. The Company only filed (September 2016) a case under section 138 and 141 of the Negotiable Instrument Act, 1881 which was withdrawn (15 April 2019) after the completion of OTS.

The credit policy of the Company did not have any clause/ provision which sets out the criteria for fixation of prepayment limits of the client and the credit line extended to the debtors. Company neither adhered to the monitoring criteria and its timeline mentioned in the prevalent credit policy, nor took updated net worth statements of the promoter Directors at the time of annual renewal.

Management replied (7 January 2020) that at the time of sanction, Ind Swift Limited was a corporate of decent size and good business standing. Looking at the client's strong profile

[72] ***The payments released at the time of debit note funding are not assigned to a specific invoice number but are factored on any invoices present in the sales ledger***

and satisfactory payment track record, the facility was sanctioned. Satisfactory conduct of account of group company and its conduct of account with IFCI Limited was considered while sanctioning of facility with waiver of field survey. The limits were capped at ₹8 crore in the year 2012 due to delays in payments from the debtors as the company had met with a fire incident in its manufacturing facility during that time and the whole pharma industry was going through a bad phase. On the basis of past relationship, support from IFL was provided so that the company may come out of its tough phase during that time and the limits were uncapped to support the company towards its revival as it had inherent strengths in terms of brands and manufacturing facilities. The waiver provided to the client and funding was allowed as the client was showing its intention to maintain the account and its closure in future. During the time between year 2012 and 2016, it was a management decision to continue with the funding through debit note and IFL recovered around ₹6.25 crore (approx.) during that period by way of interest and factoring charges. It was a management call (with the ultimate objective of recovery of money) that went wrong in case of Ind Swift Limited and that is going right in case of Ind Swift Laboratories Limited. Before OTS was approved, the promoters' PG was invoked and cases were going on in the court of law. All the bankers had also explored the personal guarantee option and had finally assigned their debt to ARC at 20 – 35 *per cent* of the total debt. In fact, the OTS done by IFL was at a higher amount as compared to clients OTS/ Assignment done with other bankers.

Management reply needs to be viewed against the fact that credit policy clearly stipulated separate selection criteria for client and debtor. Sanction of facility solely on basis of client strength was in deviation from credit policy. The waiver of field audit on the basis of satisfactory conduct of group company and its conduct with IFCI Limited did not serve its stipulated purpose. The uncapping of limit and sanction of ad hoc limit was not in best interest of Company as client was going through stress, referred to BIFR and it was already decided to reduce the exposure. Funding by way of debit note for more than 41 months indicates the inability of the client to honor the outstanding payments. Recovery of interest and factoring charges to the extent of ₹6.25 crore in effect led to waiver of huge unrealised amount at the time of OTS due to practice of DNF. IFL itself never filed a suit against the promoters invoking their personal guarantee though personal guarantee had been provided.

vii) M/s Critical Mass Multilink Pvt Limited

The Company sanctioned (September 2015) Advance against Future Receivables (AFR) facility of ₹7.50 crore to Critical Mass Multilink Limited (CMML- the client) which was secured by equitable mortgage of one industrial and two residential properties situated in Kutch, Gujarat; pledge of 69.46 lakh shares of Gujarat NRE Coke Limited (listed Company); pledge of 5 crore equity shares of Gujarat NRE Mineral Resources Limited (unlisted Company). The factorable debtors in this facility were M/s Bajrang Bali Coke Industries Limited and M/s NRE Metcoke Limited. The client and both the debtors were part of the same group whose flagship Company was Gujarat NRE Coke Limited (GNCL). The tenure of facility was three years and repayment were to be done from 30 June 2017 to 30 September 2018. Due to short payment received against the first instalment of principal repayment, the account was classified as NPA in September 2017. As on 31 March 2019, the total outstanding amount was ₹4.84 crore (including principal and interest).

Audit observed that the Company considered provisional figures instead of audited figures for the year 2014-15 at the time of credit appraisal (September 2015). As against the stipulated minimum net worth of ₹25 crore, the Company considered net worth of the client as ₹356.95 crore without considering the adjusted tangible net worth (ATNW)[73] which was negative (₹31.95 crore). Even during the years 2011-12 to 2013-14, ATNW of the client was ₹0.29 crore, ₹0.31 crore and ₹0.17 crore respectively. As against the clients stipulated minimum turnover of ₹50 crore, the actual turnover was ₹0.48 crore (provisional figures of 2014-15). Further, during 2011-12 and 2012-13 turnover was ₹1.22 crore and ₹1.36 crore respectively and there was no revenue from operations during 2013-14. As against the requirement of client having past track record of minimum two years with the debtors or should have provided such service to other customers with regular track record of payments, the relationship between client and debtor was new relationship and there was no track record of payments received by client on providing such service to other customers. As against the stipulation that debtor should be profit making for last two years, both the debtors were loss making. As against the stipulated minimum internal rating of IFL5, the proposal was sanctioned even though the internal rating was IFL 6 which meant inadequate safety. This rating was arrived at after giving two notches up based on strength of collateral property even though the mortgage of property was a basic and necessary criterion for sanction of AFR facility.

This sanction was accorded (September 2015) on the basis of service agreements (2010) between the client and debtors (related parties) according to which client was nominated as technical consultant by both the debtors and in consideration thereof it was to receive ₹1 crore per quarter as royalty, payments for which were to start from 1 January 2015. This date was mutually extended by client and debtors to 1 April 2016. However, the Company did not ascertain the quantum of work that had already been executed and did not place on record the detailed works schedule or the nature of work which was further required to be performed by the client under the general service agreements signed five years back. No royalty payments were received thus indicating that the agreements were on paper only considering the fact that both the debtors were shareholders of the client and both client and debtor were part of the same group.

The Company did not take into account the fact that both the debtors were in the process of amalgamation (30 March 2015) with the flagship Company (GNCL) even before sanction (September 2015) of AFR facility which in turn meant that the client was to ultimately receive the cash flows under the service agreements from GNCL which had already undergone CDR in March 2014 due to deteriorating cash flow position and ultimately the credit facilities of GNCL had turned NPA. Company was aware of the NPA status of GNCL account and it still accepted pledge of equity shares of GNCL as one of the securities despite

[73] ***the networth of a Company reduced by the investments/ loans to subsidiary/ affiliate Companies***

the fact that the share price of GNCL had consistently and steeply fallen during the period 2009 to 2015 from high of ₹79.9 per share in 2009 to ₹3.04 in 2015.

As CMML could not fully repay (30 June 2017) the first principal instalment, the account of CMML was classified (30 September 2017) as NPA after which the facility was rescheduled/ restructured (November 2017) considering the projected cash flows of the client (September 2017 to September 2019) by way of advance from group Companies/ sale of investments. However, these cash flows did not emanate from identifiable future receivables on the basis of which an AFR facility is sanctioned. The agreements entered into by the client for these cash flows were not found on record. The reschedulement was in deviation from the credit policy (2017-18) as the maximum tenor of AFR facility was in any case not to exceed three years but the Company extended the same to four years.

One of the pre disbursement conditions in the present AFR facility was creation of security to the satisfaction of Company. However, disbursement of ₹7.50 crore was made without execution of mortgages of properties as the documents of properties/ securities which were to be mortgaged/ pledged with the Company for this AFR facility were in the custody of IFCI Limited. Thus even though the AFR was sanctioned to CMML to whom the amount should have been disbursed, the Company disbursed the sanctioned amount of ₹7.50 crore directly to the loan account of GNMRL with IFCI Limited. In this regard the Statutory Auditor in its report (FY 2016-17) stated that it is apparent that *"this has been done to accommodate/ save the NPA of group Companies of the borrowers"* in the books of IFCI Limited. Thus, this sanction of AFR was meant for ever greening the accounts of IFCI Limited.

The client did not fully honor the repayments even as per the terms of reschedulement according to which the principal repayment was to be done from 30 June 2017 to 30 September 2019. The instalments of ₹1.25 crore each due in March/ June/ September 2019 has not been received till date. There was lack of timely action in selling the pledged shares at the time of default in repayment (June 2017). Instead it resorted to reschedulement (November 2017) after which the shares of GNCL were suspended (February 2018) from being traded on the stock exchanges. Company did not initiate any action under SARFAESI Act in respect of mortgaged properties though it got coverage under SARFAESI Act from August 2016[74].

Management replied (7 January 2020) that provisional financials of FY 2014–15 were considered as audited financials were not available then as last date of filing audited Balance Sheet was 30 September 2015. Details of debtors were mentioned in the credit proposal, out of last two years there was profit in one year hence it was not continuous loss. Moreover, in last FY mentioned in the proposal turnover of debtors were much better than previous year, which was more than three times. The Internal Risk rating of the client was done as per the Board Approved Risk Rating Model. The proposal was rated as IFL 6 by the Risk Department and was sanctioned by the COD on the basis of the justifications mentioned in

[74] ***SARFAESI Act was extended to certain NBFCs, including IFL, vide Ministry of Finance notification no. 6/1/2014- Recovery dated 5 August 2016***

the proposal. The notch up by two grades on the basis of the tangible security was as per the AFR structure and not a wrong practice. Here it is observed that agreement between client and buyers was made five years back for payment of royalty hence it may be difficult to judge that these agreements were made for the sake of taking loan only five years before taking the facility from IFL. The fact that both the buyers were from same group was mentioned in the proposal and it might be difficult to judge the court's final order before hand as order of amalgamation came in the year of 2016 although sanction was made in 2015. All the facts and figures *w.r.t.* client and debtors (being group companies and possible merger) were mentioned in the proposal.

The reply of Management needs to be viewed in light of the fact that credit policy does not mention that provisional figures can be taken where audited figures were not available on date of sanction. The various parameters for client and debtor selection did not meet those specified in the credit policy. The notch up on basis of tangible security was improper as credit policy mentioned that tangible security was basic requirement of sanction of AFR. Internal rating of IFL6 indicated inadequate safety and was below the minimum rating for sanction of proposal. Credit policy states that in AFR, the payments are made from cash flows emanating from identifiable future receivables which in the instant case were not identified as even after lapse of five years the quantum of work done to enable receipt of royalty payments was not put on record. The Board of the GNCL had approved the merger of debtors with itself in March 2015 i.e. before the sanctioning of the facility. The fact regarding possible merger of debtors with flagship Company was not stated in the sanction proposal and was thus overlooked.

viii) M/s Jakhau Salt Company Private Limited

The Company sanctioned (October 2009) DSBF facility of ₹5 crore to M/s Jakhau Salt Company Private Limited (JSCPL - the client). The approved debtor under the facility was Travancore Cochin Chemicals Limited. Besides, the company approved (23 March 2011) the PBF facility of ₹5 crore with credit period of 120 days within the existing approved prepayment limit of ₹5 crore. The company enhanced (03 August 2011) the prepayment limit in case of DSBF facility (Silent Basis) from ₹5 crore to ₹10 crore on the approved debtors (as previously approved) including PBF sub limit of ₹5 crore. Similarly, maximum prepayment limit on the PBF facility was also enhanced (February 2012) from ₹5 crore to ₹10 crore, with full interchangeability between DSBF and PBF without obtaining any collateral security as required under credit policy of the company which states that the PBF is intended only for top rated clients and backed by tangible collaterals.

The account was serviced regularly by the client till June 2013; thereafter defaulted in payment of principal and interest. The company resorted to debit note funding from December 2013 to August 2017 and the account was declared NPA in September 2017. The company approved (10 July 2018) OTS for a total value of ₹4.25 crore as against the outstanding amount of ₹7.20 crore (principal: ₹7.09 crore and interest: ₹ 0.11 crore) thereby waiving off ₹2.95 crore (principal ₹2.84 crore and interest ₹0.11 crore) on the plea that

JSCPL was sanctioned the facility without any collateral security. The client made full and final payment on 29 September 2018 to honour the OTS agreement.

Audit observed that field audit was not conducted in this case citing the reasons of satisfactory credentials/ financial of the client and proposed debtor. The company extended PBF (Reverse Factoring) facility to the client on the purchases made by it from its group company (Bharat Salt Refineries Limited) which was not in the best interest of the company and lacked due diligence on part of the company.

Management replied that facility was sanctioned on the basis of satisfactory credit conduct with IFCI Limited and approval of competent authority. Since the conduct of the account with IFCI Limited and with Company was satisfactory, the PBF facility was sanctioned by the competent authority, without obtaining any collateral security.

The reply needs to be viewed against the fact that satisfactory credit conduct with IFCI Limited can neither be the ground for waiver of field audit which is stipulated in the BoD approved credit policy nor for waiver of such a crucial condition of obtaining collateral security for purchase bill factoring facility, which is stipulated in the BoD approved credit policy.

5.10.7 Conclusion

As the Company is a Non Banking Finance Company – Factor (NBFC- Factor) registered with RBI, it is essential that rigorous standards of appraisal, diligence and monitoring are followed and due consideration is given to its own financial/ commercial interest during the process of appraisal and extension of Factoring/ Loan facilities.

The review of sanctioning, disbursement and monitoring of Factoring/ Loan facility extended by company to several borrowers revealed that the company did not observe the highest standards of due diligence in credit appraisal while sanctioning, disbursing and monitoring accounts. It did not adhere to its own Credit Policy in several instances and relaxed various stipulated eligibility criteria pertaining to minimum security cover, financial ratios, stipulated credit rating etc. Audit observed that there was delay in enforcement of security and there were instances of non-enforcement of security. Audit also observed violation of Guidelines of RBI on declaring the account as NPA.

5.10.8 Recommendations

1. The credit appraisal mechanism should be strengthened.
2. The Company should strictly adhere to its Credit Policy and should not take recourse to deviations as a matter of routine.
3. The Company should assess the financial position of the borrower company and the debtors from time to time.
4. Company may put in place a mechanism/ policy/ procedure in place to ensure that intimation about rejection of material or non-acceptance of any invoice due to any other reason by debtors is given to Company in case of disclosed factoring.

5. Parameters to be considered for fixation of prepayment limit of the client and credit limit of debtors should be clearly laid down.
6. Adequate security should be collected to safeguard the interest of company.
7. Extensive monitoring should be done to avoid fraud or loss to the company.
8. The Company should strictly comply with the RBI guidelines applicable to Non-Banking Financial Companies.
9. Audit findings reported in the para are based on selected sample, but Ministry/ Management is requested to get entire population examined/ investigated to assess the prevalence of the problem and fix the responsibility, wherever required. Cases with indications of mala-fide, if any, may be referred to professional agencies for further examination.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

CHAPTER VI: MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

6.1 Loss due to non-performance under a contract

BHEL suffered a loss of Euro 3.83 million (₹28.35 crore) due to failure to deliver performance as per the contractual provisions and resultant invocation of bank guarantee by the client.

Bharat Heavy Electricals Limited (BHEL) entered into (21 April 2015) a contract with Electrik Uretim AS Genel Mudurlugu (EUAS), Turkey, for rehabilitation and upgradation of eight units of Keban Hydroelectric Power Plant at a price of Euro 63.86 million (approx. ₹472.56 crore) with completion period of 2,552 days (seven years approximately). The proposed date of commencement of work was to be the same as the date of opening of Letter of Credit (LC).

As per provisions of the above said contract, BHEL issued (21 April 2015) a Performance Bank Guarantee in favour of EUAS for an amount of Euro 3.83 million (₹28.35 crore). After signing the contract in April 2015, BHEL submitted (10 July 2015) the L_2 schedule (i.e. detailed timelines and sequence of project activities) to EUAS with the proposed initial date of commencement of work as 30 August 2015 for approval. However, the work could not be commenced by BHEL as scheduled on account of various technical glitches like, correctness of drawing/ documents collected by BHEL from EUAS, work related to intake gates to be made capable of emergency closure, work related with stator frame, rehabilitation of spare transformer before shutdown etc. While finalising the contract with EUAS, BHEL did not ensure that the responsibilities of EUAS to provide updated drawings and design data of existing equipment were incorporated in the contract. Subsequently, BHEL submitted (23 September 2015) the revised L_2 schedule with proposed date of commencement of work as 01 November 2015 for approval.

The LC was opened by EUAS on 07 March 2016, when the zero date for commencement of work also became effective. However, even thereafter, BHEL was unable to start the work on account of non-availability of necessary drawing/ documents including inspection and physical measurement of units during shutdown period. This was mentioned in the agreed Minutes of Meeting (MoM) between EUAS and BHEL in November 2016. However, EUAS informed BHEL in the same meeting that they had already provided all available drawings/ documents. It was also agreed in this meeting (8 - 10 November 2016) with EUAS that BHEL would submit the documents related to preliminary planning activities.

EUAS issued notices (13 December 2016 and 10 February 2017) to BHEL stating failure of BHEL to submit the requisite design details, detailed technical specifications, quality assurance plan, sub-contracting list, list of manufacturers, etc., even after one year of the opening of LC by them and requested BHEL to submit the requisite documents/ plans within 10 days. Finally citing inability of BHEL to provide requisite documents, EUAS terminated the contract on 07 March 2017. The performance guarantee of Euro 3.83 million (₹28.35 crore) was finally encashed by EUAS on 04 December 2017.

This order was also of the highest rating R&M works of Hydroelectric Power Project for BHEL and was opportunity to gain experience of new area for future references. This opperunity was lost due to non completion of the preliminary planning activities which resulted in encashment of performance guarantee of Euro 3.83 million (₹28.35 crore).

Management replied (20 September 2019) that

- drawings provided by EUAS during site visit were very old and it was not certain whether the changes made from time to time on the powerhouse had been incorporated in the drawings or not. As such, list of inputs required from EUAS for start of Design & Engineering activities was sent to EUAS. Based on inputs gathered and discussion with EUAS revised schedules were prepared.
- BHEL could have submitted the requisite documents only after checking the correctness of available data which was to be determined by physical measurement of existing equipment for which EUAS had committed to provide shutdown of machines during 12 July 2017 to 25 August 2017 and then again from 11 September 2017 to 20 October 2017. However, without even waiting for shutdown to occur, EUAS went ahead and terminated the contract on 07 March 2017.

Reply of Management is not acceptable because

- Despite lapse of two years from the date of signing the contract, BHEL was unable to complete the preliminary planning activities and submit the requisite documents to EUAS. Even after opening of LC by EUAS in March 2016, no tangible action (barring a meeting in November 2016), was taken by BHEL till March 2017 when EUAS finally terminated the contract due to non-performance of BHEL.
- In response to the notices issued by EUAS, BHEL did not intimate the former, its inability to submit documents due to non-provision of shutdown of the machines by EUAS. Moreover, as opined by the legal counsels, BHEL did not have a valid legal case to prove wrongful encashment of bank guarantee by EUAS.

Thus, BHEL had lost not only Euro 3.83 million (₹28.35 crore) due to unable to complete the preliminary planning activities but also lost the opportunity to gain experience of new area for future references.

The para was issued to the Ministry in November 2019; their response was awaited (June 2020).

6.2 Avoidable payment of sewerage cess

The Heavy Power Equipment Plant, Hyderabad of BHEL failed to avail the rebate in sewerage cess extended by Hyderabad Water Supply and Sewerage Board, which resulted in avoidable extra expenditure of ₹21.24 crore during January 2012 to March 2019.

The Heavy Power Equipment Plant (HPEP), Hyderabad, a unit of Bharat Heavy Electricals Limited (BHEL) sources the water required for its Factory and Township from Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) as per tariff determined by HMWSSB from time to time. The HMWSSB revised (November 2011) the Water & Sewerage Tariff effective from 1 December 2011 which included levy of 35 *per cent* sewerage cess on monthly water charges. The tariff order provided a rebate of 50 *per cent* (i.e. 17.5 *per cent*) in sewerage cess for bulk consumers to encourage them to set up their own sewerage treatment plant.

The HPEP, by then, had already established its own Effluent Treatment Plant (ETP) and Sewerage Treatment Plant (STP) for its Factory and Township for treating the industrial and domestic effluents. The HMWSSB reiterated (January 2012) to the Company that the incentive is applicable only when the entire quantity of water consumed including the bore well water is treated and recycled for other usages. Further to this, HMWSSB formulated (31 October 2013) guidelines for certification of the consumers who had established STPs and fulfilled the requirements to avail the rebate. It stipulated, *inter-alia,* that all the consumers who have established STPs were required to furnish the STP information once in a month in the prescribed proforma besides furnishing the certificate from Environmental Protection Training & Research Institute (EPTRI) once in six months for availing the rebate.

Audit observed that HPEP, though stated to have treated all the water used by it and obtaining the EPTRI test reports regularly for both STP and ETP plants, did not furnish the six monthly certificate of EPTRI and the requisite data in the prescribed monthly proforma (relating to STP and ETP) to HMWSSB to establish that the entire quantity of water consumed including the bore well water was treated and recycled for other usages as per the guidelines for availing the rebate. As a result, HPEP paid an amount of ₹42.48 crore (₹13.82 crore for factory and ₹28.66 crore for township) towards sewerage cess charges at 35 *per cent* during the period January 2012 to March 2019. Since the Company failed to furnish the requisite data to HMWSSB, it could not avail the 50 *per cent* rebate in sewerage cess allowed by HMWSSB amounting to ₹21.24 crore from January 2012 to March 2019.

Management replied (November 2019) that:

- The unit had its own STP and Effluent Treatment Plant and was maintaining these plants on its own. HMWSSB started levying 35 *per cent* sewerage cess from March 2009 onwards. The payment of sewerage cess was paid under protest for the period from March 2009 to December 2011. The unit filed a writ petition in August 2012 challenging the levy and demand of sewerage cess on the grounds that the STP and ETP were being operated on its own.

- Since, the writ petition had not come up for hearing, the matter was taken up with HMWSSB for resolving the issue. At the time of entering the new agreement in May 2019, HMWSSB accepted to allow the 50 *per cent* rebate and adjust it in future water bills. Accordingly, in the month of February 2019, the claims for rebate of sewerage cess were submitted for the period from July 2009 to December 2018.

The reply of Management is not acceptable in view of the following:

- As per the tariff order notified by HMWSSB, the rebate in sewerage cess was applicable from January 2012 onwards for the bulk customers who operate their own STP and ETP. Hence, the claim of the company for waiver of 100 *per cent* sewerage cess was not valid. The writ petition filed by the Company in August 2012 has not been admitted by the Hon'ble High Court of Telengana till date.
- The new agreement entered between BHEL and HMWSSB in May 2019 did not state that HMWSSB would adjust the rebate in sewerage cess in future water bills. Further, there was no documentary evidence showing the willingness of HMWSSB for adjustment of rebate in future water bills.
- As per the circular issued (October 2013) by the HMWSSB, the bulk users having their own STP should submit the STP details on monthly basis duly certified by EPTRI once in six months in the prescribed format. However, while submitting the claim in February 2019/ April 2019, the Company submitted the details of STP for a period of six months instead of each month that too without the counter signature of EPTRI, as required.

Thus, failure on the part of BHEL HPEP, Hyderabad in furnishing the data relating to STP and ETP to HMWSSB for availing rebate in sewerage cess resulted in avoidable extra expenditure of ₹21.24 crore during the period January 2012 to March 2019. The opportunity forgone by BHEL to claim the benefit of 50 *per cent* rebate on sewerage cess during the said period also meant that the benefit of a third-party assurance on effectiveness of the functioning of the STP could not be derived and the risk of non-performance of the STP as per standards may not have been adequately mitigated.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

HEC Limited

6.3 Township and Land Management

6.3.1 Introduction

Heavy Engineering Corporation Limited (HEC or Company) is one of the leading suppliers of capital equipment in India for steel, mining, railways, power, defence, space research, nuclear and strategic sectors. Government of Bihar (GoB) allotted 7,199 acres of land to HEC during 1958-59 (2,312 acres free of cost to install a Foundry Forge Plant (FFP), Heavy Machine Building Plant (HMBP) and the Heavy Machine Tool Plant (HMTP) and other ancillary and allied purposes and 4,887 acres at a cost of ₹2.75 crore for township and other allied purposes). HEC established FFP, HMBP and HMTP and has 11,109 quarters in its township apart from other buildings like hostels, hospital, school buildings, shop etc.

A study on land and township management in HEC was conducted to assess whether land and township services were effectively managed, existence of policy and adherence thereof for leasing of land to other parties, leases were renewed on time, estate dues were recovered and adequate and effective system was in place to identify and remove encroachment of land and buildings. Records relating to land and township management of HEC was examined during April and May 2019 for a period of three years from 2016-17 to 2018-19.

6.3.2 Audit Findings

6.3.2.1 Land Management

i) Utilisation of Land

The status of the Company's land as on 31 March 2019 is as shown below.

Table 6.3.1: Status of land acquired by HEC as on 31 March 2019

Particulars	Land in acre	*Per cent* of total land
Land used for Factory, Residential area, Other area and Land in pockets inside township (Factory Area 729.27, Residential Area 772.96, Other Area (Drainage Township) 166.92, Land in Pockets inside Township 900)	2569.15	36
Land transferred to GoJ (2691.44 acre) and CISF (158 acre)	2849.44	40
Land to be transferred to GoJ [306.86 acre (land under encroachment) +19.13 acre]	325.99	5
Land leased/ given to various agencies on Lease (SAIL/ RDCIS, NIFFT, Educational Institutions, JSCA, Petrol Pumps, BSNL, Garden Reach Shipbuilders and Engineers Limited)	313.31	4
Land proposed for Transfer (requests received during February 2016-May 2018) to ONGC, SIB, CBI, UIAI-Adhar, TVNL, CWC, EESL (pending till Jan 2020)	126.37	1
Land under encroachment	73.05	1
Remaining vacant land of HEC	942.20	13
Total	**7,199.51**	**100**

Audit noted that though land was granted to HEC for the specific purpose of construction and establishment of its plant, township and other ancilliary and allied purposes, the company utilised only 36 *per cent* of land (729.27 acres for factory, 1,839.88 acres for township including land in pockets inside township) for this primary purpose. 44 *per cent* of land (2,849.44 + 313.31 acres) was transferred to other agencies and it had 20 *per cent* of vacant land (as on 31 March 2019).

In view of the large amount of unutilised land available with the Company, threat of encroachment of vacant land and to meet its fund requirement, 126.37 acre of land was marked for transfer to government/ other agencies. The Company also did not have any profitable land use plan for the remaining 942.20 acres valuing ₹1,036.42 crore[1]. The Company received various proposals during (February 2016 to May 2018) for allotment of land to the extent of 136.645 acres from CBI, CISF, Oil PSUs and Indian Army etc. Though the matter was raised (December 2016 to April 2018) by the Company with Department of Heavy Industries (DHI), it remained pending finalisation (March 2020). Audit noted that the Board of HEC also noted (June 2014) the tremendous threat of encroachment, if land remained unutilised in the light of limited manpower for security.

Management replied (January 2020) that 84.14 *per cent* of land had been utilised and 1,068.57 acres of land was available for future use of HEC. The reply of Management may be seen in the light of the fact that land was allotted to HEC to set up industry, township and other ancilliary facilities whereas, over the years it had to transfer significant chunk of land to different agencies to meet its working capital requirement and outstanding dues and also as it was unable to secure the land from encroachment. Company does not have any profitable plan to utilise the remaining available land of 942.20 acre.

6.3.2.2 Leasing and Encroachment of Land

i) Non-recovery of ₹75.30 crore from Government of Jharkhand due to encroachment of land

As per revival package approved by the GoI (September 2008), 2,342 acres of encroachment free land was to be transferred by HEC to the Government of Jharkhand (GoJ) and HEC was to get ₹250 crore. HEC transferred 2,035.14 acres of land to GoJ and the remaining 306.86 acres was not transferred because the same was under encroachment. GoJ paid ₹174.70 crore to the company leaving a balance of ₹75.30 crore.

Audit observed that GoJ assured (April 2009) to provide administrative support to HEC to ensure time bound eviction of encroachment in the remaining land. The company, however, did not take up the matter with the State Government for eviction of the encroached land at regular intervals. After 2009, the matter was taken up in 2012 i.e. after three years. HEC approached (2015) DHI, but the ministry took no initiative to resolve the issue. Due to inability of HEC management to evict encroachers from 306.86 acres of land and hand over encroachment free land to the GoJ, ₹75.30 crore (₹48.97 crore plus ₹26.33 crore) could not be realised.

Management replied (January 2020) that as per DHI order (21 October 2019), 107.28 acres out of 306.86 acres of land would be utilised under Pradhan Mantri Aawas Yojana and remaining 199.58 acres would be taken by GoJ on 'as is whereas basis'. GoJ would pay proportionate amount of ₹48.97 crore to HEC. The revised amount was yet to be received by the company.

6.3.2.3 Leasing of land

The company had not made any policy for leasing of land. Land was allotted to different organisations at different rates and there was no uniformity in lease renewal charges.

[1] *Considering rate of ₹1.10 crore per acre for transfer of land to the GoJ*

Management replied (January 2020) that new policy for leasing of land was under process. Some issues relating to leasing out of land by the Company are discussed in subsequent paragraphs.

i) Non-realisation of ₹48.92 crore from GRSE

HEC allotted 62 acres of land to Garden Reach Shipbuilders and Engineers Limited (GRSE) to set up a Marine Diesel Engine Plant (MDEP) for an initial period of 30 years from 1966. HEC did not charge license fee or lease rent. HEC approached GRSE (August 1999) for a fresh agreement w.e.f. April 1996 for the aforesaid land assuming that original agreement for 30 years had lapsed. One time lease premium of ₹14.88 crore (@ ₹0.24 crore per acre) and 10 *per cent* plus annual lease rent of ₹1.48 crore was payable as per HEC. GRSE demanded copy of lease agreement from HEC and refused to enter into any lease deed stating that by their long years of possession over the land in question, they had acquired right and title.

HEC obtained legal opinion (2012), who recommended that immediate steps be initiated under the Public Premises (Eviction of un-authorised Occupants) Act, 1971. HEC requested DPE (April 2013), to nominate a sole arbitrator for the case. The matter was referred (June 2015) to the Permanent Machinery of Arbitration which concluded that due to non-availability of signed formal lease agreement, the instant case did not fall under Arbitration and needed to be settled by both the parties. HEC approached (April 2018), the Court of Estate Officer and filed a case for eviction. GRSE obtained (August 2018) stay against the same.

Audit observed that HEC was not in possession of lease agreement or any record to show that the lease was entered into by HEC until the year 1999, when the matter came into notice of the company. Thus, in the absence of legal documents 62 acre of HEC land was under unauthorised occupation of GRSE and the dispute was yet to be mutually settled with GRSE. The company could not receive the lease rent and lease renewal charges amounting to ₹48.92 crore [₹14.88 crore as one time lease premium plus lease rent ₹34.04 crore (₹1.48 crore x 23 years)] as per the rates fixed by the company.

Management replied (January 2020) that agreement between HEC and GRSE could not be signed for want of Deed of Conveyance between HEC and Government of Bihar. A joint committee with members from HEC and GRSE had been made to settle the issue. The reply did not address inaction on part of the Management in view of the fact that deed of conveyance for entire land was registered in February 1996, but lease agreement with GRSE was not signed immediately thereafter.

ii) Non-renewal of lease

As mentioned in para 2.3 above, the Company had not made policy for leasing of land. As per the common terms and conditions of the lease agreements entered into by HEC with the third parties, the lessee was required to pay one time lease premium for the period of lease and 10 *per cent* of the premium as rent every year in advance. The lease would be renewable as per mutual consent of the parties after payment of one time lease premium and lease rent. Cases of non-renewal of lease noticed during the course of audit are given below:

- **National Institute of Foundry & Forge Technology**

HEC leased 57.47 acres of land to National Institute of Foundry & Forge Technology (NIFFT) at Hatia in June 1968 for 30 years at a rate of ₹0.26 lakh per annum. The lease agreement was signed on 31 March 1987. After expiry of the lease period in June 1998, one time lease premium was fixed by HEC at ₹3.45 crore and annual lease rent of ₹0.34 crore. NIFFT refused to pay the revised lease premium on the plea that it was a non-profit organisation and continued to pay at the old rate upto 2012-13. It also stated that the matter was raised (March 2000) with Ministry of HRD, GoI for raising it with Ministry of Industry. Audit noted that HEC did not follow up the matter thereafter with NIFFT till October 2012 followed by letters sent in October 2014 and February 2019. The lease was not renewed even after lapse of 21 years of expiry of lease. NIFFT started paying lease rent of ₹0.51 lakh per annum from 2013-14 onwards. Thus, due to failure of the company to renew the lease, ₹10.69 crore (₹3.45 crore as one time lease premium plus ₹7.24 crore on lease rent) could not be realised from NIFFT.

Management replied (January 2020) that the matter was continuously pursued with NIFFT. The reply points to inaction of Management in finalising and renewing the lease agreement leading to loss of lease charges. The Management also did not reply to reasons called for in Audit for not taking up the matter with the Ministry.

- **Bharat Sanchar Nigam Limited**

HEC allotted 1.38 acre of land to BSNL on 21 April 1985 at the rate of ₹0.03 lakh per annum for 30 years without any lease agreement. Even after expiry of initial period of allotment of 30 years (i.e. in 2015), no action was taken by the parties for revision of rate. Further, recent digital survey conducted (October 2016) by an independent agency[2] revealed total land under possession of BSNL was 1.43 acres. Thus, BSNL was in possession of company's land without paying the revised charges since four years and also encroached 0.05 acre of land. The company requested (July 2017) BSNL for renewal of lease after lapse of two years after expiry of initial period of allotment of 30 years (i.e. in 2015). The company did not make any correspondences thereafter with BSNL.

Management replied (January 2020) that settlement of the issue was under process.

6.3.2.4 Township Management

HEC has a township to facilitate its employees/ ex-employees to reside near its plant. The company also developed shopping places to fulfil the requirements of its employees. Other organisations like Banks, Education institutions, offices of the State Government, Jharkhand State Electricity Board (JSEB) offices also reside in periphery of HEC township.

[2] *Samarth Engineers*

i) Unauthorised occupation of quarters

Status of available quarters, vacant quarters and quarters under unauthorised occupation as on 2 May 2019 in HEC Township is summarised as under:

Table 6.3.2

Number of quarters	Quarters allotted	Number of vacant quarters	Damage/ Unfit quarters	Quarters under unauthorised occupation (by ex-employee)	Quarters under unauthorised occupation (by others)
11,109	10,433	395	160	9[3]	112[4]

From the above table it is seen that 395 quarters were vacant, 160 were damaged and 121 quarters (112+9) were under unauthorised occupation. Audit observed that the company could not recover ₹2.81 crore (as on March 2019) in respect of 69 quarters under unauthorised occupation by outsiders. It was noted that out of above 69 quarters, 46 quarters are under unauthorised occupation for more than 20 years and data in respect of the remaining 43 quarters (112 - 69) was not available with the management.

Audit observed that the Company filed cases in respect of only six quarters under the Public Premises (Eviction of un-authorised Occupants) Act, 1971 during 2015-19 out of which eviction order was passed in respect of two quarters and remaining four cases were under process. Action was not taken by management to vacate the quarters under unauthorised occupation, which resulted in non-realisation of ₹2.81 crore (69 quarters) which would increase with the passage of time.

Management replied (January 2020) that all such unauthorised occupants had been served vacation notices to vacate the quarters. Reply of Management may be seen in the light of the fact that management had issued notices only to its nine ex-employees who had occupied the quarters unauthorisedly. Moreover, the Company continues to sustain loss on account of unauthorised occupation of quarters.

ii) Non-realisation of estate dues

Audit noted that huge amount was outstanding against various agencies towards house rent, electricity charges and water charges as mentioned below:

Table 6.3.3: Statement showing outstanding estate dues of HEC as on 31 March 2019

Particulars	Outstanding amount (₹ in crore) as on			
	31.03.2016	31.03.2017	31.03.2018	31.03.2019
Quarters given on lease to employees (Leave & License)	0.06	0.11	0.14	0.07
Quarters allotted to the dependent of the deceased employees on Compassionate Ground	0.19	0.23	0.26	0.28
Quarters given on Long Term Lease to the retired employees of the company	1.37	1.62	1.16	1.03
Non Residential Building	0.40	0.61	1.53	2.79

[3] *since July 2014 onwards*
[4] *since more than 20 years*

Buildings allotted to outside agencies i.e. other than company employee	4.25	4.85	5.53	6.14
Jharkhand State Electricity Board (JSEB)	1.02	2.25	1.18	1.80
Shops allotted by the company	1.31	1.48	1.68	5.00
Employee unions of HEC (UNI)	0.00	0.01	--	--
Total	**8.60**	**11.16**	**11.48**	**17.11**

The outstanding dues increased from ₹8.60 crore as on March 2016 to ₹17.11 crore as on March 2019. Out of the above, management had made provision for doubtful recovery for ₹6.62 crore in the accounts.

Management replied that regular allottees were depositing their dues whereas defaulters had been served notices, as such outstanding dues against shops of ₹5 crore was a pre-mature estimate. Audit noted that as per records of revenue department of HEC, total dues against the Shops as on 31 March 2019 was ₹5 crore.

Significant cases of non-realisation of outstanding dues are elaborated below-

- HEC receives drinking water in bulk from the GoJ and delivers it to the doorstep of consumers in township. Audit noted that GoJ revised water charges with effect from 31 May 2006 and started billing HEC with effect from 1 August 2009 at the rate of ₹5 per KL (₹22.75 per Kilo Gallon). GoJ asked HEC to pay ₹13.23 crore for water charges for the period between August 2009 and May 2013. The amount recovered by HEC from beneficiaries was however only ₹4.25 crore for this period.

Audit observed that though the GoJ charged HEC at a certain rate for consumption of water but the company recovered water charges at a flat rate. The company did not even charge for the maintenance, distribution and transmission cost that it incurred towards supply of water to households although the Company was charged at retail rates by the GoJ. This resulted in wide gap between procurement price and realisation of water charges and HEC could not recover ₹2.68 crore from various agencies/ residential building occupiers (as on 31 March 2019). Further, HEC was required to pay ₹25.17 crore on water charges as per demand (August 2009 to March 2019) from GoJ.

Management replied that shortfall in collection of water charges was mainly due to defaulting allottees and inflated figure of intake claimed by GoJ, ignoring loss that occurred during supply because of reasons like leakages etc. The reply is to be viewed against loss sustained on account of shortfall in collection of water charges from the allottees. Further, flow meters required to measure the water supply were not installed and quantity of water supplied by GoJ could not be reconciled even after lapse of around 15 years.

- 29 quarters were allotted to various clubs, samitees and HEC consumer co-operative society for which the company charged House rent, electricity and water charges from these organisations. Audit observed that ₹1.38 crore against co-operative society and ₹0.34 crore against clubs and samitees was outstanding (31 March 2019). Due to lack of adequate monitoring and effective management, HEC could not realise outstanding amount from these clubs, samitees and HEC co-operative society.

Management replied (January 2020) that authenticity of allotment of premises under the possession of various clubs, samitees and consumer cooperative societies would be verified followed by realisation of dues or eviction of unauthorized occupants as per the Public Premises (Eviction of Unauthorised Occupants) Act 1971.

- Six buildings were allotted to Postal Department, to run post offices, by the company. The rent was revised in May 2009 by HEC and revised rent was claimed (December 2013) for above premises. Postal Department disputed the revised bills and requested HEC to examine the issue afresh which was not accepted by the Management. Since the Postal Department was not willing to pay the revised bills, the outstanding dues accumulated to ₹1.40 crore (31 March 2019). HEC cancelled (February 2015) the allotment of buildings. However, Postal Department had neither vacated the premises nor paid the enhanced bills. Management replied (January 2020) that Postal Authorities have been reminded regularly.

- Four office buildings and five residential quarters were allotted to BSNL (as discussed in above para). The Company could not realise ₹0.32 crore from BSNL. The dues were outstanding for a period ranging from March 2008 to July 2017. Audit observed that HEC management had not made any correspondences with BSNL after July 2017.

Management replied (January 2020) that after serving final notice for making payment of dues, if amount remained unpaid, notice of demand of damages as per Public Premises (Eviction of Unauthorized occupants) Act 1971 would be served.

Thus, lack of suitable action by Management, ₹17.11 crore could not be realised and was outstanding as on 31 March 2019.

6.3.2.5 Delay in handing over drinking water distribution system to RMC

Municipal services like supply of drinking water, sewage disposal system, sewage treatment is maintained by HEC within its township. Audit noted that storage tanks were not serviceable and many of the pipelines were leaking which could contaminate drinking water. In view of its inability to maintain water supply and sewage disposal system, and to recover cost of services provided from the users, and also since 85 *per cent* users were not employees of the company, HEC Board decided (December 2013) to hand over the entire water supply network to Ranchi Municipal Corporation (RMC). The Board directed to put up a proposal along with terms and conditions of such transfer to the Ministry (DHI) for its consideration and approval. However, Audit noted that, even after lapse of six years since the direction of the Board, no such proposal was submitted (January 2020) by the company to DHI.

Management replied that the matter was pursued with the GoJ. Audit noted that management took up the matter (September 2017) with GoJ i.e. after four years from the decision of the Board to hand over the entire water supply network to RMC. The Urban Development and Housing Department of GoJ was approached only in January 2019. Management reply was silent on the compliance of Board directives to submit proposal for transfer of water supply network to the Ministry (DHI) for approval. Thus, due to delayed action of Management, it continued to incur losses being unable to recover cost of services provided. Further there is risk of supply of contaminated water to the residents in view of old and unserviceable pipelines. HEC Board also failed to monitor compliance of the decision taken by them six years back.

6.3.2.6 Non-furnishing of information to State authorities for calculation of Holding Tax

As per the agreement with RMC in July 1991, HEC was paying a lump sum amount of ₹0.08 crore/ annum as Holding Tax (HT). It was also agreed that the RMC would not levy any tax on constructions authorised or unauthorised directly or indirectly without a representation and specific agreement with the HEC. RMC communicated (November 2016) that, after enactment of the Jharkhand Property Tax (Assessment, Collection and Recovery) Rules 2013, assessment of HT payable with effect from April 2016 at revised rates was to be completed within three months. HEC was requested to provide details of buildings in whose respect the company was required to pay HT by 14 Dec 2016.

Audit noted that the company intimated (February 2017) RMC, only about the number of buildings and quarters. RMC served notice (8 March 2018) to HEC and asked to provide detailed information with regard to buildings located in HEC township in order to calculate HT. HEC did not provide the complete information and, therefore, RMC calculated HT for the entire area under HEC factory and office. The revised HT was fixed at ₹1.77 crore per annum for the office buildings in HEC area. Interest and penalty were also applicable on the balance amount. Total demand by RMC for 2016-17 to 2019-20 was ₹10.09 crore comprising of HT of ₹7.06 crore and ₹3.03 crore as interest and penalty.

Audit observed that instead of providing details of buildings and segregating the buildings for which the company was liable to pay HT, the company filed a writ petition in the Jharkhand High Court contesting the revised demand. This was quashed by the High Court on 8 July 2019. The court opined that since HEC had entered into an agreement with RMC, it was duty bound to provide details sought for by the respondent.

Thus, failure of HEC management to submit requisite details to RMC led to imposition of penalty and interest amounting to ₹3.03 crore which could increase further. The company was yet to identify (January 2020) and communicate the buildings for which they were liable to pay the HT. Further, such demand may arise in respect of residential buildings in the HEC area where HEC employees occupied only 15 *per cent* of the quarters.

Management replied that the agreement made between RMC and HEC in July 1991 was still in motion and an appeal had been filed in September 2019 before Appellate Authority under the Jharkhand Property Tax (Assessment, Collection and Recovery) Rules, 2013 against the demand notices. Audit noted that management did not provide the requisite information with regard to buildings located in HEC township to RMC despite reminders.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

Tungabhadra Steel Products Limited

6.4 Avoidable payment of income tax

Incorrect treatment of waiver of Government of India loan and other liabilities in the books of accounts by Tungabhadra Steel Products Limited resulted in avoidable payment of income tax of ₹55.38 crore and further tax liability of ₹41.18 crore.

The Income Tax Act, 1961 recognised sick industrial companies covered under Section 17(3) read with Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) and provided certain reliefs/ concessions such as exemption from capital gains tax and permission to set-off capital gains, if any, against the accumulated losses on fulfilment of certain conditions, etc. These reliefs/ concessions are allowed only after approval and issue of appropriate orders by the Central Board of Direct Taxes (CBDT).

Tungabhadra Steel Products Limited (Company) was referred to the Board of Industrial and Financial Reconstruction (BIFR) in 2004 under SICA[5] as it had been incurring losses for a long period. The Administrative Department, i.e., Department of Heavy Industries (DHI) conveyed (January 2016) the decision of the Government of India (GoI) for closure of the Company. Ministry of Labour and Employment also accorded permission (February 2017) to close the Company with effect from 9 February 2017.

Meanwhile, CCEA approved (December 2015) infusion of funds of ₹35.55 crore towards discharge of liabilities and permitted to write off the GoI loan of ₹115.84 crore and interest accrued thereon amounting to ₹315.92 crore in lieu of transfer of right over immovable assets of the Company. Later, DHI conveyed (January 2018) the GoI approval for sale of entire Company's land of 82 acres 37 cents at the rate of ₹66 lakh per acre to Karnataka Housing Board (KHB)/ Government of Karnataka (GoK). Further, it was decided that the transfer of land to KHB was to be done after receipt of funds and then the Company was required to be handed over to the liquidator for its winding up.

Later, GoK issued a notification (September 2018) for the purchase of land belonging to the Company for its KHB operations measuring 82 acres 12 cents[6] at a total value of ₹54.20 crore. It was also decided that 57 acres 8 cents of land (factory area) would be registered in Phase-I and balance land of 25 acres 4 cents (residential) would be registered after evicting the residents.

During the financial year (FY) 2016-17, the Company brought the waiver of GoI loan together with interest thereon (₹467.07 crore[7]) and others (₹5.22 crore) totalling ₹472.29 crore into the books of accounts and treated as Profit on Sale of Assets (extraordinary income) in Profit and Loss account for the FY 2016-17. It e-filed Income Tax (IT) Return for the Assessment Year (AY) 2017-18 (FY 2016-17) by declaring a capital gain

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[5] *Sick Industrial Companies (Special Provisions) Act, 1985 was repealed by Sick Industrial Companies (Special Provisions) Repeal Act, 2003 with effect from 1 December 2016. As a result, Government dissolved BIFR and referred all pending proceedings to the National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) as per the provisions of Insolvency and Bankruptcy Code, 2016*

[6] *Excluding 25 cents said to be encroached out of 82 acres 37 cents*

[7] *₹467.07 crore consists of GoI loan of ₹151.15 crore together with interest of ₹315.92 crore*

of ₹471.35 crore and total income of ₹321.23 crore after adjusting allowable current year loss of ₹145.79 crore.

Central Processing Centre of Income Tax Department processed the above return under Section 143(1) of the Income Tax Act (IT Act), 1961 and raised (September 2018) a net tax demand of ₹93.38 crore (Income Tax: ₹75.16 crore + Penalty for delayed return: ₹3.76 crore + Default in payment of Advance Tax: ₹15.98 crore - Adjustment of taxes paid: ₹1.52 crore). Subsequently, the Income Tax Department froze the Company's bank account and collected (January 2019) a sum of ₹55.38 crore towards income tax. Later, the Income Tax Department served (February 2019) a notice for balance outstanding amount of ₹41.18 crore (Outstanding balance: ₹38 crore and interest under section 220(2) of the IT Act, 1961: ₹3.18 crore).

In this regard, Audit observed that:

- The GoK had notified the transfer of land to KHB on 19 September 2018 and the Company completed the sale formalities and received cash on account of sale of land on 5 January 2019. Therefore, the Company should have recognised the same as Capital Gain in the Financial Year 2018-19, for which the Company would be required to pay Capital Gain Tax of ₹11.04 crore at the rate of 20 *per cent* of Capital Gain on sale consideration of ₹55.23 crore[8] together with penalties/ interest, if any. The capital gains tax of ₹11.04 crore would also have further reduced to ₹7.60 crore[9] after taking into account the net loss of ₹17.21 crore declared by the Company during the year 2018-19. However, the Company wrongly recognised capital gains of ₹471.35 crore during the FY 2016-17 itself without completion of the sale transaction of land. As a result, in view of the irregular adjustments in the books for FY 2016-17 itself, the Company was forced to pay income tax amounting to ₹55.38 crore and to incur an additional liability of tax amounting to ₹41.18 crore (as per Assessment Order).
- Had the Company not recognised the capital gains of ₹471.35 crore during the FY 2016-17, it was supposed to pay a corporate tax of ₹2.13 crore only on the net profit of ₹7.13 crore (subject to the deductions, if any, allowable under Income Tax Act) against the total tax liability of ₹96.56 crore assessed by the Income Tax authorities.
- Incorrect accounting by the Company in the FY 2016-17 was pointed out by Audit in June 2018. However, the Company did not rectify its accounts.

Management replied (January 2020) that the allowed time to revise the Income Tax Return had already expired and whatever rectification possible, had been attempted including an appeal with the Principal Commissioner.

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[8] ***Sale of 82 acres 37 cents as disclosed to CCEA plus 1 acre 31 cents at Survey No. 427 inadvertently missed. Thus, total land sold to KHB is 83 acres 68 cents and amount realised is ₹55.23 crore. After deduction of TDS of 1 per cent on ₹55.23 crore, net amount credited to the Company on 5 January 2019 was ₹54.68 crore***

[9] ***Total capital gain of ₹55.23 crore – net loss of ₹17.21 crore = ₹38.02 crore, on which net capital gain payable works out to ₹7.60 crore being 20 per cent of ₹38.02 crore***

Audit, however, observed that the Company had lost the opportunity to file appeal before the Commissioner (Appeals) of IT Department as the stipulated time of 30 days under Section 249(2) of the Income Tax, 1961 had already lapsed by 24 October 2018. Further, even though the Company was already referred to BIFR, it had not filed any application with the BIFR/ NCLT or CBDT for grant of reliefs and concessions available under Insolvency and Bankruptcy Code, 2016. Hence, the chances of recovery of tax amount of ₹55.38 crore already paid are extremely remote.

Thus, due to incorrect treatment of GoI loan and interest thereon in the books as Capital Gain without transfer of immovable property, the Company had to pay avoidable Income Tax of ₹55.38 crore besides incurring further tax liability of ₹41.18 crore.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

CHAPTER VII: MINISTRY OF HOUSING AND URBAN AFFAIRS

NBCC (India) Limited

7.1 Unauthorised payment to employees

Additional financial benefits given to employees of NBCC (India) Limited on achievement of "Navratna" status without there being any supporting statutory provisions, Presidential Directives or approval of Administrative Ministry/ DPE for the same resulted in unauthorised payment of ₹7.69 crore in the form of additional increment alone.

NBCC (India) Limited (Company/ Management) was incorporated as a public limited company in November 1960 under the aegis of Ministry of Housing & Urban Affairs (MoHUA). It was conferred with the "Navratna" status by Government of India on 23 June 2014.

The Board of Directors (BoD) of the Company in its 437th meeting (31 July 2015) on achievement of "Navratna" status approved awarding of one additional increment w.e.f. 01 August 2015 to the regular employees on roll of the Company as on 23 June 2014 as a token of recognition on account of elevation of the company to the status of "Navratna". Employees who joined/ separated after 23 June 2014 were not eligible for additional increment.

In this regard, Audit observed that the decision to grant additional increment to regular employees on the roll of the Company was without any supporting statutory provisions, Presidential Directives or approval of Administrative Ministry/ DPE for the same. This has resulted in unauthorised payment amounting to ₹7.69 crore (for Group A and B employees computed upto December 2017 and for Group C and D employees computed upto March 2018)[1] to the employees of the Company in form of additional increment alone.

Unauthorised payment to the employees in respect of enhanced perquisites and allowances, due to grant of additional increment, payable to Executives and Non-Executive employees was not furnished to Audit despite repeated requests.

Management in its reply (December 2018/ December 2019) stated that in order to keep morale of the employees high, to acknowledge the contribution of the employees so as to motivate them for further elevation of the Company and to prevent unrest among the employees due to huge gap between pay scales of NBCC and other PSUs, the additional financial benefits given to them on achievement of "Navratna" status were justified and such payment did not violate any DPE guidelines/ rules or any other rules in force.

Reply of Management is not acceptable as payment of additional financial benefits to employees, not warranted by any law/ rule/ guidelines for the time being in force, on achievement of "Navratna" status rendered such payment unauthorised. On this issue, MoHUA also sought clarification from DPE and DPE vide letter dated 13 December 2018

[1] *Upto the date of implementation of pay revision in NBCC (India) Limited*

clarified that providing additional increment by NBCC to its employees on achieving Navratna status is not in line with DPE guidelines.

The arbitrary action of Management, in granting this additional increment is also seen in the fact that just prior to this event, the Board of Directors of the Company in its 435th meeting (13 February 2015) approved, on achievement of "Navratna" status, enhancement of 3-5 percentage of perquisites and allowances payable to Executives and Non-Executives employees, retrospectively, with effect from 23 June 2014. As per DPE OM dated 26 November 2008, the BoD of each CPSE would be required to consider the proposal of pay revision based on their affordability to pay and submit the same to Administrative Ministry for approval. However, Audit did not find any evidence of the Company conducting any such exercise prior to granting these additional perks and allowances and without there being any supporting statutory provisions, Presidential directives or approval of Administrative Ministry/ DPE for the same.

Management justified these additional perks and allowances stating that there was disparity with the other Navratna PSUs. While the percentage of enhancement was subject to the ceiling of 50 *per cent* of Basic Pay, nonetheless, Management did not provide Audit with the details of the financial implications of the decision despite repeated requests.

Thus, additional financial benefits given to employees of NBCC (India) Limited on achievement of "Navratna" status without there being any supporting statutory provisions, Presidential Directives or approval of Administrative Ministry/ DPE for the same resulted in unauthorised payment of ₹7.69 crore in the form of additional increment alone.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

CHAPTER VIII: MINISTRY OF MINES

Hindustan Copper Limited

8.1 Unfruitful investment in acquisition and loss from operation of Gujarat Copper Project

Hindustan Copper Limited (Company) acquired Gujarat Copper Project (GCP) (erstwhile Jhagadia Copper Limited, Gujarat) without ensuring the availability of raw materials and the plant remained almost wholly unutilised since commissioning which led to unfruitful investment of ₹303.18 crore and loss from operating GCP amounting to ₹102.49 crore.

Hindustan Copper Limited (Company) was engaged in mining of copper ore and processing of the same for production of final product i.e. Copper Cathode. The copper ore is primarily processed in Concentrator Plant for production of Metal in Concentrate (MIC) which is further processed in Smelter for producing Copper Anode and the same is finally refined in the Refinery Plant for production of Copper Cathode. The Company was approached (August 2014) by the Asset Reconstruction Company (India) Limited, Mumbai (ARCIL) seeking the interest of the Company in the acquisition of the plant of Jhagadia Copper Limited, Gujarat (JCL). JCL had the facilities of a Secondary Copper Smelter and Refinery (Secondary denotes processing of scrap copper) for an annual production capacity of 50,000 Metric Tonne Per Annum (MTPA) of Copper Cathodes and had commenced commercial production from May 2006. However, the operation of JCL was suspended from September 2009 for want of working capital.

The Consultant, appointed (October 2014) by the Company to prepare the detailed feasibility report for the investment in the proposed acquisition, indicated that the Secondary Smelter Plant of JCL had the facility to process copper scrap only and as such there was no scope for processing of MIC therein. It was also indicated that the Refinery Plant could be operated by sourcing the Copper Anode from elsewhere. The Consultant, however, also stressed that the availability and sourcing of the raw materials was to be ensured for optimum utilisation of JCL, as it was a major risk for success of such acquisition. The Company finally decided (November 2014) for acquisition of JCL. The Company proposed to source copper scrap by procuring it from the open market (19,200 MTPA) and from that generated in its other units (800 MTPA). The Company also projected to source Copper Anode by tolling[1] of imported MIC through Hindalco[2] (from 20,000 to 30,000 MTPA) as well as tolling of its own MIC through other Copper producers (7,000 MTPA). The Company further assessed that it could utilise 22,000 MT of copper scrap laying in the State Trading Corporation (STC) godown located in the JCL plant.

The Company acquired (February 2015) JCL plant at a price of ₹210 crore (Plant & Machinery including leasehold land) from ARCIL as a single bidder by taking a term loan of

[1] *A transaction by which MIC will be converted into Copper Anode by a Copper producer*

[2] *A private sector copper producing company*

₹200 crore. JCL was renamed as Gujarat Copper Project (GCP) and its commercial production was commenced from October 2016. It was, however, seen that the capacity utilisation of GCP was very low since its acquisition and it could produce only 24,007 MT of copper cathodes during the period from November 2016 to March 2019 which was only 20 *per cent* of the total capacity of the plant. Such low capacity utilisation of GCP was primarily due to non-availability of raw materials i.e. copper scrap as well as Anode. In the meantime, the Company made a total investment of ₹303.18 crore in GCP (including acquisition cost) till March 2019.

In this connection Audit noticed as follows: -

- The projection of the Company regarding availability of copper scrap from the market to the extent of 19,200 MTPA was not at all realistic, since the Company was not able to source any copper scrap from the market during the period from November 2016 to March 2019. Management also realised that sourcing of copper scrap indigenously was difficult due to unorganised market and there were quality issues also. Further, Management did not properly assess the status of the of copper scrap lying in the STC godown as the same was sub-judice and not readily available for processing.
- The Company proposed to source Anodes (20,000 MTPA to 30,000 MTPA) by tolling imported MIC through Hindalco. However, the Company did not enter into any agreement with Hindalco for such tolling to ensure sustainable availability of Anodes. Further, the Company did not have any prior experience for import of MIC and tolling of the same through another copper producer. In this connection it is also worth mentioning that Hindalco did not have any spare smelting capacity for such tolling as the capacities of its smelter and refinery were same. This is also corroborated with the fact that the Company was not able to source any Anode through Hindalco by such tolling.

Audit, therefore, observed that the projections made by the Company towards availability of raw materials for sustainable operation of both Smelter and Refinery plant of GCP were not at all realistic and supported by proper due diligence. As a result, the GCP was utilised with a very low capacity and did not yield any benefit. On the other hand, the Company has been suffering recurring loss from operation of GCP. Thus, the decision of the Company for acquisition of GCP without obtaining firm commitment from the sources projected for availability of raw materials was not prudent which led to unfruitful investment of ₹303.18 crore. Further, the Company suffered a loss of ₹102.49 crore during the period from November 2016 to March 2019 by operating GCP.

Management while accepting the Audit observations replied (October 2019) that projections made at the time of acquisition on availability of raw material for sustainable operation of GCP was miscalculated. It was also stated that the Company never imported MIC for tolling it to anode and GCP was acquired without any firm commitments regarding availability of raw materials and finally, the Company was unable to ensure continuous operation of the plant due to difficulty in sourcing raw material.

Hence, acquisition of GCP without ensuring the availability of raw materials led to unfruitful investment of ₹303.18 crore and loss of ₹102.49 crore from operations of GCP. Further, the company will continue to incur such a loss till it develops a viable future plan for GCP utilisation.

The para was issued to the Ministry in October 2019; their response was awaited (June 2020).

CHAPTER IX: MINISTRY OF PETROLEUM AND NATURAL GAS

Brahmaputra Cracker and Polymer Limited

9.1 Irregular payment of Performance Related Pay

Brahmaputra Cracker and Polymer Limited paid ₹15.54 crore as PRP to the executives of GAIL in violation of the DPE guidelines which also led to additional outgo of ₹4.62 crore from GoI towards capital subsidy.

The Government of India (GoI) approved (April 2006) the Assam Gas Cracker Project. Accordingly, a joint venture agreement was entered into (October 2006) between GAIL India Limited (GAIL), Numaligarh Refinery Limited (NRL), Oil India Limited (OIL) and Government of Assam (GoA) for implementation of the above project. GAIL would be the main promoter with 70 *per cent* equity contribution. The remaining promoters would contribute 10 *per cent* each. Brahmaputra Cracker and Polymer Limited (the Company) was, therefore, formed in January 2007 for the above purpose. The cost of the project was estimated at ₹5,461 crore (May 2006) with capital subsidy of ₹2,138 crore by GoI. The project cost was subsequently revised (July 2016) to ₹9,965 crore with capital subsidy of ₹5,239.45 crore. As per the joint venture agreement, the promoters would provide management and technical support for implementation of the project by way of deputation of their qualified personnel in the Company. Accordingly, GAIL being the major promoter has been deputing its own executives to the Company since 2007-08 as per the requirement of implementation of the project.

The Company reimbursed the salary and allowances etc. of such deputed executives to GAIL which also included Performance Related Pay (PRP) of such executives applicable for GAIL. The project was commissioned in January 2016. The Company received capital subsidy of ₹5,088.80 crore (upto May 2019) from GoI (including net interest of ₹56.15 crore earned on such capital subsidy) which was 51 *per cent* of the approved project cost. After commissioning of the project, the Company did not earn any profit till 2017-18 and its accumulated loss was ₹919.70 crore upto 31 March 2018. It, however, earned a net profit of ₹68.97 crore during 2018-19.

DPE, GoI while revising the pay scale of below Board level and Board level executives as well as non-unionised supervisors in CPSEs w.e.f. 01 January 2007 issued directives[1] indicating that PRP to the executives of CPSEs should be directly linked to the profit of CPSEs and performance of the executives with reference to Memorandum of Understanding (MoU) rating of CPSE. It was also clarified that the executives, who were on deputation to other CPSEs, were entitled to draw the PRP applicable to the borrowing CPSEs.

In view of the above, PRP was not applicable to the executives of the Company during the period from 2007-08 to 2017-18 as the project was under implementation stage (upto 2015-16) and there was no generation of profit for the two-year period of 2016-17 and 2017-18.

[1] *Vide O.M. No. 2 (70)/08-DPE (WC)-GL-XVI/08 dated 26 November 2008*

Further, the Company did not frame any PRP policy for 2018-19 and no PRP was, therefore, paid to its executives.

Audit, however, observed that the Company reimbursed a total amount of ₹15.54 crore to GAIL during the period from 2007-08 to 2018-19 towards PRP of the executives of GAIL worked on deputation of which ₹9.06 crore (upto January 2016) was capitalised as part of the project cost. The above PRP of the deputed executives attributed on the basis of the profits/ performances of their respective positions in GAIL.

The executives of GAIL who worked in the Company on deputation were entitled to PRP, if any, applicable to the executives of the borrowing Company as per the directives of DPE vide O.M. dated 26 November 2008. Since the Company's own executives were not entitled to any PRP during the period from 2007-08 to 2018-19, the reimbursement of ₹15.54 crore by the Company to GAIL as PRP in respect of the executives worked on deputation during the above period was, therefore, not in line with the above directives of DPE. In this connection it is worth mentioning that had the above PRP not been paid by the Company to GAIL the project cost would have been lower by ₹9.06 crore and thereby the capital subsidy by GoI would also have been lower by ₹4.62 crore (51 *per cent* of ₹9.06 crore).

Thus, the payment of ₹15.54 crore by the Company to GAIL as PRP to the executives of GAIL who worked on deputation, was in violation of DPE guidelines and, therefore, irregular. Further, this has also resulted in additional outgo of ₹4.62 crore from GoI towards capital subsidy.

Management replied (August 2019) that the executives of GAIL were deputed at the Company for successful commissioning of the project and the PRP was paid as per the prevalent circular of GAIL.

The contention of Management is not acceptable since the executives of GAIL deputed in the Company were not entitled to PRP as per the directives of DPE. Further, payment of PRP by the Company on the basis of GAIL's circular was not acceptable as a circular cannot overrule the directives of DPE.

In this regard, DPE clarified (March 2020) that the executives on deputation from a holding company to a subsidiary company or *vice versa* would be entitled to draw allowances and variable pay/ PRP as applicable to borrowing CPSE and the Administrative Ministry/ Department of CPSEs should take necessary action to implement the guidelines issued vide OM dated 26 November 2008.

Hence, the payment of PRP amounting to ₹15.54 crore to the executives of GAIL was in contravention to the DPE guideline. It is recommended that irregular payment made to ineligible employees may be recovered.

The para was issued to the Ministry in October 2019; their response was awaited (June 2020).

Oil and Natural Gas Corporation Limited

9.2 Follow up IT Audit of the Financial and Controlling (FICO) modules

9.2.1 Introduction

Oil and Natural Gas Corporation Limited (ONGC), a public sector undertaking in the field of exploration and production of oil and gas, initiated a project called Information Consolidation for Efficiency (ICE) in October 2003 to realign its business processes under a common Enterprise Resource Planning (ERP) system. Project ICE envisaged utilisation of all 10 modules[2] of SAP and the system was implemented across the Company between October 2003 and January 2005. The main objective of ICE project was to optimise and standardise business processes for integrated information availability on real time basis and to eliminate duplication of activities to increase efficiency and transparency by capturing data at source point. The current version used by the Company is SAP ECC 6.0 EHP 7[3].

Audit reviewed Accounts Payable, Asset Accounting and Cost Centre Accounting sub-modules of the Financial and Controlling (FICO) modules in Eastern and Northern regions of the Company in 2007. The findings of audit were included in the CAG's Audit Report No.10 of 2008 (Chapter VII). The assurances provided during the previous audit were not acted upon. The current IT audit is a follow up audit on the recommendations of the previous report.

9.2.2 Past Audit Coverage

Audit Report No.10 of 2008 (Chapter VII) pointed out deficiencies in customisation, input controls and migration of data from legacy system. It was recommended in the Report that the Company should review and rectify the deficiencies by:

- strengthening input controls, validation controls and internal control procedures to ensure accurate, pertinent and complete capture of the data.
- mapping business rule relating to allocation of costs to respective cost centre.
- cleaning of migrated master data to rectify the errors that have crept into the ERP system and establishing comprehensive procedures for periodical review of master data.
- organising regular training programme to raise the level of user awareness and minimize errors of data input.

9.2.3 Audit objectives

Audit reviewed implementation of the recommendation of previous Report as instances of incorrect and incomplete data in the system were noticed in Audit. The current follow up audit of FICO module of SAP was conducted to ascertain whether:

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[2] ***Financial (FI), Controlling (CO), Material Management (MM), Plant Maintenance (PM), Project Systems (PS), Investment Management (IM), Asset Management (AM), Treasury (FM), Sales & Distribution (SD), Business Information Warehouse (BW)***

[3] ***ERP Central Component 6.0 Enhancement Package 7***

- input controls, validation controls and internal control procedures were strengthened by the Company to ensure accurate, pertinent and complete capture of data;
- business rules relating to allocation of costs to respective cost centre were adequately mapped into the system;
- master data migrated was cleaned to rectify the errors that had crept into the ERP system and whether comprehensive procedures for periodical review of data had been established;
- regular training programmes were organised to raise the level of user awareness and minimise errors of data input; and
- recommendations of the independent audit and CAG with respect to FICO Module have been complied with.

9.2.4 Scope of Audit

The current audit covered three sub-modules viz., Accounts Payable, Asset Accounting and Cost Centre Accounting out of six sub-modules of Financial and Controlling modules (two modules out of ten) for the period 2014-15 to 2017-18 for all Company Codes[4] of ONGC.

ONGC had appointed (August 2017) M/s KPMG to conduct functional audit on user authorisation management process and automated controls (inherent and configurable) for FICO modules. Audit obtained the Company's assurance and corrective action taken on the recommendations of M/s KPMG and thus, the issues brought out by the functional auditor have not been covered in the present audit.

9.2.5 Audit methodology

IT audit was conducted by adopting the following methodology:

- Entry conference was held with Management in August 2018.
- The table data of FICO and other related modules pertaining to the audit period, as furnished by the Company, was analysed using CAATs[5]. Data analysis included merging of certain data tables on common keys to identify issues. Data was also extracted using standard SAP reports and customised reports to corroborate the analysis of table data. The output files were shared with Management along with screen shots of Audit analysis while seeking response to Audit observations.
- Discussions, correspondence and questionnaire issued to Management and the feedback received.

Audit acknowledges Management's efforts in extracting/ sharing the table data. Exit Conference was held with Management on 01 May 2019. Report was issued to the Ministry on 06 May 2019 and the response obtained on 29 August 2019, which has been considered while preparing this report. Audit appreciates the positive response of Management/ Ministry

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[4] ***Company code refers to smallest organizational unit of external accounting for which a complete, self-contained set of accounts can be created such as the balance sheet and the profit and loss statement. It could also be a separate, but not independent, commercial place of work. ONGC has multiple company codes based on the organizational structure (Asset/ Basin/ Geographical location).***

[5] ***Computer Assisted Audit Techniques***

in viewing the Audit observations from systemic point and for conducting detailed review based on indications emanating from the audit exercise.

9.2.6 Audit criteria

- Manuals/ Guidelines/ Circulars of the Company
- Accounting policy, Statutory requirements
- Business rules as per business blueprint and ICE reference manual for FICO modules
- IT Industry standards and best practices

9.2.7 Limitations of Audit

The data used for analysis is not from live environment, but from the table data provided by the Company. Audit, therefore, could not test dummy data to evaluate input controls/ validation controls comprehensively. Audit could not analyse the data vis-à-vis the Company's business processes and system requirements as envisaged in the Business Blueprint[6] as it was not made available to Audit. Management during Entry Conference stated that the Business Blueprint was an implementation stage document. The process documents provided later by Management was a user reference manual which was not as comprehensive, as the updated Business blueprint would have been to understand the business rules, requirements and the mapping in the ERP system.

9.2.8 Audit findings

The Company is mainly using three sub-modules of FICO module i.e. Asset Accounting, Accounts Payable and Cost Centre Accounting. The Asset Accounting sub-module is used for managing and supervising fixed assets with the SAP System. In Financial Accounting, it serves as a subsidiary ledger to General Ledger providing detailed information on transactions involving fixed assets. Accounts Payable sub-module manages and records accounting data for all the vendors. Payables are managed as per the payment program and the payments can be made using cheques, electronic transfers, etc. All the postings made in the Accounts Payable are updated in General Ledger simultaneously and the system maintains/ forecasts and generates standard reports that can be used to keep track of all the open items. Cost accounting in the company is facilitated by Controlling (CO) module in SAP which determines allocation of costs pertaining to acquisition, exploration, development, production, support activities etc. Cost center is the lowest unit for collecting costs.

The analysis of the table data pertaining to the above three sub-modules and audit findings emerging from such analysis are discussed in the following paragraphs.

[6] ***Business Blueprint is a detailed description of the Company's business processes and system requirements. It documents the business processes at the time of implementation of the ERP, containing the relevant business scenarios, business processes and process steps organized in a hierarchical structure***

9.2.8.1 Master data deficiencies

i) Non-capturing of asset location in Asset Master table

The Asset Master table in SAP-ERP contains time-dependent asset allocation information and the asset location field in the table contains the details of the location where the asset is held. Location details of fixed asset are required to be maintained in the system to track fixed assets for the purposes of financial accounting, preventive maintenance and theft deterrence. Review of data in the table revealed that out of total 11,23,188 records, location field was blank in 7,48,521 records (66 *per cent*) and the Plant ID and location field was not available in 3,31,493 records (29 *per cent*). In the absence of this information, location-wise tracking of fixed assets and proper compliance of handing over/ taking over of assets in cases of custody transfers could not be ensured in the system.

Ministry replied (August 2019) that out of 7,48,521 records in which the location field was blank, 3,81,393 records have been corrected, Plant ID and location fields have been filled in 3,27,947 records as on 06 August 2019; continuous efforts are being made to update remaining records.

The assurance of updating provided during the previous audit was not acted upon. Audit noted the corrective action taken at the instance of Audit and assurance of the Ministry.

ii) Non capture of Asset in-charge

Asset in-charge field in ANLA[7] table denotes the custodian of the asset under whose charge the asset lies. It was observed that in 3,651 records out of 5,49,298 records, the field was either blank or the employee ID number was zero. Absence of this information in the system could lead to control gaps in monitoring the assets. The assurance provided for updating the data during the previous audit was thus not carried out.

Management replied (April 2019) that a report has been developed in the system to identify assets with invalid indenter/ custodian. Ministry replied (August 2019) that out of 3,651 records, corrective action has been taken for 2,150 records as on 6 August 2019 and continuous efforts are being made to update the rest. For future cases, the Ministry replied that a system control has been put in place to ensure that the custodian field in the asset master will not be blank.

Management may ensure completeness of asset location and asset custodian information in master data to utilise system functionalities for tracking and monitoring of assets.

iii) Incorrect classification of Assets

Audit noticed the Asset Master table upon joining with Asset Description table (ANKT[8]), using asset class field that the same assets were appearing under multiple classes. Test-check of few assets revealed the following:

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[7] ***ANLA is a standard SAP table which is used to store Asset Master Record Segment information***

[8] ***ANKT is a standard SAP table which is used to store Asset classes: Description information***

- 'Mobile', 'Solar Assets', 'DG Sets' etc. were appearing in multiple asset classes varying from production, furniture, office equipment, oil & gas production equipment etc.
- In one case, Solar Power CP station at KV School was found appearing under Asset Class 10414 – Engine & Compressor, which would normally govern Production Equipments.

Management replied (October 2018/ April 2019) that classification of asset is dependent upon its area of usage; the asset, 'Solar CP station' was inadvertently capitalised under Production Equipment (asset class 10414), which has since been corrected and reclassified under 'Renewal energy device'. Incorrect classification of Assets was pointed out in the earlier report. The assurance provided in the previous Audit has not been acted upon.

Audit recommended that considering the impact on the accounts, Management may conduct a detailed location-wise review of assets to ensure uniformity in asset classification.

Ministry accepted the recommendation and replied (August 2019) that a thorough review of the classification of assets is being undertaken across all units/ locations.

iv) Non-capture of Responsible cost centre/ Cost centre

The SAP system uses the cost centre assignment in the asset master record to determine the cost centre affected when the asset postings like fixed asset, depreciation, gain/ loss from asset sales are done. The responsible cost centre is responsible for the physical asset but would not carry the depreciation cost. Review of asset master table data revealed that out of 11,23,188 records, in 39,582 records the cost centre as well as responsible cost centre were blank.

Management replied (November 2018) that all the units have been advised to ensure that responsible cost centres are updated wherever internal order has been used in the asset master as cost object and cost centre is not blank. It further replied that (May 2019) the responsible cost centre field has been made mandatory for old and new assets. Ministry replied (August 2019) that out of 39,582 records, corrective action has been taken for 33,031 records and continuous efforts are being made to update remaining records.

The corrective action initiated at the instance of Audit is noted.

9.2.8.2 Control gaps

i) Ex-employees continue as custodian of asset

Asset custodian is the field in Asset Master which denotes the custodian of capital assets who is responsible for safe custody, physical verification and movement etc. of the assets. Audit analysed the data where the custodian name is mentioned in the Asset master table to see if any of the retired employees still continue to appear as custodian. To this end, the database of Asset master containing the assets custodian details was joined with that of SAP report on ex-employees based on the field Custodian/ ex-employee name. It was observed that 571 ex-employees (retired before 01 April 2014) continued as custodians in case of 11,369 assets valuing ₹87.43 crore.

Audit recommended that management may ensure appropriate controls in place to check the continuance of retired employees as custodians of assets.

Management/ Ministry replied (April 2019/ August 2019) that 441 out of 571 records pointed out by Audit have been removed as custodian of assets and a system based control for automatic transfer of assets lying in the employee's account and issuance of no objection certificate/ relieving order through system has been advised. Ministry further added that adequate controls are in place to check the continuance of retired employees as custodians and report has been provided to the locations for corrective actions for discrepant custodians in the asset masters.

The corrective action initiated at the instance of Audit is noted.

ii) Non/ Incorrect capturing of Bank Details of Vendor Master

The vendor master database contains information about the vendors that supply an enterprise. This information includes vendor name, vendor account number (vendor ID), bank account number etc. A review of the data of bank details of vendor master revealed that out of 1,57,804 records, the account holder's name was not captured in 2,206 records and the bank account number was not captured in 1,176 records. In two cases, it was noticed that the unique vendor ID was linked to more than one person and with different bank account numbers.

For enabling digital payment, bank key is used for identifying the individual branches for electronic banking in India, which is either MICR code (9 digits) or IFSC code (11 digits). Audit observed that in seven records under country code IN, the bank keys are neither in MICR code format nor in IFSC code format.

In 457 records, the vendor name and address were same though the vendors' IDs were different, indicating presence of duplicate vendors. The risk of fraud/ incorrect payments is accentuated by the presence of duplicate vendors/ fictitious records in the vendor master. Thus, the assurance provided during the previous audit on cleaning of duplicate vendors has not been acted upon.

Management replied (April 2019) that the bank details of the vendors having invalid bank key (IFSC) or blank bank account number have been reviewed and removed from vendor masters and vendors having blank account holder name have been blocked. Bank Account numbers of two vendors were rectified on the basis of HR master, being employee vendors. Further, a proper centralised process for creation of vendors has been put in place. It has the required validations for preventing duplicate vendors, different vendors with same address, same bank detail with valid IFSC etc.

Audit recommended Management to take a comprehensive review and address incorrect/ incomplete entries in master records by placing appropriate controls.

Ministry accepted (August 2019) that in 457 records, vendor name and address were same though vendor IDs were different indicating presence of duplicate vendors. Work centres were advised to review the records and block the vendor codes which are duplicate. Ministry further stated that corrective action has been taken after a comprehensive review of the vendor masters and appropriate and adequate controls for vendor masters have been ensured through Vendor Management System.

The corrective action taken at the instance of current Audit is noted.

iii) Overdue payments without block or justification

Payment block keys[9] denote the reasons for which the payment is kept pending/ being an open item. Similarly, blank entry in the payment block key means those items which are free for payment. During the scrutiny of open items pertaining to vendors in BSIK table for the year 2014-16[10], it was observed that 1,850 records (out of 40,91,895 records) had no payment block keys but were still pending for payment of ₹165.17 crore. The ageing of the payment dues from the posting date to a threshold date (31 March 2017) ranged from 90 to 1,096 days. Amounts lying as open items without payment block for such long periods is an indicator of ineffective controls on account payables.

Management replied (April 2019) that all the work centres have been advised to review open overdue payments list, to reverse the liability if the payments are not required to be made and to insert appropriate payment block if the payments are still to be made with the reason for holding such overdue payments.

Audit recommended that Management may consider implementing necessary checks to auto-review the open items at appropriate level through the system.

Ministry accepted the audit recommendation and replied (August 2019) that a serious view has been taken by ONGC and all work centres have been suitably advised. Ministry stated that only 60 items amounting to ₹15.54 lakh are pending as on 19 June 2019 for which necessary action is being taken. Besides, a mechanism has been developed wherein mail/ SMS alert with list of overdue payment on open items is provided to respective heads of finance on monthly basis to review such cases.

The corrective action taken at the instance of Audit is noted.

iv) Delay in posting data

As per the Finance Manual of the Company, maximum time allowed to post the documents is within 7th day of the succeeding month. During closure of accounts at the financial year end, accounts are kept open for posting adjustment and closing entries normally for two more accounting periods (till 31 May). Audit noticed that out of 19,703 records for which difference between the posting date and entry date was more than 30 days, 3,134 records amounting to ₹750.38 crore related to the document types pertaining to Bank Payment/

[9] ***e.g. A- blocked for payment, D- block for old cases, R – CVP rejection block, Stale cheque block and X – APP payment block***

[10] ***as data pertaining to 2017 FY could not be combined due to the data type discrepancies***

Receipt, Vendor Invoice, G/L Account, and CV Payment Posting. The delay in posting transactions showed that the control system on ensuring timely posting of financial payment document is not sufficient.

Ministry replied (August 2019) that corrective action has been initiated by the company for monthly closing of accounts to ensure that there is no undue time lag in the posting and entry date of documents as pointed by Audit. Corrective action initiated is noted.

v) Multiple usage of one time vendors

One time vendors supply the Company only once or very rarely. Master records are not created each time for such vendors and collective accounts are set up for them. These accounts are also referred to as one time accounts which do not contain any vendor-specific data. Therefore, data such as address, salesperson, bank details etc. must be entered at the time of purchase or invoice verification.

Audit analysed the data related to one time vendors in BSEC table (2,88,909 records). The records containing the one time vendors were joined with vendor master table and matched for the name and city. It was observed that some one time vendors had multiple matching records ranging from two to 86 and in same company code. This indicated that the one time vendor method is being used rather than creating vendor master data for regular vendors, which is not advisable. Repetitive payments to one-time vendors indicated presence of fraud risks. Management may like to focus on the company codes – MHN (Mehsana), SBS (Shibsagar), AMD (Ahmedabad) with more than 350 records of one time vendors and KKL (Karaikal), RJY(Rajamundhry) and DLI (Delhi) having more than 150 records each.

Management replied (April 2019) that necessary instructions have been issued to all the units for not using one-time vendor code for regular type of payments.

Audit recommended that Management may customise the controls to ensure one time vendor payment facility is not utilised for regular payments and put a limit on number of payments to one time vendor in a system.

Management accepted the recommendation in Exit Conference. Ministry stated (August 2019) that a system control has been put in place whereby a warning message is given, whenever a one time vendor is used and payment to one-time vendor is allowed only once based on unique identity like PAN/ Aadhar number.

vi) Continuing Non-Digital payments

ONGC is using Bank Communication Management (BCM) tool for making electronic payments with house bank SBI which are digitally signed. Internal guidelines of ONGC stipulated to make all payments through digital mode. Cheque payments, if necessary, were to be made with approval of Head of Finance. Analysis of data related to cheque payment during the period 1 April 2014 to 31 March 2018 revealed the following:

- Total 1,88,971 records (other than void cheques) valuing more than ₹2.50 lakh crore indicated that cheque payments still continue. Maximum cheques were issued at Company codes - Mehsana, Ahmedabad and Rajahmundry. In 7,399 records, the payment was made on weekends (Saturday and Sunday), of which more than 1,000 cheques were paid by four users valuing ₹9,069 crore. In 6,327 records, the vendor number is blank which included payments to private parties (other than statutory authorities/ banks).

- With regard to void cheques, it was found that in 234 records of total 14,363 void cheques, there was no reason recorded in the respective field. A standardised narration strengthens internal control.

Management replied (December 2018) that:

- Out of total 1,88,971 items, 1,153 items comprising of ₹2.025 lakh crore (approx.) are from Delhi and Dehradun units which belong to categories other than vendor payments. These payments related to investments and dividends, remittance to statutory bodies/ trusts, internal fund transfer, JV payments etc. Further, as per guidelines, cheque is also issued in favour of bank for payments to LCs, remittances, other forex payments etc. which are made through RTGS mode.
- Void reason no. 11 in system is without TEXT. System mapping has been initiated to make it specific as 'Others'.

Audit recommended that considering the repeated nature of transactions involved with the House bank and the feasibility, Management needs to digitise foreign exchange payments.

Management accepted the Audit recommendation and stated (April/ May 2019) that the possibilities of digitising the forex payments and investments are being looked into. Ministry stated (August 2019) that forex payments across all units and investments, repayments of loans/ interest are made through either digital mode or authority letters.

vii) Non-capturing of Item Text

Narration (item text) helps in bringing more objectivity and clarity to records which are captured in accounting documents. In the BSIK table (containing 40,91,895 records during the period 2014-16), the narration field of the transactions were blank in 8,517 records.

Management/ Ministry replied (April 2019/ August 2019) that instructions have been issued to the units to ensure that proper narration is maintained at the time of creating entry in the system.

viii) Non/ incorrect capturing of payment details

PAYR is a repository table containing the details of cheque payments made to vendors etc. On review of data (PAYR table) as furnished by the Company, Audit observed that out of 17,330 records where cheque encashment date is Nil, 2,422 records pertained to cheques which were not voided and more than three years old valuing ₹5,492 crore.

Management replied (April 2019) that detailed analysis was done and it was seen that 297 records pertained to LC/ Forex arrangement payments, 1,344 records were statutory payments made through online banking and 1,130 records pertain to OVL/ OBV Company codes.

Audit recommended Management to review the cases where online payments have been made but still appearing under cheque payment in the PAYR table.

Ministry replied (August 2019) that system check has been put in place, whereby cheque encashment date will not be blank. With regard to the online payments appearing in PAYR table, it was stated that cheque is also issued in favour of banks for payments to LCs, remittances, other forex arrangement payments etc. which are made through RTGS mode to prevent the possibility of duplicate payment.

The corrective action taken at the instance of Audit is noted.

9.2.8.3 Customisation deficiencies

i) Inconsistency in Statistical Key Figure (SKF) usage

A statistical key figure is a number providing information about non-monetary data relating to organisational units. These figures can be in reporting and in allocation and represent statistics in internal orders, cost centres and profit centres which are measured in quantity or time units and are used for allocation of costs.

To review the consistency in adoption of SKF across company codes and across the period, the tables COKA, COKP, COBK, COEPR, CSKU and SKF[11] were joined using the common fields and the following were observed:

- Description is blank in 63 cost centre groups and there were 66 cost centre groups which are likely duplicates and would need a review.
- There is no uniform practice across the Company for adoption of SKF for drilling costs.

Management/ Ministry assured (April 2019/ August 2019) corrective action in respect of blank description fields and for ensuring uniformity in cost allocations and stated that necessary changes will be taken in the SKFs during cost cycle 2019-20.

9.2.8.4 Validation checks and Input Controls

i) Lack of input control and validation of data

Input controls are application controls which ensure and protect the accuracy, integrity, reliability, confidentiality and completeness of information.

a) Asset accounting

System automatically picks the date of server as the entry date of the document. Transactions are normally posted after receipt of documents (for e.g. bills/ invoices).

It was observed that:

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[11] ***These are controlling module tables which contain details of object number, cost element and statistical key figures***

- In 3,06,057 records, the document date was after the posting date. In eight records, document date is greater than the current date of audit i.e. September 2018 (e.g. 28 November 2018, 30 September 2019, 30 September 2201, 07 November 2201).
- 52,856 records indicated delay in posting the documents with the delay ranging 61 days to more than 10 years.

Management replied (April 2019) that the delay in timely posting the documents was mainly due to implementation of IND-AS and quarterly/ annual closing of accounts. It further stated that efforts are being made to minimise the gap by closing the accounts on monthly basis. Ministry stated (August 2019) that system check has been introduced where document date cannot be after system date and corrective action initiated for monthly closing of accounts.

b) Cost centre accounting

COBK is the document header data table of controlling object. A review of the data records (91,64,158 records) revealed that in 1,73,595 records, document date is greater than the system date i.e. 31 March 2018 (e.g. 22 May 2041, 25 April 2201, 23 May 2314, 02 December 2020 etc.). In 12 records, document date is not in order and another six records; document dates pertained to 2001-2011 while entry date/ posting date pertained to 2014-18.

Audit suggested Management to consider validating the document date entry.

Management replied (April 2019) that a validation will be put to the effect that document date is not after the system date by 30 April 2019. Ministry stated (August 2019) that system check has been introduced where document date cannot be after system date.

The corrective action taken at the instance of Audit is noted.

9.2.8.5 Segregation of duty

The segregation of duty principle requires that controls be built to ensure that there is proper segregation of duties for data entry and there are compensating controls in place where segregation of duty is not possible. It is generally accepted that creation, change and deletion of master records be vested in different individuals to ensure security of data and to avoid/ reduce potential damage from actions/ inactions of any one person. During scrutiny of the table, it was seen that in 1,30,733 records, master data has been created and changed by the same person.

Management/ Ministry replied (April/ August 2019) that two separate roles have been created for creation of asset and change in the Asset. Ministry further stated that the existing assignment of roles will be automatically removed with effect from 01 June 2019.

9.2.8.6 Training efforts

End user/ refresher training details to raise the level of user awareness and to minimise errors of data input were called for from Management. Management stated (April 2019) that every year refresher training is imparted to the end users. It was also explained that e-Learning is available through the web portal for benefit of the users.

Audit recommended that updated training engagement of users needs to be ensured to facilitate error free inputs to the system.

Ministry stated (August 2019) that action has been initiated for inclusion of SAP FICO Module trainings in annual calendar.

9.2.8.7 Conclusion

CAG's Audit Report 10 of 2008 (Chapter VII) pointed out deficiencies in customisation, input controls and migration of data from legacy system. It was recommended in the Report that the Company should review and rectify the deficiencies by strengthening the controls, mapping business rule relating to allocation of costs and periodical review of master data. Audit observed that some of the issues pointed out in the report were rectified by Management and some issues still persisted (details in ***Annexure-XXV***) despite assurances. Ministry had rectified the lapses only after they were pointed out again. Most of the issues pointed out in this report pertained to control gaps which included new issues also. Though periodical review of master data had been recommended, deficiencies still persisted in Asset Master Tables. Further, few issues on input controls and standardisation of cost allocation also still persisted.

These issues can be addressed by placing appropriate controls in addition to rectification of existing errors. Updated training engagement of users to enable error free inputs to the system also needs to be ensured. Consistency and uniformity across the organisation are desired in the financial procedures through the system.

Management may like to view these findings as indicative and conduct a systematic and periodic review. Ministry stated (August 2019) that post audit observations, ONGC has taken continuous efforts to take corrective measures and rectify the deficiencies.

9.3 Loss of revenue due to sale of crude oil containing Basic Sediments & Water above the norms as per sales agreement

Failure of ONGC to upgrade and create facilities within the approved time schedule to contain the basic sediments and water in the crude oil supplies within limits resulted in loss of revenue of ₹27.06 crore.

Oil and Natural Gas Corporation Limited (ONGC) entered (April 2002) into a Memorandum of Understanding (MoU) with Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL) for sale of crude oil. The sale price was subject to discount at slab rates, in case Basic Sediment & Water (BS&W) content in the crude oil exceeded 0.2 *per cent* by volume as detailed below:

Table 9.3.1

Discount for BS&W (volume in *per cent*)	Discount (US$ per barrel)
Less than 0.2 *per cent*	Nil
0.2 to less than & equal to 0.5 *per cent*	0.10
0.5 to less than & equal to 1.0 *per cent*	0.15
For every increase of 0.5 *per cent*	0.05

ONGC's oil fields in Assam are situated in Geleki, Lakwa, Rudrasagar and North Bank. Crude oil produced in these fields is collected at Central Tank Farms (CTFs) at Lakwa and Geleki fields, which is sent to Custody Central Tank Farms (CCTF) at Moran and Jorhat. The crude oil is finally supplied to Guwahati & Bongaigaon refineries of IOCL and Numaligarh Refinery of BPCL through pipeline of Oil India Limited (OIL). The oil produced from these fields has high BS&W content, due to which further processing of crude oil is required to bring down the BS&W content level below 0.2 *per cent* before supply to the refineries. In this regard, Audit observed that:

- Assam Renewal Plan (ARP) - Plan A, 'Revamping & Optimisation of Surface installation & Gas lift/ Pipeline network for Lakwa and Lakhmani fields and Moran CTF' with an estimated cost of ₹2,465.15 crore, was conceptualised way back in December 2005. One of the major deliverables of the project was to control the BS&W level below 0.2 *per cent*. The project was awarded in March 2009 with scheduled completion in March 2013; the project is still not completed.
- As against the targeted five GGS[12], four GGSs could be revamped under Plan – A; however, the revamped facilities failed to improve desired quality of crude oil as average BS&W content was around 0.2 to 1.799 *per cent* from 2015-16 to 2019-20 (till October 2019).
- ONGC envisaged additional steps viz., cleaning and repairing of tanks, to reduce the BS&W content in crude oil. However, Audit observed that out of 168 oil and effluent tanks installed in Assam Asset, 49 storage tanks are in Lakwa and Lakhmani fields which would be taken up for cleaning and repairing only after the ARP project is completed. In respect of remaining 119[13] storage tanks, only 40 tanks were cleaned and repaired till November 2019.
- Crude oil supplied from Assam Asset contained BS&W ranging from 0.164 to 0.417 *per cent* during the period April 2013 to October 2019 (the period subsequent to March 2013, scheduled completion of the project) resulting in price discount/ loss of revenue to ONGC amounting to ₹27.06 crore.

ONGC/ Ministry stated (November 2019/ March 2020) that:

- Revamping of one more installation (LKH GGS-5) has been completed and put in operation since May 2019. LKW GGS-1 has been commissioned in December 2019 and under trial run; LKW CTF is under progress. However, many times it becomes difficult to achieve the desired quality due to dynamic process conditions and CTF plays an important role as better settling and separation in CTF results in lesser BS&W in crude.
- Cleaning/ repairing of storage tanks is not a direct measure for BS&W reduction. However, cleaning/ repairing of tanks provide more ullage and more time for water to settle that indirectly facilitates to achieve better water separation and lesser BS&W

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[12] ***GGS- Group Gathering System- Here emulsion along with associated gas produced from the wells is collected, where liquid and gas is separated through Separator***

[13] ***Out of 119 tanks, six are new tanks, seven tanks are not in use and five tanks are under repair.***

content. Further, 40 tanks have been cleaned upto 15 November 2019, work is in progress for five tanks and for the remaining tanks, the expected date of completion is April 2023.

- Assam Asset was striving hard to reduce BS&W in refinery dispatch and the consistent efforts have resulted in reduction of discount paid from ₹4.49 crore in FY 2017-18 to ₹1.91 crore in FY 2018-19. The range of BS&W was 0.297 to 0.164 *per cent* during the FY 2018-19 which reveals a significant improvement.
- Desired quality could not be achieved in the recent past due to (i) mixing of crude from revamped and under-revamped installations, (ii) Heater Treater equipments being more than 35 years old and needed to be replaced, (iii) repairing and cleaning of tanks in the running installations is a tedious and continuous process and can be done only sequentially linking refineries shutdown, (iv) more volume had to be dispatched to refineries to create ullage in GGSs/ CTFs leading to rise in BS&W in oil dispatch due to lesser settling time for final separation, etc.

The reply needs to be viewed in the light of the following:

- The LKW-GGS-1 has been commissioned in December 2019 (against the scheduled completion date of March 2013) and trial run completed (January 2020). The facilities on LKW - CTF is still in progress. Thus, the ARP, conceptualised way back in December 2005, is still not completed even after a period of more than 15 years.
- Desired level of BS&W content could not be achieved in all the four completed GGS, which was in the range of 0.2 to 0.584 *per cent* since commissioning.
- Additional steps viz., cleaning and repairing of tanks, use of oil soluble demulsifiers etc., could not bring down BS&W content in the Assam crude to the desired level.
- During the period of 2019-20 (till October 2019), the BS&W content was above the desired level of 0.2 *per cent* in all the months and ONGC sustained loss of revenue of ₹2.86 crore during the period. The expenditure on revamping to the extent of achieving the desired level of BS&W content has thus been rendered infructuous.
- ONGC should have addressed the issue in a time bound manner so as to ensure supply of quality crude to the OMCs.

Thus, ONGC sustained loss of revenue of ₹27.06 crore during the period April 2013 to October 2019, due to delay in implementing the Assam Renewal Project and resultant failure to maintain the BS&W contents within the prescribed norms.

India Oil Corporation Limited, Bharat Petroleum Corporation Limited and Hindustan Petroleum Corporation Limited

9.4 Implementation of de-regulation of pricing regarding major Petroleum Products

9.4.1 Introduction

Government of India (GoI) used to control prices of petroleum products through Administered Pricing Mechanism (APM) since July 1975. In 1997, it was decided to dismantle APM in a phased manner based on the recommendations of Strategic Planning Group on Restructuring of the Oil Industry ('R' group). In 1998, Fuel Oil, Low Sulphur Heavy Stock (LSHS) and Naphtha were de-regulated followed by Aviation Turbine Fuel (ATF) in 2001. Motor Spirit (MS) and High-Speed Diesel (HSD) were de-regulated with effect from midnight of 25/ 26 June 2010 and 18/ 19 October 2014 respectively.

Consequent to de-regulation, the prices of petroleum products are market determined and Oil Marketing Companies (OMCs) are free to determine the prices. Prices of MS/ HSD, which were being revised fortnightly, are being revised daily across all retail outlets in the country from 16 June 2017.

9.4.2 Audit Objectives and Scope

The objectives of the compliance audit were to report broadly on the following:

- Implementation of daily pricing mechanism and its monitoring by OMCs.
- Whether the de-regulation brought-in market competition in respect of MS/ HSD prices.

This audit mainly covered the period from 2014-15 to 2017-18 i.e. post de-regulation of HSD.

9.4.3 Audit Criteria

The audit criteria included the provisions of:

- GoI policy and circulars issued to de-regulate Retail Sales Price (RSP) of MS and HSD.
- The monitoring mechanism of daily pricing implemented by OMCs since 16 June 2017.

9.4.4 Audit Methodology

Entry conference was held with senior management of OMCs on 20 July 2018 wherein audit objectives, scope and methodology were discussed. The field audit was conducted during the period from August to November 2018. This included collection of statistical data from Retail Headquarters of OMCs and visits of audit teams to selected Retail Outlets (ROs) and offices controlling ROs. Out of total 55,013 ROs (as on 31 March 2017), 188 ROs were selected on sampling basis for detailed audit.

9.4.5 Audit Findings - Implementation of daily pricing on MS/ HSD and its monitoring by OMCs

OMCs effected daily change in the RSP of MS and HSD on trial basis in five cities with effect from 1 May 2017 and across the country from 16 June 2017 as against fortnight revision being followed till then. The decision was implemented through automated and non-automated ROs. The price changes are affected at the automated ROs through central server at 6 a.m. every day by generating price file, which gets updated in the system. In case of failure to update, the dealer manually updates the prices based on communication received through SMS, emails, web portal, mobile app etc. In case of non-automated ROs, the dealers change the prices daily on the basis of communication received from OMCs.

There were 55,013 retail outlets under the control of three OMCs[14] as on 31 March 2017, of which 22,014 were automated[15] and 32,999 were non-automated[16] retail outlets. Audit selected 188 ROs (automated - 61 and non-automated - 127) for test check based on statistical sampling. Detailed checking of daily price change along with bills was conducted for the months of January and May 2018 in respect of the selected ROs. Further, Inspection Reports of ROs (conducted by OMCs) for the year 2017-18, audit trails, registers including complaints etc. were also scrutinised during field visit.

Scrutiny of relevant records and information obtained from MoPNG and OMCs along with discussion held with concerned officers led to the following observations in areas of preparedness, implementation and monitoring by OMCs.

9.4.5.1 Adequacy of preparedness

Lack of automation of ROs and absence of sustained connectivity

- Automation of ROs with price push application along with sustained connectivity ensures prompt and correct change of prices as it eliminates manual intervention. OMCs had automated only 43 *per cent* of ROs in June 2017 at the time of implementation of the policy indicating lack of preparedness. As per directives (November 2017) of MoPNG, automation of all ROs were supposed to be completed by December 2018. However, only 80 *per cent* ROs were automated by three OMCs by December 2018 with a capex of ₹1,487 crore.

  Due to slow progress of automation, MoPNG included this as a parameter in the MOU targets for OMCs for the year 2018-19. IOCL and BPCL could automate 98 and 93 *per cent* of ROs respectively by March 2019 and HPCL could achieve complete automation after 20 months from implementation of daily pricing.

- In case of HPCL and BPCL, some of the ROs, which were compliant for daily price push, could not successfully receive the pushed price mainly due to lack of sustained connectivity. Review of data of HPCL for the period 16 June 2017 to 30 June 2018 showed that daily failure rate ranged between 9 and 88 *per cent* and for BPCL (from 20 June 2017 to 30 June 2018) the failure rate ranged between 59 and 93 *per cent*. None of the eight automated ROs of IOCL visited by Audit staff had sustained connectivity resulting in manual price change by the dealers.

- Daily RSP was changed by the dealers manually at the automated ROs instead of being pushed automatically by the central server during field visit of Audit staff. Details in this regard are tabulated below:

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[14] ***IOCL – 25,951, HPCL – 14,992 and BPCL – 14,070***
[15] ***IOCL – 9,925, HPCL – 5,033 and BPCL – 7,056***
[16] ***IOCL – 16,026, HPCL – 9,959 and BPCL – 7,014***

Table 9.4.1: Instances of manual changing of RSP at automated ROs

OMC	Name of controlling office	Auto mated ROs (Nos.)	No. of automated ROs where daily prices were changed manually on the day of visit	Automated ROs where daily prices were changed manually (in per centage)	No. of ROs having more than 51 instances of manual price changes since implementation
HPCL	Bhopal RRO	177	78 (03 September 2018)	44	104
	Indore RRO	200	32 (08 October 2018)	16	37
	Mumbai RRO	87	36 (16 October 2018)	41	Data not available
BPCL	Surat TO	189	111 (27 August 2018)	59	--do--
	Indore TO	179	102 (29 September 2018)	57	--do--
	Gwalior TO	106	73 (25 October 2018)	69	--do--
	Manmad TO	196	72 (31 October 2018)	37	--do--

- It can be seen from the above that manual price changes were rampant in respect of the outlets at Bhopal RRO, despite it being an automated one. In case of IOCL, the extent of manual intervention in automated ROs could not be ascertained for want of data relating to dissemination of daily prices by the server. However, in one of the ROs under the Gurugram Divisional Office of IOCL, the dealer intervened manually on 131 and 132 occasions before and after 6 a.m. for HSD and MS respectively during the period July 2017 to September 2018 in spite of successful auto price push.

OMCs attributed (April 2019) manual change of prices in automated ROs to lack of connectivity. HPCL stated that with the implementation of VSAT the problem will be addressed. MoPNG stated (February 2020) that the automation of ROs was not linked with the daily pricing which was implemented since June 2017. It facilitated the auto price push and in other ROs the daily pricing was implemented on manual basis. At present feasible and operative ROs have been automated and most of them have been provided with connectivity. Though there were manual operations in automated ROs, correct prices were charged.

The reply is to be viewed against the fact that implementation of daily pricing required automation of ROs with sustained connectivity to ensure prompt and correct charging of prices by the ROs. In its absence, mechanism to ensure correct change of pricing by the dealer and monitoring by the field officers was required. However, at the time of implementation of daily pricing, the OMCs lacked both and took time to achieve automation target which resulted in charging of incorrect prices to the consumers, as pointed out in para 9.4.5.2.

9.4.5.2 Change of daily prices by dealers

i) Lack of promptness in changing the prices by dealers

Audit scrutiny of records relating to revision of prices (price change reports/ logs) by the dealers at the selected ROs revealed the following:

- There were 3,463 instances in 91 out of 188 ROs (IOCL-40, HPCL-35 and BPCL-16) when dealers were not prompt in changing the prices at the prescribed time of 6 a.m. The daily prices were manually revised within the range of 587 minutes before 6 a.m.

and 1,078 minutes after 6 a.m. However, the timing of working hours of most of the ROs was displayed as 7 a.m. to 11 p.m. Thus, overcharging from customers by the dealers at such instances could not be ruled out.

- There were 95 instances (IOCL- 41, HPCL-54 and BPCL-nil) when prices were revised on higher side than the prevailing RSP for the day by the dealers resulting in overcharging which is a major irregularity in terms of Marketing Discipline Guidelines (MDG).

IOCL/ HPCL stated (February 2019/ April 2019) practical difficulties like greater number of dispensing units involved in change of prices, lack of connectivity, operation of ROs in shifts, repairing of printers, and automation of ROs etc. BPCL stated (April 2019) that corrective action such as issuing of detailed SOPs, guidelines to field officers and dealer network etc. has been initiated. BPCL further stated that work is underway for modifying the RO Inspection Report (ROIR) to ensure that the Sales Officer takes a print of the price log and attaches the same along with the ROIR.

MoPNG (February 2020) stated that currently auto price push with VSAT & Real Time transfer has been implemented at 68 *per cent* of the total automated ROs and will meet 100 *per cent* target by December 2020. It does not allow manual intervention. Even when manual intervention is required in case of connectivity failure, the system implements the revised price after the connectivity is re-established.

The instances pointed out by Audit indicate lack of monitoring of price change by the field officers of OMCs which resulted in delay in price change and charging of incorrect prices by the dealer. Recurrence of such cases is possible as the new system has not been implemented at all ROs. Audit appreciates that BPCL decided to bring in a procedure where the sales officer takes a print of the price log and attaches the same along with ROIR.

ii) Incorrect charging of prices by dealers

As per clause 1.6 (i) of the MDG applicable to OMCs effective from 8 January 2013, RO dealer should ensure charging of correct price. Scrutiny of transaction reports at the automated ROs, cash/ credit bills issued by dealers and daily sales record revealed cases of incorrect charging of prices. From the record made available at ROs visited by audit, 19 out of 86 ROs (IOCL), 2 out of 53 ROs (HPCL) and 2 out of 49 ROs (BPCL) had instances of over/ undercharging as detailed below:

Table 9.4.2: Instances of over/ undercharging

OMC	No. of ROs test checked	No. of ROs where over/ under charging noticed	Percentage of ROs where over/ under charging noticed	Instances of overcharging	Instances of undercharging
IOCL	86	19	22	109	104
HPCL	53	2	04	04	nil
BPCL	49	2	04	06	nil
Total	**188**	**23**	**12**	**119**	**104**

Source- Data furnished by the Management

OMCs accepted incorrect charging of prices pointed out by audit. IOCL attributed (April 2019) incorrect charging of prices to wrong prices communicated by the company to the dealers, absence of malafide intention by dealers, practical difficulties involved in changing of prices and that the dealers were cautioned for these errors. HPCL stated (April 2019) that new application viz., 'Retail Automation Dashboard' has been developed for monitoring/ tracking price change at the ROs through system. MoPNG stated (February 2020) that the extent of incorrect price changes was marginal which rules out wrong intention on the part of the dealers. However, the dealers were counseled in these cases. In one case, action was taken on the dealer in terms of the MDG guidelines. In future, the improvements in the automation and connectivity will take care of these lapses.

The cases of incorrect charging of prices were only indicative and were noticed at the ROs inspected on sample selection basis. These cases showed lack of proper monitoring by OMCs.

iii) Overcharging due to flaws in Automation system

Audit observed that overcharging occurred at an automated RO, under Mumbai DO of IOCL due to discrepancy in communication of rates through mail and server. The dealer implemented the rate communicated through auto generated mail which was higher than the rate pushed by the server, as detailed below:

Table 9.4.3: Details of overcharging due to system flaw

Bill No.	Date	Product	Rate charged to the customer (₹/ ltr)	Applicable rate (₹/ ltr)
64606	01 June 2018	MS	85.85	85.81
64606	01 June 2018	HSD	72.28	72.25
64573	01 June 2018	MS	85.85	85.81
64572	01 June 2018	HSD	72.28	72.25
64568	01 June 2018	HSD	72.28	72.25

Source- Data furnished by the Management

Further, the rate communicated through mail must have been implemented at all non-automated ROs and automated ROs where dealers manually changed the price due to connectivity issue.

Management accepted (April 2019) the discrepancy in communicating the rate by IOCL; however, the reply was silent about corrective action and impact of this discrepancy on non-automated and automated ROs where there was no connectivity. MoPNG did not offer any comment.

iv) Change of HSD prices on multiple occasions during the day

It was noticed at an automated RO under Goa Divisional Office of IOCL that the prices were changed on multiple occasions on the same days in May 2018 by the dealer using two different log-in IDs as the system break-down was frequent. Hence, charging of incorrect prices cannot be ruled out during those days as detailed below:

Table 9.4.4: Instances of change in HSD prices on multiple occasions during the day

No.	Date	Actual price (₹ per litre)	Time of pushing the prices	Prices changed by the dealer (₹ per litre)
1	20 May 2018	71.00	08.29 hrs	71.00
			20.48 hrs	71.05
2	21 May 2018	71.25	6.02 hrs.	71.25
			21.11 hrs	71.30
3	22 May 2018	71.52	6.11 hrs	71.52
			23.37 hrs	71.65
4	23 May 2018	71.79	6.03 hrs	71.79
			21.43 hrs.	71.80

Source- Data furnished by the Management

From the table it can be observed that the price changes by the dealer were on higher side which resulted in charging of incorrect prices.

IOCL stated (April/ May 2019) that the case was examined by a committee which reported (May 2019) that as the system break-down was frequent, the dealer used the Admin login shared by the vendor to avoid sale loss and customer inconvenience. Further, during May 2018 the dealer suffered minor loss due to net over/ under charging. MoPNG reiterated (February 2020) the management reply and added that the new automation system and connectivity has been installed at the subject RO to ensure auto price push and the dealer has been counseled for maintaining correct price in case of failure of the system.

Though the dealer might have suffered net loss during a particular month, fact remains that consumers were charged at incorrect prices in these instances. Further, these are the results of test checked cases and are indicative.

v) Non availability of transaction reports in the automation system

In case of IOCL, price change reports were not available in respect of an automated RO under M.P. State Office and two automated ROs under Gurugram DO. Hence audit could not verify promptness in change of prices and charging of correct prices by the dealers. The information was also not available in the Marketing Headquarters.

Management stated (April 2019) that the price change report was not available at these three outlets due to technical problem and the automation vendor has been cautioned to keep a backup. MoPNG did not offer any remarks.

vi) Incorrect display of RSP in HPCL and BPCL App/ Mobile number

HPCL and BPCL have developed mobile applications called "My HPCL App" and "Smart Drive" respectively for assistance to customers. These apps play important role for the customers in verification of the rates charged by the dealers. Audit test checked functioning of these 'Apps' and observed that:

- The RSP of MS and HSD at one of the ROs under East Zone of HPCL was showing as ₹77.87 per litre and ₹73.72 per litre respectively in the App on 31 August 2018 against the RSP of ₹78.14 per litre and ₹74.20 per litre which was higher by ₹0.27 per litre and ₹0.48 per litre respectively. HPCL stated (April 2019) that the mistake happened due to technical problem and corrective action would be taken through Information System.

- The BPCL App could not detect two ROs under East Zone and could not show the prices of petroleum products. It showed a message "No outlet found". BPCL stated (April 2019) that the problem occurred due to connectivity issue at that location.

Audit test checked facility provided to customers by BPCL to verify the correctness of RSPs of products on mobile number through SMS, at three ROs at Bhatinda and Dehradun. However, no reply was received for 7 out of 12 SMSs[17]. BPCL stated (April 2019) that it happened during initial phase due to some integration issues and the same have been addressed. MoPNG did not offer any remarks.

Malfunctioning of the Apps and SMS facility needs attention since it would improve confidence level of customers regarding the price charged.

9.4.5.3 Inspection of ROs by OMCs

Minutes of the Industry meeting held on 9 January 2013 prescribed minimum frequency of inspection of ROs by field officers of OMCs, which ranged from twice a year to four times a year depending on extent of automation. In the case of BPCL, 176 out of 14,762 ROs had shortfall in such inspections, while 2,454 out of 15,604 ROs in HPCL had shortfall in inspections. In the case of HPCL, 7 *per cent* of ROs had never been inspected and 9 *per cent* of ROs, had been inspected only once. IOCL did not provide the necessary data.

Further, field officers were required to report in the prescribed format about the charging of correct prices by the dealers during the mandatory inspections, but the formats did not require reporting of delays in change of prices. This has resulted in continued over/ under charging from costumers. Scrutiny of Inspection Reports revealed that field officers of 25 ROs of IOCL and 10 ROs of BPCL did not verify and report on the promptness in changing of RSPs and correctness of the price charged by dealers.

OMCs accepted the observation. BPCL stated (April 2019) that corrective action such as issuing of detailed SOPs, guidelines regarding updation of daily pricing, modifying the Retail Outlet Inspection Report etc. have been initiated.

MoPNG stated (February 2020) that suitable advices have been issued to step up the RO inspections.

Conclusion:

Lack of automation and sustained connectivity adversely impacted daily price change mechanism at ROs.

Lax implementation of daily pricing by dealers and non -monitoring on the part of OMCs led to charging of incorrect price to customers.

[17] ***Sent on 04 September 2018, 05 September 2018, 08 September 2018, 09 September 2018, 10 September 2018 and 11 September 2018***

Hindustan Petroleum Corporation Limited

9.5 Additional expenditure on energy charges

Visakh Refinery of Hindustan Petroleum Corporation Limited failed to install the capacitor banks to achieve unity/ near unity power factor, which resulted in payment of excess energy charges of ₹18.01 crore from April 2011 to March 2019.

Visakh Refinery (VR) of Hindustan Petroleum Corporation Limited (HPCL) entered (June 1986) into an agreement with Eastern Power Distribution Company of Andhra Pradesh Limited (EPDCL[18]) for import of power with Contracted Maximum Demand (CMD) of 13[19] Mega Volt Ampere (MVA). The demand/ energy charges payable to EPDCL were as per tariff regulations issued by Andhra Pradesh Electricity Regulatory Commission (APERC).

Prior to April 2011, consumers were billed on active energy consumption measured in kWh (Kilo Watt Hour). kWH represents the active energy consumed and converted into useful work, whereas Kilo Volt Ampere hours (kVAh) represents the apparent power[20]. The ratio of active power to apparent power is called as Power Factor (PF). A surcharge/ penalty was to be collected whenever PF was less than 0.90 until 31 March 2009, which was subsequently increased to 0.95 with effect from 1 April 2009.

APERC, vide tariff orders dated 22 July 2010, directed the licensees to explore the possibility of implementing kVAh based tariff (in place of kWh-based tariff) for all the High Tension (HT) consumers from 2011-12 onwards. In line with the directions, EPDCL introduced kVAh based billing from 2011-12 onwards to reduce the reactive power drawal from the system thereby ensuring better system management. The revised billing methodology was intended to drive the consumer to reach unity PF and to provide commercial disincentive for reactive energy indiscipline of consumers.

The consumers had to install power capacitors[21] at their end which would minimise the kVAh generation. If the capacitors were not installed or were not in proper service, the apparent power drawn would be in excess of active power. This would result in additional expenditure due to billing of energy on apparent power consumed in kVAh.

Audit observed that the Visakh Refinery of HPCL did not maintain unity or near unity PF. The active power drawn ranged between 81 *per cent* and 100 *per cent* of the apparent power transmitted by EPDCL during the period April 2011 to March 2019, despite the fact that the Refinery was to pay for the apparent power transmitted. It was further observed that though HPCL had already installed and commissioned Capacitor Voltage Transformer (CVT) at

[18] Erstwhile Andhra Pradesh State Electricity Board

[19] The CMD was enhanced to 24 MVA from May 2017 onwards

[20] Electrical energy has two components viz. Active Energy (kWh) and Reactive Energy (kVArh). Vector sum of these two components is called as Apparent Energy and is measured in terms of kVAh

[21] Capacitor is an electrical facility used for generation of reactive power. A capacitor helps to improve the power factor by relieving the supply line of the reactive power

132 KV level to have a good PF and PF correction, it did not install the four capacitor banks[22] purchased (April 2012) in downstream substations. As a result, the Refinery paid ₹18.01 crore excess energy charges during the period April 2011 to March 2019.

Management replied (November 2019) that:

- Prior to 2010, surcharge was levied if PF was recorded below 0.90. This implies that 0.90 was an acceptable value considering vide range of industries and applications. Considering PF of 0.90, the excess energy charges would be ₹4.58 crore only for the period April 2011 to March 2019.
- The available capacitor banks were put online from October 2019 based on relay settings received from the consultant, which improved the PF to above 0.90. Final report of consultant was awaited.

The reply is not acceptable in view of the following.

- Levying penalty based on PF had been withdrawn by APERC from April 2011. APERC revised the method of billing energy charges from KWh to KVAh based billing since April 2011 and accordingly, the energy user (the Company) was required to maintain unity PF. Otherwise, the user was to incur extra expenditure if the active power was less than apparent power.
- Though the Company purchased four capacitor banks in April 2012 and received them in 2013, it put these capacitor banks online to use during October 2019 only after being pointed out by Audit. Had they been put to use immediately after purchase, the Company could have avoided the payment of excess energy charges.

The Ministry replied (March 2020) that:

- It was not practically possible to maintain unity PF considering various factors, viz., types of loads, application and dependency on grid behaviour. However, PF of 0.90 and above was the desirable PF for industries. Loss was computed hypothetically assuming a condition of unity PF.
- The Refinery maintained PF more than 0.90 for most of the period when Gas Turbine Generators (GTGs) were running in island mode[23]. However, to avoid losses due to tripping of Diesel Hydro Treater (DHT) and other process units, the parallel operations of GTGs were commenced from April 2016 due to which the PF was less than 0.90.
- As part of DHT project, a purchase order was placed in April 2012 for procurement of capacitor banks and same were received in 2013. However, DHT unit came into continuous service in 2015 and was fed by grid in island mode. Parallel operation was commenced in April 2016 only. Hence capacitor banks were not put to use immediately after purchase. Charging of capacitor banks while unit is online was not

[22] ***Capacitor bank is a group of several capacitors that are connected in a series or parallel with each other to store electrical energy***

[23] ***Power Plant is said to be in 'Island Mode' if it is disassociated from the Distribution System or Power Grid***

appropriate. So, it was decided to put these capacitor banks in continuous service during planned shutdown of DHT units.

The reply of the Ministry is not acceptable in view of the following:

- Since APERC revised the PF surcharge from 0.90 to 0.95 from 1 April 2009 onwards, PF of 0.95 and above was the desirable PF for industries and not PF above 0.90, as stated by the Ministry. Further, after change of billing methodology from April 2011, the consumers were supposed to maintain unity PF. The loss computed was not hypothetical but actual additional expenditure incurred due to drawal of apparent energy in excess of actual energy.
- Despite knowing the fact that charging of capacitor banks during operation of DHT was not appropriate, the Company did not install the capacitor banks along with commissioning of DHT (2015) and the same defeated the very objective of purchasing capacitor banks. Non-installation of these four capacitor banks purchased along with DHT lacked justification and resulted in additional energy charges. Management reply that PF was improved after installation of capacitor banks confirms the audit observation.
- Audit observation is not on operation of GTGs either in island mode or parallel mode but on non-installation of capacitor banks purchased along with DHT. Had the capacitor banks been installed along with DHT, it could have improved the PF during operation of GTGs either in island or parallel mode.

Thus, failure to install the available capacitor banks in a timely manner led to drawal of apparent power in excess of active power, which resulted in additional expenditure of ₹18.01 crore towards excess energy charges.

CHAPTER X: MINISTRY OF POWER

Damodar Valley Corporation

10.1 Avoidable loss due to under-recovery of capacity charges

Decision of Damodar Valley Corporation towards reduction of the quantum of power of PPA with Kerala State Electricity Board in respect of RTPS-I resulted in loss due to under-recovery of capacity charges, amounting to ₹78.15 crore during the period May 2016 to March 2019.

Damodar Valley Corporation (Corporation) decided (June 2006) to set up Raghunathpur Thermal Power Station Phase-I (RTPS-I) with two units (Unit-I & II) having capacity of 600 MW each. The Commercial Date of Operation (COD) of Unit-I and Unit-II were scheduled in November 2010 and February 2011 respectively. The Corporation entered (2006) into Power Purchase Agreements (PPAs) with Punjab State Electricity Board (PSEB), Haryana Power Generation Corporation Limited (HPGCL) and Kerala State Electricity Board Limited (KSEBL) for supply of 300 MW, 100 MW and 150 MW of power respectively from RTPS-I for a period of 25 years.

However, the commissioning of RTPS-I was delayed and it was anticipated (February 2015) that the COD would be achieved in July 2015 and August 2015 for Unit-I and Unit-II respectively. The Corporation proposed (March 2015) to KSEBL to shift the quantum of power (150MW) of RTPS-I in the above PPA, to its other operational units with the anticipation of further delay in commissioning of RTPS-I and thereby fixation of higher tariff by Central Electricity Regulatory Commission (CERC) for the same, due to increased project cost. KSEBL accepted (July 2015) the above proposal. However, it was mutually agreed (July 2015) to reduce the quantum of power from RTPS-I in respect of the above PPA from 150 MW to 50 MW considering the operational aspect of inter-state transmission system of power. The Corporation also proposed to KSEBL to enter into a supplementary PPA in respect of such reduced 50 MW of power for RTPS-I and a fresh PPA for supply of 100 MW of power from its existing MTPS units. However, no such PPAs were entered into with KSEBL.

It was seen that both the units of RTPS-I were commissioned in March 2016. The scheduling of power from RTPS-I was commenced from May 2016 and the Corporation started raising invoices on KSEBL for capacity charges[1] of RTPS-I, corresponding to the mutually agreed quantum of power of 50 MW from May 2016. Thus, the Corporation was not in a position to recover capacity charges in respect of RTPS-I corresponding to 100 MW of power from KSEBL as no supplementary PPA was signed with KSEB for 100 MW.

Management contended (November 2019):

- It was not justified to co-relate the date of one-time achievement of full load operation with probable COD target with uncertainty of establishment of Rail and Water

[1] *Capacity Charges are based on the highest amount of energy estimated to use during month by beneficiary*

Corridors. Further, as per terms of PPA, Long Term Access[2] (LTA) charges payable for transmission of power was to be borne by the Corporation in case of delay in scheduling of power from RTPS-I.

- The availability factor of RTPS for the period from April 2016 to March 2019 varied in the range of 22 *per cent* to 32 *per cent* approximately which clearly indicated that RTPS-I was not in a position to deliver stable generation due to different technical constraint to recover the full fixed charges.
- Whatever generation was achieved, after allocation of KSEBL in the proportion of 50 MW, rest of the quantum was sold to the firm consumers as pool power, from where fixed charge component was also recovered in due proportion.

The above contentions of Management are not acceptable in view of the following:

- Achievement of full load operation was an indicator that the concerned unit was ready for commissioning soon. Issue of non-completion of rail corridor is not relevant, as it was not even ready at the time of COD of the Unit I. Further, Management did not express its concern about delay in COD of RTPS-I in respect of PPAs with PSEB and HPGCL. Further, as per PPA, the Corporation was not liable to pay any LTA charges for delay in scheduling of power from RTPS.
- The Plant Availability Factor (PAF) i.e. Declared Capacity (DC) has already been considered by audit while arriving at the loss due to non-recovery of capacity charges.
- If the quantum of power in respect of PPA with KSEBL was not reduced, the Corporation could have supplied such power from RTPS to KSEBL. On the other hand, the Corporation could have supplied equivalent quantum of power to the firm consumers from its other units which were having untied power. In that event, the Corporation could have recovered capacity charges corresponding to the power supplied from RTPS as well as such other units.

Thus, decision of the Corporation for reduction in the quantum of power in respect of RTPS-I for PPA with KSEBL has resulted in loss due to under-recovery of capacity charges amounting to ₹78.15 crore ***(Annexure-XXVI)*** during the period from May 2016 to March 2019. Additionally, the Corporation has to absorb recurring loss of ₹3.53 crore per month till new consumer for purchasing of 100 MW of power is firmed up.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

[2] ***The right to use the inter-state transmission system for a period exceeding 12 years but not exceeding 25 years***

NTPC-SAIL Power Company Private Limited

10.2 Undue favour extended by NSPCL in award of contracts on nomination basis

Undue favour was extended by the NTPC SAIL Power Company Limited to a private party by awarding routine maintenance work valuing ₹129.76 crore during 2013-14 to 2018-19 on nomination basis at a profit margin of 10 *per cent* of the contract price disregarding the CVC guidelines/ public procurement regulations.

NTPC SAIL Power Company Limited (NSPCL), a Joint Venture Company of NTPC Limited and Steel Authority of India Limited (SAIL) is a power generating Company, presently having its power stations at Bhilai, Durgapur and Rourkela. NSPCL Board decided (August 2007) to enter into Power Station Maintenance Agreement (PSMA) with M/s Utility Powertech Limited[3] (UPL) to undertake various maintenance and miscellaneous works in line with the agreement made by NTPC. PSMA was finalised with UPL in January 2008 for 10 years but the same was terminated on 31 May 2016 on mutual understanding of both the parties. Subsequently the company signed a new PSMA with UPL for a period of five years in May 2016. NSPCL Bhilai, Rourkela and Durgapur got 346 works executed by UPL (including its sub-contractors) during 2013-19 for which it paid ₹129.76 crore to UPL including ₹11.53 crore profit margin. Out of above, 75 works valuing ₹4.58 crore[4] only were executed by UPL itself and remaining 271 works valuing ₹125.18 crore were executed through the sub-contractors.

Audit noted that Para 5 of the Public Procurement Bill 2012 envisaged inter alia that, 'the procuring entity shall, in relation to a public procurement, have the responsibility and accountability to (i) ensure efficiency, economy and transparency; (ii) provide fair and equitable treatment to bidders; (iii) promote competition'. Further, as per the CVC order (July 2007), tendering process or public auction is a basic requirement for the award of contract by any Government agency as any other method, especially award of contract on nomination basis, would amount to a breach of Article 14 of the Constitution guaranteeing right to equality, which implies right to equality to all interested parties. The Hon'ble Supreme Court of India in its judgment (Special Leave Petition Civil No. 10174 of 2006) also held that the awarding of Government contract be done only through public auction/ tender, the prime objective being to ensure transparency in the Government Contracts as well as to weed out corrupt/ irregular practices. The Judgment also stipulated a departure from the afore mentioned rule only in exceptional cases such as natural calamities where a Government Contract may be awarded on nomination basis. The above Judgment was also circulated (5 July 2007) by CVC to all the CVOs. CVC reiterated (December 2012) their earlier instruction for strict implementation. NSPCL, being engaged in public procurement on behalf of Government of India, has the responsibility to ensure compliance of the above regulations.

Audit observed that the company awarded the works to UPL on nomination basis without inviting tender which was against the Public Procurement Bill, CVC guidelines and Supreme

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3 *A joint venture of NTPC and Reliance Infra Limited*

4 ***Bhilai - ₹0.73 crore (22 orders), Rourkela - ₹1.33 crore (5 orders) and Durgapur- ₹2.52 crore (48 orders)***

Court Judgement (2006) and the same was also against the interest of the company. Further, as per the practice, assignment letter for any job with an estimated cost was issued by NSPCL to UPL over which 10 *per cent* profit was payable to UPL. Audit observed that, final contract price on which 10 *per cent* profit was paid to UPL was the price on which the contract was awarded by the UPL to its sub-contractor instead of the contract price mentioned in the Assignment Letter. Since the sub-contractor will also factor the profit element in the bid submitted, the value of the contract was higher than the estimated value provided by NSPCL. Audit further observed that, significant portion of the work (96 *per cent* of the total works) were executed by the sub-contractors instead of executing it by UPL. Management of NSPCL should have considered awarding the work through tendering instead of nomination basis which could have avoided the payment of 10 *per cent* profit above the contract value to UPL which was merely acting as middleman.

NSPCL replied (November 2019) that (i) the system of assigning work through M/s UPL was adopted in NSPCL was a corollary to the adoption of NTPC System, (ii) The maintenance works of Power plant is not a routine work as it require agencies having adequate experience in the area with skilled manpower,(iii) Inviting tenders directly from vendors does not ensure saving in margin, since vendor can quote at a price which is more than margin given to UPL and (iv) UPL ensures proper tendering process and being the principal employer, the party is fully responsible for the assigned works.

The reply of Management was not acceptable as (i) NSPCL is a separate commercial entity and therefore before adopting any system prevalent in its promoter company (NTPC) it should have ensured its financial interest, (ii) Maintenance works contracted was of routine nature which involved mainly upkeep of floor and wall, removal of garbage, cleaning of road, equipment cleaning etc which are not exceptional work eligible to be awarded on nomination basis, (iii) Inviting bids from the vendors is mandatory being a government company which will also ensure transparency and fair competition, and (iv) Since significant portion of the work (96 *per cent* of the total works) were executed by the sub-contractors instead of directly by UPL, NSPCL should not have nominated UPL at 10 *per cent* profit for routine nature of works but directly executed the works through tendering.

Thus, NSPCL extended undue favour to a private party in award of routine maintenance work for ₹129.76 crore during 2013-19 on nomination basis at a profit margin of 10 *per cent* of the contract price disregarding the CVC guidelines/ public procurement regulations.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

CHAPTER XI: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

National Highways Authority of India

11.1 Improper contract management by NHAI resulted in loss of revenue

Failure of National Highways Authority of India to enforce the contractual obligation of Operate, Maintain and Transfer agreement resulted in undue payment of ₹28.92 crore to concessionaire on account of short recovery of toll. Further NHAI had not maintained the highway after termination of agreement with concessionaire resulted in loss of revenue of ₹20.38 crore.

National Highways Authority of India (NHAI) entered (April 2013) into an Operate, Maintain and Transfer (OMT) agreement (agreement) with M/s. Raima Toll Road Private Limited (Concessionaire), for the stretch from Madurai to Kanyakumari section (243.170 Kms) on NH-7. This included construction of project facilities and Operation & Maintenance of the project highway for a period of nine years from 22 September 2013 i.e., the scheduled Commercial Operation Date (CoD). The agreement provided for payment of concession fee of ₹117 crore for the first year with an escalation of 10 *per cent* every subsequent year. In respect of the Concession Agreement, following was observed:

11.1.1 Undue favour to the concessionaire by accepting inadmissible claim

Article 22.1.1 of the agreement delegated the sole and exclusive right to the Concessionaire to collect the user-fee from the road users through four toll plazas namely Kappalur, Nanguneri, Salaipudur and Etturvattam. Article 22.8 of the agreement authorises the concessionaire to levy liquidated damages for unauthorised use of the project highway at its own risk and cost and NHAI would not, in any manner, be liable on account of the vehicles using highways without payment of toll dues.

The Concessionaire took over the project highway and started collecting toll (four toll plazas) from September 2013. The Concessionaire, however, defaulted in remittance of full concession fee from the first instalment and failed to maintain the project highway and other project facilities as per the agreement. The Concessionaire also failed to collect toll from the buses of Tamil Nadu State Transport Corporation (TNSTC) from CoD. Due to these failures, NHAI foreclosed the contract and took over (August 2016) the operation & maintenance of the project highway, including the toll plazas.

After takeover of project highway by NHAI, the Concessionaire submitted four claims to NHAI including a claim towards recovery of short-realisation of toll dues from TNSTC. NHAI referred the matter to the committee of three Chief General Managers (3CGMs) for dispute settlement which accepted (September 2017) the claim of ₹28.92 crore towards short-realisation of toll from TNSTC buses and recommended to adjust the same against the total dues recoverable (₹62.52 crore) from the Concessionaire.

Audit observed that the Concessionaire failed to collect and remit full toll dues from TNSTC buses from the CoD and failed to maintain the project highway as per the agreement. Even though the responsibility of collection of toll dues from TNSTC buses remained with the Concessionaire, NHAI accepted the claim of ₹28.92 crore which was not permissible as per the article 22.8 of the agreement.

Management in its reply stated that after due consideration of all the aspects in the agreement and analysing various claims preferred by the Concessionaire, the 3CGMs Committee recommended (September 2017) to accept the claim of ₹28.92 crore as part of amicable settlement and foreclosure of the agreement. Further, the recommendations of 3CGMs Committee were approved by the Independent Settlement Advisory Committee (July 2018) and Executive Committee (November 2018) of the NHAI. NHAI was also endeavouring to recover the said amount of ₹28.92 crore (toll amount short realised from TNSTC buses) from Ministry of Road Transport and Highways (MoRTH).

The reply of the NHAI confirmed its failure to enforce the contractual conditions regarding toll collection. Further, the decision of the Executive Committee to recover the dues from MoRTH did not have the Ministry's concurrence. Thus, the scope of recovery appears remote.

11.1.2 Loss of toll revenue due to non-maintenance of stretches

After the foreclosure (August 2016) of the agreement, NHAI took over the operation and maintenance of the project highway, including toll plazas. In September 2017, a Public Interest Litigation (PIL) was filed for non-maintenance of 50 km stretch under Kappalur toll plaza (one of the part of the whole project highway under agreement). In December 2017, NHAI engaged M/s Yoga & Co. for overlay and repair work of the said stretch. The Hon'ble High Court of Madras (Maduri Branch) ordered (January 2018) NHAI to reduce the rate of toll, by half, for the above stretch of project highway until the road was repaired. Accordingly, NHAI collected toll at half the rate in Kappalur toll plaza amounting to ₹20.38 crore (03 February 2018 to 15 October 2018). The repair work was completed in September 2018 and NHAI was permitted to collect toll at full rates.

Audit observed that after foreclosure (August 2016) of the agreement, NHAI failed to maintain the said stretch of the project highway which resulted in a PIL and subsequent interim order of Hon'ble High Court of Madras for reducing the toll rates by half, which resulted in loss of ₹20.38 crore (50 *per cent* toll revenue loss).

Management in its reply submitted that NHAI taken immediate steps to carry out repair of the project highway including overlay in the affected stretch and after approval (October 2017) of the Competent Authority, competitive bids were invited and the maintenance and repair work was awarded (December 2017) to M/s Yoga & Co. On completion of overlay work, favourable orders were obtained from Hon'ble High Court of Madras for collection of toll at full rate.

The reply of Management is not acceptable as even after foreclosure of the agreement in August 2016, NHAI took 15 months to award (December 2017) the work i.e. after a PIL was filed in September 2017.

Thus, failure of NHAI to enforce the contractual obligation and acceptance of inadmissible claim resulted in undue favour to concessionaire amounting to ₹28.92 crore and non-maintenance of project highway led to a revenue loss of ₹20.38 crore.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

11.2 Undue benefit to contractors

NHAI gave undue benefit of ₹14.53 crore to contractors by providing advance at lower rates.

National Highways Authority of India (NHAI) entered into agreements with various contractors[1] on 27/ 28 August 2015 for development of Six Lane Eastern Peripheral Expressway (EPE) on Engineering Procurement and Construction (EPC) basis in six packages. The Appointed date for all these packages was fixed as 14 September 2015 with scheduled date of completion as 11 March 2018.

The contractors (package I to VI), requested NHAI for revising the payment schedule to improve the cash flow. The Executive Committee (EC) granted approval (285th meeting dated 28/ 29 June 2016 and 06 July 2016) for monthly interim advance payment for work done as an 'Interest bearing advance' and decided to charge interest rate at 'SBI PLR' plus two *per cent* or 10 *per cent* per annum, whichever was higher'. But the contractor of package I and II i.e. M/s Sadbhav Engineering Limited requested (July 2016) NHAI to reconsider the interest rate as the 'SBI PLR' plus two *per cent* was on the higher side affecting its liquidity and which would eventually affect the progress of work.

Based on the request of contractor of package I and II, NHAI again took up the matter in the 292nd meeting of EC (03 November 2016) wherein the approval for 'Base Rate' plus two *per cent* or 10 *per cent* per annum, whichever was higher, was sought with justification that 'SBI PLR' was inadvertently mentioned earlier and the 'Base Rate' was contractually/ practically appropriate interest rate. Contrary to the approval sought, EC, considered and approved the interest rate as 'Bank Rate'[2] plus two *per cent* based on one-time Fund Infusion Policy of NHAI.

Audit observed that the decision of EC to further reduce the interest rate to 'Bank Rate' plus two *per cent* was imprudent in view of the following:

- NHAI, in its proposal submitted to EC, considered 'Base Rate' as contractually and practically appropriate as the contract agreement provided for charging 'Base Rate' plus two *per cent* in case of delayed payment made by Authority to contractor (Clause 19.9.2) (i.e. in case where NHAI was at fault). Further, contractor (package I and II) who had requested to charge lower interest rate, had undertaken to pay interest at the rate of Base Rate or 10 *per cent per annum* interest rate. However, EC *suo-motu*

[1] *M/s Sadbhav Engineering Limited (Package – I and II), M/s Jai Prakash Associates Limited (Package III), M/s Ashoka Buildcon Limited (Package IV), M/s Oriental Structural Engineers Private Limited (Package V) and M/s Gayatri Projects Limited (Package VI)*

[2] *Bank Rate is the standard rate at which the Reserve Bank is prepared to buy or rediscount bills of exchange or other commercial papers*

decided to charge 'Bank Rate' plus two *per cent* which was not justifiable and resulted in undue favour to the contractor.

- Also, the decision of EC to charge interest at 'Bank Rate' plus two *per cent* as given in one-time Fund Infusion Policy of NHAI was not justified as Fund Infusion Policy (June 2015) was one time measure specifically approved (13 May 2015) by the Government of India (GoI) to revive and physically complete languishing BOT projects.
- Only one contractor, who was executing package I and II, had made the request for reduction in interest rate. However, EC granted the benefit of reduced interest rate to all contractors without analysing the cash flows of other four projects i.e. package III to VI.
- The decision of the EC regarding amendment in payment terms as agreed under Schedule H of the Contracts tantamounts to post tender relaxation of terms of the contractor, which is against the fundamental principles of Contracts.
- As regards liquidity of contractor, NHAI released interest free mobilisation advance of ₹441.79 crore to contractors of package I to VI during the period November 2015 to June 2016.
- Even after approval by EC for charging interest at 'Bank Rate' plus two *per cent*, NHAI continued charging interest at 'Base Rate' plus two *per cent* till completion of project, which was not objected to by the contractors until submission of final bills (July 2018 to December 2018) and the differential interest of ₹14.53 crore[3] was refunded only after completion of project. Thus, it was seen that charging 'Base Rate' plus two *per cent* had not affected the cash flow of contractor/ progress of work and they were also granted bonus of ₹129 crore for early completion of work.

Thus, the decision of EC to charge 'Bank Rate' plus two *per cent* instead of 'SBI Base Rate' plus two *per cent* or 10 *per cent*, whichever is higher' was imprudent and resulted in loss to NHAI/ Exchequer to the tune of ₹14.53 crore as 'Bank Rate' remained around 6.5 *per cent per annum* whereas 'SBI Base Rate' remained in the vicinity of 9 *per cent per annum.*

Management, in its reply (October 2019) referred to other clauses of the contract agreement pertaining to interest rate and stated that 'SBI PLR' was nowhere mentioned in the contract agreement, whereas, interest was payable at 'Base Rate' plus two *per cent* for delayed payments by either party and SBI 'Base Rate' was discontinued w.e.f. 1 April 2016. Management further stated that NHAI's Fund Infusion Policy (NHAI Circular dated 9 June 2015) provides for financial assistance to contractor on loan basis at 'Bank Rate' plus two *per cent* interest. Accordingly, EC decided that interest rate is to be charged at 'Bank Rate' plus two *per cent* after examining the provision of interest as per contract agreement and existing fund infusion policy of NHAI.

[3] ***Package I- ₹2.64 crore, Package II- ₹2.13 crore, Package III- ₹0.39 crore, Package IV- ₹3.45 crore, Package V- ₹1.99 crore &Package VI - ₹3.93 crore. The package wise amount were arrived on the basis of refund made by NHAI in final running bill***

The reply of Management is not acceptable in view of the fact that in the contract agreement only 10 *per cent*, 18 *per cent* and 'Base Rate' plus two *per cent* interest rates were provided whereas interest rate of 'Bank Rate' plus two *per cent* had not been mentioned, but was subsequently approved by the EC to be charged from the contractor. Further, the decision of EC to change its own decision of charging the interest rate from 'SBI PLR' plus two *per cent* or 10 *per cent*, whichever is higher' to 'Bank Rate' plus two *per cent* was an undue favor to the contractor in view of the fact that the proposal moved in the agenda for approval sought for charging interest at ''SBI Base rate' plus two *per cent* or 10 *per cent*, whichever is higher'.

As regards NHAI circular relating to Fund Infusion, the terms of the circular were considered and approved by GoI on 13 May 2015 in respect of one time fund infusion to revive and physically complete languishing BOT Projects and hence, was not applicable to EPC projects i.e. EPE package I to VI. The reply of Management regarding discontinuance of 'Base Rate' by SBI is also not acceptable as the base rate was still being continued.

Thus, the injudicious/ *suo-motu* decision of EC to reduce interest rate from 'SBI PLR' plus two *per cent* or 10 *per cent*, whichever is higher'to 'Bank Rate' plus two *per cent* by not considering the proposal for charging interest at 'SBI Base Rate' plus two *per cent* or 10 *per cent*, whichever is higher' resulted in adverse financial impact to NHAI/ exchequer and undue financial advantage to the contractors to the tune of ₹14.53 crore.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

11.3 Less receipt to Consolidated Fund India due to delay in collection of User fees

The Authority inordinately delayed in commencement of collection of user fees leading to less receipt to the Consolidated Fund India by ₹11.59 crore.

National Highways Authority of India (Authority) entered (September 2015) into an agreement with M/s GR Infraprojects Limited (Contractor) for rehabilitation and upgradation of existing road in Jowai-Meghalaya/ Assam Border having contract value of ₹468.27 crore with a completion schedule by 16 May 2018. The work being a public funded project was executed in EPC[4] mode. The Highway consisted of two Toll Plazas (TP) i.e., toll plaza-I (TP I) and toll plaza-II (TP II). The work was, however, completed prior to the scheduled completion period and the contractor requested (March 2018) to issue the Provisional Completion Certificate (PCC). The Authority issued (26 July 2018) the PCC w.e.f. 31 March 2018.

The National Highways Fee (Determination of Rates and Collection) Rules, 2008 (Fee Rules), stipulated that the collection of user fee should commence within 45 days from the date of completion of the section of the Highway in case of a public funded project. Hence, the collection of toll for the above Highway should have commenced from 10 September 2018 (i.e. 26 July 2018 + 45 days). The remittance as received from the toll collections is deposited in the Consolidated Fund of India in case of a public funded project.

[4] ***Engineering, Procurement and Construction***

It was seen that the concerned Project Implementation Unit (PIU[5]) of the Authority submitted (28 December 2017) draft fee notification to its Regional Office (RO). The same was approved by Ministry on 24 October 2018. The fee notification of both the toll plazas was published on 09 January 2019 and finally, the toll collections at TP I and TP II were started from 01 March 2019 and 25 February 2019 respectively. Thus, the collection of toll was started at TP I and TP II after delays of 171 days and 167 days respectively from the scheduled dates due to excess time taken at various stages of approval as stated below:

Table 11.3.1

Particulars	Date	Time taken in days
Regional Office (RO) forwarded draft notification to NHAI Hqrs (Received by RO on 28.12.2017)	15. 01. 2018	18
Draft notification by NHAI to Ministry	18 .06.2018	154
Approval of Ministry	24.10.2018	128
File received by NHAI for Hindi Translation	16.11.2018	23
With Hindi translation, the file was resubmitted to Ministry	26.11.2018	10
Approval of Hon'ble Minister of Shipping	03.01.2019	38
Publication of fee notification of both the toll plazas	09.01.2019	6
Commencement of toll collections at TP I and TP II	01.03.2019 and 25.02.2019	47 and 52

Audit observed that abnormal delays at various stages of approval for finalisation of notification for collection of toll, resulted in corresponding delay in collection of toll from the users of the Highway which led to less receipt to the Consolidated Fund India by ₹11.59[6] crore.

Management while admitting the fact of delay in commencement of collection of users fees stated (October 2019) that this was not due to default of any individual but an instance of procedural delay.

Management's reply is not acceptable as procedural delays were within the control of Management and could have been avoided to prevent such loss.

Thus, inordinate delay in commencement of collection of user fees by authority led to less receipt to the Consolidated Fund India by ₹11.59 crore. Audit recommends that the maximum time limit at different levels of approval should be fixed so that collection of toll is commenced within 45 days from the date of completion of the Highway.

The para was issued to the Ministry in November 2019; their response was awaited (June 2020).

[5] *PIU Shillong*

[6] *₹11.59 crore = (171 days x ₹2.99 lakh)+ (167 days x ₹3.88 lakh) based on the actual toll collections at TP I and TP II of ₹2.99 lakh per day and ₹3.88 lakh respectively*

11.4 Short remittance of additional concession fee

Authority incurred a loss of ₹4.37 crore due to short remittance of additional concession fee by concessionaire to Authority as the concessionaire did not collect fee from overloaded vehicles as per the amended Fee Rules

National Highways Authority of India (Authority) entered into a Concession Agreement (CA) with Soma Isolux Kishangarh Beawar Tollway Private Limited (Concessionaire) on 18 May 2009 for six laning of existing road on Kishangarh-Ajmer-Beawar section of National Highway No. 8 in the state of Rajasthan on BOT mode under NHDP Phase III. As per the CA, the scheduled date of completion of construction of the project was the 910th day from the appointed date[7] and the concession period was to commence from the appointed date, i.e. 14 November 2009. The scheduled Commercial Operation Date (COD)[8] was 12 May 2012, however, the concessionaire achieved the COD on 28 April 2015 with a delay of 1,081 days.

Audit examination revealed that as per Article 27.10 of the CA, the concessionaire was to recover a fee from overloaded vehicles at the rate applicable to the next higher category of vehicles. However, the Government of India vide Gazette Notification dated 16 December 2013 amended the National Highways Fee (Determination of Rates and Collection) Rules, 2008 by charging from the overloaded vehicles, a fee equal to 10 times of the fee applicable to such category of overloaded vehicles.

However, the Concessionaire charged fee from overloaded vehicles at the rate applicable to next higher category of vehicles upto 31 March 2016 and from 1 April 2016 fee at double the rate applicable to the category to which overloaded vehicle pertained instead of charging fee equal to 10 times as per Gazette Notification dated 16 December 2013. This had adverse implication on remittance of Additional Conession Fee (ACF) to Authority, and, accordingly, the ACF was short remitted by ₹4.37 crore (October 2015 to September 2018).

Management replied (September 2019) that fee was being collected by the concessionaire as per the provisions of CA. Further, the concessionaire was unable to collect fee at 10 times and had collected the additional user fee for overloaded vehicle to the extent of two times only w.e.f. 1 April 2016.

Management has accepted the Audit contention in respect of short remittance of ACF of ₹4.37 crore on account of short collection of fees on overloaded vehicle by the concessionaire to Authority.

Thus, short collection of fees by concessionaire on overloaded vehicles as per the amended Fee Rules had resulted in short remittance by concessionaire to Authority with consequent a loss of revenue to Authority/ Exchequer of ₹4.37 crore.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

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[7] *Appointed date is a date of start of concession period and construction work of the project.*
[8] *COD is the date from which the Concessionaire has the right to start toll collection*

CHAPTER XII: MINISTRY OF SHIPPING

Dredging Corporation of India Limited

12.1 Non-safeguarding of financial interests under dredging contract

Dredging Corporation of India Limited failed to safeguard its financial interests under a dredging contract entered into with Kamarajar Port Limited, which resulted in avoidable extra expenditure of ₹18.73 crore.

Dredging Corporation of India Limited (DCIL) obtained (18 October 2014) a Capital Dredging Contract from Kamarajar Port Limited (KPL) for deepening of its Coal berths (CB1 and CB2) at Chettinad International Coal Terminal of Ennore Port at a total contract price of ₹46.35 crore (₹36.45 crore towards capital dredging and ₹9.90 crore towards charges for idle time of dredgers). As per the agreement, DCIL was to dredge 3 lakh cubic meters (cum) of soft soil upto a depth of 16.0 meters (m) and 7.50 lakh cum of stiff clay/ hard soil from 16.0 m to 18.50 m depth, aggregating to 1.05 million cum quantity with a variation of plus or minus 20 *per cent*. The contract was to be executed within eight months to be reckoned from 30th day of the date of issue of Letter of Award (LoA), i.e., by 18 July 2015. The contract provided for levy of liquidated damages for delayed completion of work at the rate of 0.5 *per cent* per week of the total value of contract subject to a maximum of 10 *per cent* of the contract value. DCIL intended to use Trailing Suction Hopper Dredger (TSHD[1]) for removing soft soil and Cutter-Suction Dredger (CSD[2]) for removing stiff clay/ hard soil. At the time of contract, KPL turned down the proposal of DCIL to pay the mobilisation/ demobilisation charges for deployment of dredgers on the ground that the proposed dredgers were already at the seashore of KPL. Further, the contract stipulated that in order to minimise the idle time, DCIL should deploy CSD with prior approval of KPL.

DCIL completed the dredging contract by 30 October 2015, with a delay of more than three months and dredged a quantity of 1.04 million cum against the agreed quantity of 1.05 million cum and claimed an amount of ₹36.37 crore. As KPL did not accord permission to deploy CSD, DCIL deployed three TSHDs instead of one TSHD and one CSD earlier intended to complete the entire dredging work and incurred an amount of ₹47.58 crore against ₹36.37 crore claimed as per the contractual terms. DCIL also incurred an amount of ₹3.81 crore for mobilisation/ demobilisation charges for deployment of dredgers for execution of the contract. Further, due to delay in execution of contract, KPL recovered an amount of ₹3.71 crore towards liquidated damages.

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[1] ***A trailer suction hopper dredger (TSHD) trails its suction pipe when working. The pipe, which is fitted with a dredge drag head, loads the dredge spoil into one or more hoppers in the vessel. When the hoppers are full, the TSHD sails to a disposal area and either dumps the material through doors in the hull or pumps the material out of the hoppers***

[2] ***A cutter suction dredger's (CSD) suction tube has a cutting mechanism at the suction inlet. The cutting mechanism loosens the bed material and transports it to the suction mouth. The dredged material is usually sucked up by a wear-resistant centrifugal pump and discharged either through a pipeline or to a barge***

Audit observed that:

- Prior to issue of LoA, though DCIL had expressed its intention to use CSD for removal of hard soil, it agreed to incorporate a term in the contract which stipulated requirement of prior permission of KPL for deployment of CSD. When DCIL approached for permission, KPL denied the permission for deployment of CSD. As a result, DCIL had to dredge the stiff clay/ hard soil with the TSHDs which were meant for removal of soft soil.
- Due to poor dredging capability of TSHDs, DCIL could not complete the contract within the scheduled contract period and had to incur liquidated damages of ₹3.71 crore.
- Despite acceptance of terms and conditions by both the parties in May 2014, KPL issued the LoA on 18 October 2014. In the meanwhile, DCIL de-mobilised its TSHD in April 2014 to take up another assignment at Haldia. Despite this, DCIL did not insist for inclusion of mobilisation charges in the contract.
- Further, due to not giving permission to deploy CSD by KPL, the existing CSD was withdrawn from the KPL for dry dock works in May 2015. In order to execute the KPL's contract, DCIL deployed three TSHDs during the contract period. In connection with mobilisation and demobilisation of these dredgers, DCIL incurred an amount of ₹3.81 crore which was not reimbursed by KPL.

Thus, due to deployment of TSHDs for dredging the stiff clay/ hard soil, DCIL incurred an extra expenditure of ₹11.21 crore (actual expenditure of ₹47.58 crore less amount of ₹36.37 crore realised as per contractual terms) on execution of work, along with ₹3.71 crore towards liquidated damages for delayed completion of work and ₹3.81 crore towards mobilisation/ demobilisation charges.

Management replied (November 2019) that:

- KPL did not agree for deployment of CSD as there was no facility for shore pumping, no reclamation area and there was no place for double handling by TSHD due to shipping. As CSD occupies more space with anchors and other ancillary equipment, it would have become a hindrance to the shipping movement and other commercial operations.
- Though CSD was required to be deployed to dredge hard strata soil, DCIL had deployed TSHDs so as to maintain cordial relations with KPL. As a result, it took excess time and expenditure.
- DCIL could not insist for mobilisation and demobilisation charges since there was no such component in the contract.

The reply is not acceptable in view of the following:

- The agreement between KPL and DCIL did not stipulate double handling of TSHD and CSD. DCIL intended to use TSHD for removal of soft soil upto 16 m for the initial two months period of contract. Thereafter, it intended to use CSD for removal of hard soil/ stiff clay. DCIL should have impressed upon KPL for granting permission of deployment of CSD by explaining that without CSD it would take much more time and require deployment of more TSHDs. The payment terms should also have been arrived at accordingly.

- DCIL re-deployed the dredgers available at KPL to take up dredge works at another port due to delay in issue of LoA by KPL. However, it did not insist for inclusion of a clause in the contract for payment of mobilisation charges.
- During the pre-award discussions (26 March 2014), since the earmarked dredgers were available at Ennore Port, KPL did not agree for the payment of mobilisation/ demobilisation charges. However, as there was considerable delay in issue of work order (October 2014) by KPL and DCIL had already redeployed the dredgers to other Ports, DCIL should have renegotiated the terms with the KPL and sought for reimbursement of mobilisation/ demobilisation charges incurred.

The Ministry replied (November 2019) that:

- DCIL intended to use both CSD and TSHDs as per the requirement and contract rates were inclusive of mobilisation and demobilisation charges. TSHDs were meant for removal of hard soil also.
- Since the dredgers which would have been idle otherwise were efficiently utilised for dredging and earned revenue, the cost of dredging cannot be considered extra.

The reply is not acceptable in view of the following

- DCIL intended to use TSHD for removal of soft soil and CSD for removal of hard soil/ stiff clay. However, due to denial by KPL for deployment of CSD, the Company had to deploy TSHDs for removal of hard soil/ stiff clay which resulted in extra time and cost.
- Due to deployment of more TSHDs, the Company incurred additional expenditure of ₹11.21 crore than the revenue realised amounting to ₹36.37 crore, apart from imposition of liquidated damages of ₹3.71 crore and non-realisation of mobilisation/ demobilisation charges of ₹3.81 crore. Further, for keeping the CSD harboured at KPL port idle during 2014-15, it incurred ₹7.71 crore towards operation expenses and overhead without earning any revenue.

Thus, DCIL’s failure in safeguarding its financial interests under the dredging contract with KPL resulted in incurring of avoidable extra expenditure amounting to ₹18.73 crore.

CHAPTER XIII: MINISTRY OF STEEL

MECON Limited

13.1 Loss due to termination of contract and encashment of BG by the client

Delay in commencement of work by MECON Limited and inability to ensure submission of Bank Guarantee (BG) by its foreign associate, to execute External Coal Handling Plant Project awarded by NTPC, resulted in termination of contract and encashment of BG by NTPC and loss of ₹42.26 crore to MECON.

NTPC Limited invited bids for External Coal Handling Plant (ECHP) for North Karanpura Super Thermal Power Project (NKSTPP) in January 2015. Since MECON Limited (MECON or company) was not meeting the eligibility criteria for the above work, it arranged a pre-tender tie up with M/s Northern Heavy Industries Group Co Limited, China (NHI) and M/s JMC Projects (India) Limited (JMC) to submit the bid for above work. The company entered into Memorandum of Understanding (MoU) with its foreign associate NHI for Pipe Conveyor work and with the Indian Associate, JMC for Civil works in June 2015.

NTPC awarded the work of ECHP for NKSTPP to MECON in February 2017 at a cost of ₹394 crore[1] to be completed by June 2019. Contract was signed between NTPC and MECON on 7 March 2017. MECON awarded the work order for design, manufacture, supply and commissioning of Pipe Conveyors for ₹100 crore (October 2017) to NHI and Civil works of the project to JMC (September 2017). MECON was responsible for Detailed Engineering, Soil investigation, Site survey etc.

- As per clause 34.1 & 34.2 of Instruction to Bidders, MECON was required to furnish a Bank Guarantee (BG) for 10 *per cent* of the contract value and its associates were to furnish BG (2 *per cent* for NHI and 0.63 *per cent* for JMC) for faithful performance within 28 days of the placement of order failing which, NTPC had the right to annul the tender.
- As per the GoI OM (April 2015), prior approval of comptent authority was required for entering into MoU with any foreign agency.

Audit observed that MECON took five months upto 11 July 2017, to seek approval of Board of Directors for placement of order to NHI, China. Meanwhile in a meeting held 18 May 2017, a Government Director raised the issue of requirement of prior approval of comptent authority for entering into MoUs with any foreign agency. MECON sought exemption (17 July 2017) from Ministry of Steel for pre-tender tie up with NHI, which was granted by the Ministry vide letter dated 20 September 2017 (approx two months from the date of receipt of the proposal). Audit noted that there was no progress upto May 2017 and only some engineering work was done by MECON whereas, NTPC kept issuing letters and reminders for submission of BG.

[1] *Considering 1USD equivalent to ₹66.98*

Audit also noted that, MECON submitted BG of ₹39.12 crore in October 2017 (seven months delay) despite being requested several times by NTPC to adhere to timelines. JMC submitted BG of ₹2.48 crore in January 2018 (nine months delay). NHI requested MECON to submit BG of ₹7.88 crore on their behalf (with back to back BG to be submitted by NHI to MECON) because in absence of any direct contract between NTPC and NHI, banks in China were not ready to furnish BG to NTPC. This, however, was not accepted by MECON. MECON thereby exposed itself to risk, as NHI had neither submitted its part of BG nor carried any of the contractual obligations.

In view of persistent failure of MECON and its associates to discharge their contractual obligations and non-submission of BG, NTPC terminated the contract in February 2018 and encashed the BG of MECON for ₹39.12 crore and BG of JMC for ₹2.48 crore as per provisions of the contract. MECON approached the High Court of Jharkhand where both the parties being PSUs agreed (July 2018) to get the dispute resolved through Administrative Mechanism for Resolution of CPSEs Disputes (AMRCD). The company pleaded before AMRCD that NTPC had unfairly terminated the contract and therefore should refund ₹62.26 crore[2] incurred by it on the project. AMRCD opined (October 2019) that termination of contract and forfeiture of BGs by NTPC was justified, but NTPC should pay ₹20 crore towards cost incurred by MECON against works carried out by them and loss suffered due to invocation of BG. All claims and counter claims of parties stood settled and accordingly, NTPC paid ₹20 crore to MECON on 30 November 2019.

MECON replied (April 2019) that arrangements to commence the work and measures to ensure timely delivery of the project were taken immediately and excavation work commenced in February 2018. It further stated that the process to obtain approval from Ministry was initiated only after knowing the requirement of GoI's approval for entering into MoU with foreign partners.

Ministry reiterated (March 2020) the views of the Management

Reply of Management/ Ministry was not acceptable in view of the fact that

i) Survey work by MECON was scheduled to be completed by May 2017 whereas MECON placed the order for survey only in October 2017 and the survey report was submitted in December 2017 with a delay of seven months. MECON started soil excavation only after issue of contractual notice by the client in February 2018 (after 11 months of the award of work) and could excavate only 10,000 cum (8.45 *per cent*) when the contract was terminated by NTPC. Pipe Conveyors were not supplied by NHI as per agreed schedule, and

ii) Guideline for prior GoI's approval was issued in April 2015 i.e. well before entering into MoU. MECON should have obtained such prior approval, whereas it sought the approval of Ministry of Steel for pre-tender tie up with NHI, in July 2017, which delayed the placing of work orders thereby delaying the whole project and finally leading to the termination of the project.

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[2] ***Comprising of ₹41.73 crore for guarantees encashed, ₹20 crore towards cost of design & engineering, rasgeotechnical investigation work, civil works etc and ₹0.53 crore incurred on site mobilization***

Due to delay in award and commencement of work and inability of Management to ensure timely submission of BG by its associate, the company suffered a loss of ₹42.26 crore.

Rashtriya Ispat Nigam Limited

13.2 Energy Management

13.2.1 Introduction

Rashtriya Ispat Nigam Limited, Visakhapatnam (RINL) incorporated (February 1982) under the administrative control of Ministry of Steel (MoS), established an Integrated Steel Plant with an installed capacity of 3.0 Million Tonnes Per Annum (MTPA) of liquid steel to produce and sell iron and steel products. It commenced full-fledged operations in phases by August 1992. As of 31 March 2019, capacity expansion of the plant from 3.0 MTPA to 6.3 MTPA and subsequently to 7.3 MTPA through upgradation/ modernisation was substantially completed except development of Madharam Mines[3] and revamping of Sinter Machine 2[4].

To meet the power requirements (prior to 31 March 2014), RINL set up a Thermal Power Plant (TPP) with five Turbo Generators (TGs) and Auxiliary Power Generating Units with an overall installed capacity of 388.60[5] Mega Watt (MW). To meet additional power requirement towards capacity expansion, the capacity of captive power generation was also enhanced in phased manner to 542.48[6] MW as of 31 March 2019.

13.2.2 Organisation set up

RINL is governed by Board of Directors headed by the Chairman-cum-Managing Director (CMD) who is assisted by five Functional Directors looking after Operations, Commercial, Projects, Finance and Personnel. General Managers are in-charge of TPP and Distribution Network and report to Executive Director (Works) who in turn reports to Director (Operations).

13.2.3 Scope of Audit

Audit scope included generation, purchase and distribution of energy covering the period of five years ending March 2019.

13.2.4 Audit Objectives

Audit was conducted to examine whether:

- overall power generation performance was as per norms and targets;

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[3] ***Expected to be completed by December 2019***

[4] ***Expected to be completed during 2020-21***

[5] ***(a) 315 MW of TPP by synchronising 3 TGs of 60 MW each between March 1989 and December 1990 and 2 TGs of 67.5 MW each in May 1996 and November 2013; (b) 15 MW (2 X 7.5 MW) of Back Pressure Turbine Station (BPTS) - 1 & 2 in December 1990; (c) 24 MW (2 X 12 MW) of Gas Expansion Turbine Stations (GETS) - 1 & 2 in February and August 1993 respectively; (d) 14 MW of Coke Oven Battery (COB) - 4 Plant in April 2012; and (e) 20.6 MW of Sinter Heat Recovery Power Plant (SHRPP) in March 2014***

[6] ***153.88 MW by commissioning (i) 14.88 MW of Top Recovery Turbine (TRT) in June 2014; (ii) 120 MW of Gas based Captive Power Plant (CPP) - 2 in March 2016; (iii) 14 MW of COB-5 Plant in May 2018; and (iv) 5 MW Solar Power Plant in December 2016***

- consumption of required materials/ inputs was economical;
- captive generating units were operated effectively, ensuring their optimum use and maximising power generation there from; and
- energy conservation and distribution mechanism were effective.

13.2.5 Audit criteria

Audit criteria were derived from Sustainability Plans, Memoranda of Understanding entered into by RINL with Administrative Ministry i.e., Ministry of Steel, Notifications of Central Electricity Regulatory Commission (CERC), operational efficiency of other steel plants, Minutes of meetings of Board of Directors, etc.

13.2.6 Audit methodology

Audit methodology included scrutiny of records relating to periodical reports on generation and distribution of power and steam, outages of generating units, interaction and discussion with Management, issue of audit requisitions, soliciting records/ data/ information and issue of audit observations and the draft audit report to RINL (in December 2019).

13.2.7 Audit findings

13.2.7.1 Captive Generation Capacity of RINL

Electricity power requirement of 228 MW at 3.0 MTPA was revised to 546 MW at 7.3 MTPA on expansion/ upgradation. Captive power generating capacity through TPP (315 MW), Solar Power Plant (5 MW) and Gas based CPP-2 (120 MW) stood at 440 MW. To convert waste heat generated in production process into electrical energy, RINL also commissioned Auxiliary Power Generation units with a capacity of 102.48 MW[7], thereby increasing the total captive power generating capacity of RINL to 542.48 MW as of 31 March 2019. Besides captive generation, RINL also had an agreement (August 2014) with Andhra Pradesh Eastern Power Distribution Company Limited (APEPDCL) to purchase power with Contracted Maximum Demand (CMD) of 1,85,000 KVA which was further enhanced (April 2018) to 2,35,000 KVA.

i) Operational efficiency

The details of the installed capacity, targets for power generation, actual power generation, power purchased and cost of generation and purchase during the five years from 2014-15 to 2018-19 are given below:

[7] *(a) 15 MW BPTS-1&2; (b) 24 MW GETS-1&2; (c) 14 MW each of COB-4&5 Plants; (d) 20.6 MW SHRPP also called as New Energy and Industrial Technology Development Organisation (NEDO) Project; and (e) 14.88 MW TRT*

Table-13.2.1: Cost of power generated vis-à-vis power purchased

Year	Installed Captive capacity[8] (MW per hour)	MOU[9] target (MW per hour)	Target as per sustainability[10] plan (MW per hour)	Actual Captive generation (MW per hour)	Shortfall with ref. to installed capacity (MW per hour)	Purchase from APEPDCL (MW)
1	**2**	**3**	**4**	**5**	**6 = (2-5)**	**7**
2014-15	342.10	252.50	261.39	206.92	135.18	50.45
2015-16	356.98	269.70	273.60	217.08	139.90	64.91
2016-17	356.98	256.90	249.67	207.75	149.23	78.17
2017-18	476.98	338.54	338.54	294.20	182.78	58.32
2018-19	476.98	366.99	366.99	332.69	144.29	49.49
Year	**Consumption (MW)**	**Total captive power generation during the year (MWH)**		**Total power purchased during the year (MWH)**	**Overall annual average variable cost of generation (₹ per MWH)**	**Energy charges & electricity duty for purchase (₹ per MWH)**
1	**8**	**9**		**10**	**11**	**12**
2014-15	277.19	18,12,820		4,41,954	4,592	5,511
2015-16	304.38	19,06,991		5,70,162	4,623	5,789
2016-17	326.24	18,20,011		6,84,729	5,358	5,900
2017-18	374.60	25,76,875		5,10,860	5,290	6,111
2018-19	407.65	29,14,248		4,33,500	5,286	6,111
		1,10,30,945		**26,41,205**		

It can be seen from the above table that in all the years, actual captive generation was lower as compared to the installed capacity as well as MOU targets and RINL's Sustainability Plan. Shortage in captive generation was met significantly by purchase from APEPDCL and such purchase of power showed an increasing trend up to 2016-17 and reducing trend in subsequent years mainly due to stabilisation of 120 MW Gas based CPP-2 from September 2017.

Shortage in captive generation was attributable to various factors such as shortage of boiler coal, low performance of boilers of TPP, outages of boilers/ auxiliary power generation units, higher consumption of process steam, delayed generation of power from TRT and forced outage of new TG-5. These issues have been discussed in detail in the succeeding paras.

Management replied (January 2020) that (a) only 50 MW power could be generated in TG-5 as against the installed capacity of 67.50 MW with the balance steam after meeting the steam requirement of Turbo Blower-4 & process steam; and (b) power generation from Auxiliary Power units was linked to the performance/ heat recovery from various units such as Coke Oven & Coal Chemical Plant (CO&CCP), Blast Furnaces (BFs), Sinter Machine etc., which contributed to low Plant Load Factor (PLF).

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8 *Excluding BPTS-1&2 (15 MW), COB-4&5 (28 MW) for 2014-15 to 2018-19 as arriving shortfall in power generation without considering the actual gross coke produced may not be appropriate; Solar Power Plant (5 MW) for 2014-15 to 2018-19; CPP-2 (120 MW) for 2014-15 to 2016-17 as it was stated to be stabilized from September 2017; and TRT for 2014-15 as it was commissioned in June 2014. Installed Capacity of TG-5 is taken as 50 MW only instead of 67.50 MW based on Management reply*

9 *Target of power generation as per the Memorandum of Understanding entered with MoS*

10 *Target of power generation as per the Sustainability Plan, which is prepared annually by RINL*

The reply is not acceptable. Even after considering the installed capacity of TG-5 as 50 MW and excluding BPTS-1&2, COB-4&5 for the entire period of 2014-19 and CPP-2 for the period 2014-16, there was still shortfall in generation of power ranging between 135.18 MW (2014-15) and 182.78 MW (2017-18) with reference to their installed capacities. Commissioning of SHRPP without carrying out capital repairs to the 25 years old Sinter Machine was the main reason for not getting sufficient heat required for generation of auxiliary power from SHRPP.

ii) Low Plant Load Factor (PLF) of Thermal Power Plant

One of the parameters to measure efficiency of TPPs is Plant Load Factor (PLF)[11]. As per CERC's notification (2014-19), PLF norm for operation of TPP is 85 *per cent.* Against the norm of 85 *per cent*, actual PLF achieved by the 315 MW Main TPP of RINL during 2014-15 to 2018-19 was low and ranged between 67.16 (2016-17) and 74.66 *per cent* (2018-19) as detailed below:

Table-13.2.2: PLF achieved by Thermal Power Plant

Sl.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
a	Total captive power generated (MWh)	17,82,716	18,76,396	17,50,120	18,34,687	19,45,763
b	Total captive power capacity (MW per hour)[12]	297.50	297.50	297.50	297.50	297.50
c	Total calendar hours during the year	8760	8784	8760	8760	8760
d	Average hourly generation (MW per hour) (a/c)	203.51	213.62	199.79	209.44	222.12
e	Combined PLF percentage ((d/b) x100)	68.41	71.80	67.16	70.40	74.66

A statement showing the loss of generation due to low PLF is at ***Annexure-XXVII.*** It could be seen from ***Annexure-XXVII*** that as against the stipulated norm of 85 *per cent* of PLF, total shortfall in generation by Main TPP during the years 2014-15 to 2018-19 was 18,92,312 MWh valuing ₹130.44 crore. The reasons for lesser production of power from captive plants have been discussed in detail in the subsequent paragraphs.

Management replied (January 2020) that even when all machines were available for generating power from TPP and Auxiliaries Units, generation was restricted sometimes in those units in order to comply with minimum compulsory import of 7,400 MVAH per month in lieu of CMD (minimum 88,800 MVAH per year). Under such a scenario, PLF of the plant could not be compared with other power generating units, which generally did not have such type of limitations. Hence, PLF for TPP was not comparable with CERC norm. It was also stated that Plant Load[13] met by RINL was in excess of 76 *per cent* during the last five years.

11 ***PLF is the ratio between the actual energy generated by Plant and maximum possible generation for actual operating hours at installed capacity***

12 ***Installed Capacity of TG-5 is taken as 50 MW only instead of 67.50 MW based on Management reply***

13 ***Plant Load met by RINL was arrived by dividing average captive generation in MWs with average Plant Load in MWs (i.e., average captive generation + average power purchased)***

The reply is not acceptable in view of the following:

- PLF norms were operational for all TPP units and were to be considered as benchmark to ensure efficient operations. Further, while replying to a previous draft Report, the Ministry had stated (March 2017) that Central Electricity Authority kept a norm for PLF as 80 *per cent* in respect of power plants of steel industry. Even considering the PLF as 80 *per cent*, and also considering the minimum import of power from APEPDCL, the overall shortfall in power generation by TPP as well as the avoidable purchase of power from APEPDCL during 2014-19 was 12,40,430 MWh valuing ₹85.48 crore.

- To assess the operational efficiency of TPPs of steel industry like RINL, PLF should have been considered and not the plant load met by captive generation, as stated by Management.

Thus, captive power generation needs to be increased by improving PLF to at least 80 *per cent,* which would result in reduction in expenditure on purchase of power.

iii) Low power generation by TPP due to shortage of boiler coal

As per the targets laid down in the RINL's Sustainability Plan and considering the targeted power generation, annual boiler coal requirement during 2014-15 to 2018-19 was estimated between 22.17 lakh tons (2016-17) and 26.47 lakh tons (2015-16). In order to get coal required for TPP, RINL entered (June 2008) into a Fuel Supply Agreement (FSA) with Mahanadi Coalfields Limited (MCL) which was valid up to June 2013 with Annual Committed Quantity (ACQ) of 16.80 lakh tons. The FSA was renewed (November 2013) for another five years for the same quantity.

As MCL was not supplying ACQ of boiler coal, RINL purchased a total quantity of 7.22 lakh tons of boiler coal from Singareni Collieries Company Limited (SCCL) during 2014-19, including 1.27 lakh tons purchased under e-auction during 2017-18, and imported 7.94 lakh tons of boiler coal during 2015-19. Besides, FSA for supply of 3 lakh tonnes per annum for four years from April 2018 was finalised with SCCL. The details of boiler coal purchased during 2014-15 to 2018-19 from various sources are given below:

Table-13.2.3: Boiler coal purchased during 2014-15 to 2018-19

(Quantity in lakh tonne)

Year	Requirement of boiler coal projected as per Sustainability Plan	Boiler coal linkage from MCL	Boiler coal purchased from MCL	Boiler coal purchased from SCCL	Boiler coal imported	Total boiler coal receipts
2014-15	24.00	16.80	14.35	0.41	0	**14.76**
2015-16	**26.47**	16.80	14.20	0.95	0.47	15.62
2016-17	**22.17**	16.80	14.00	2.94	0.51	17.45
2017-18	25.00	16.80	14.52	1.27	2.56	**18.35**
2018-19	25.00	16.80	12.08	1.65	4.40	18.13

From the above table, it may be seen that in all the years, there was shortfall in receipt of coal when compared to the coal requirement projected as per Sustainability Plan, though the shortfall was in reducing trend. Due to shortage of boiler coal during 2014-19, TPPs were operated at partial loads during 11 months[14] resulting in shortfall in generation of power of 2,78,952 MWh. Though boiler coal from lone long-term supplier (viz. MCL) was erratic, RINL did not make adequate efforts to make up the shortfall in supplies by procuring boiler coal from other sources. Consequently, RINL had to purchase 5,70,737 MWh from APEPDCL in the above months out of which purchase of 2,64,828[15] MWh was avoidable with resultant expenditure of ₹16.78[16] crore.

Management replied (January 2020) that in order to maintain sufficient coal requirement for power generation, Raw Material Department along with Material Management Department was regularly taking up the matter with various associated agencies like suppliers of coal, and Railways. Material Management Department had also pursued with MCL about the poor supplies and requirement about meeting the FSA quantity.

The reply is not acceptable. When MCL failed to supply required quantity of boiler coal, RINL neither explored the procurement of boiler coal under e-auction from CIL units and SCCL, nor finalised a long-term MoU with other coal suppliers for additional boiler coal during the period of 11 months pointed out by audit.

iv) Imprudent blending of costly medium coking coal with boiler coal

Indigenous boiler coal was the prime material for power generation by TPP. Boilers of TPP at RINL were designed to use indigenous boiler coal with Gross Calorific Value (CV) of 3,680-4,500 Kilo Calories (Kcal) per kg. Due to short receipt of boiler coal, RINL used Medium Coking Coal (MCC) with CV of 5,400 Kcal/ kg[17] and Imported Boiler Coal (IBC) with CV of 6,300 Kcal/ kg for blending with indigenous boiler coal. This was done as MCC/ IBC with higher CV could not be fired directly in TPP boilers. Instead, indigenous boiler coal was blended with the above higher CV coals to ensure that gross CV was within the design range.

Audit observed that SCCL was selling boiler coal through e-auction from December 2007 and the subsidiaries of Coal India Limited (CIL) were selling boiler coal under e-auction from August 2009. Though the procurement of boiler coal through e-auction was cost effective as compared to procurement cost of MCC, RINL failed to avail this alternative to meet the short supply of boiler coal from MCL. The average procurement cost of MCC was between ₹7,241 - ₹7,362 per ton as against ₹1,597 - ₹2,463 per ton under e-auction rate of boiler coal during 2014-15 to 2016-17. RINL consumed 3,87,938[18] tons of MCC for blending with indigenous boiler coal during 2014-15 to 2016-17. MCC was not blended with boiler coal during the years 2017-18 and 2018-19. Considering actual CV of MCC vis-à-vis that of boiler coal, blending of costlier MCC of 3,87,938 tons valuing ₹283.58 crore which

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[14] ***June to September 2014; and January, May, June, July, September, November & December 2017***
[15] ***Considering shortfall in power generation and energy purchased, whichever is lower***
[16] ***Considering excess of tariff for energy charges plus electricity duty over annual average operating variable cost as per TPP cost sheet***
[17] ***Purchased from Central Coalfields Limited***
[18] ***1,62,884 tons, 1,45,224 tons and 79,830 tons for the years 2014-15, 2015-16 and 2016-17 respectively***

was equivalent to indigenous boiler coal of 6,95,792[19] tons valuing ₹138.37 crore to generate same quantum of power resulted in avoidable expenditure of ₹145.21 crore[20].

Management replied (January 2020) that:

- Usage of MCC was not due to shortage of boiler coal but was due to receipt of high ash content of indigenous boiler coal, which did not meet the design limit of gross CV of the RINL's Boilers.
- IBC could be used as an alternative to boiler coal in case of short supplies but had to be handled carefully as it was highly susceptible to self-ignition.
- Apart from logistics problems, high volatility in international market with reference to IBC prices was also taken into account for not contemplating the long-term agreement approach for IBC linkage.

The reply is not acceptable in view of the following:

- As against the requirement of boiler coal which ranged between 22.17 lakh tons and 26.47 lakh tons for the years 2014-15 to 2018-19, the actual procurement of boiler coal ranged between 14.76 lakh tons and 18.35 lakh tons. Hence, usage of MCC in the coal blend was due to shortage of boiler coal.
- The Water Sprinkler System in Boiler Coal Bed was commissioned on 16 August 2014 to avoid self-ignition in coal yards. Further, it is also a replied fact that the logistic problem was addressed by RINL at tipplers, by water quenching of materials while in wagons itself, before tippling, and hence, IBC could be carefully handled.
- The average percentage of ash content in IBC ranged between 9.24 and 11.55 during 2014-15 to 2016-17 when compared to that of MCC, which ranged between 24.51 and 32.93 during the same period. Further, the Gross CV of IBC was also higher than that of MCC and was also cost effective. Hence, inspite of high volatility in international market with reference to coal prices, blending of IBC with indigenous boiler coal instead of MCC was economical. Considering these aspects, disregarding MCC fully and blending indigenous boiler coal with IBC could have been explored.

13.2.7.2 Steam production

i) Low performance of TPP Boilers

TPP had five Boilers to produce High Pressure (HP) steam with capacity of 330 Tons Per Hour (TPH) each with firing of multi-fuels like Coal, Coke Oven Gas (CO Gas), Blast Furnace Gas (BF Gas) and Furnace Oil which were also used for start-up and for flame stability as and when required. Boiler coal was pulverised in Bowl Mills and fired in the

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[19] ***Considering annual average CV of MCC with that of indigenous boiler coal, 1 ton of MCC is equivalent to 1.60 tons, 1.73 tons and 2.30 tons of indigenous boiler coal for the years 2014-15 to 2016-17 respectively to generate same heat/ steam/ power;***

[20] ***Considering difference between RINL's annual average procurement price of MCC and prevailing annual average price of indigenous boiler coal under spot e-auction for the years 2014-15 to 2015-16, computed as per Annual Report of Ministry of Coal for 2016-17.***

Furnace. Steam produced through Boilers was used in four Turbo Blowers for BF and then largely for power generation. To meet increased steam requirements of Plant after expansion, additional Boiler-6 of 330 TPH was commissioned in June 2013 increasing the total capacity to 1,980 TPH of steam.

Of the six Boilers, one Boiler was kept as stand-by, and the balance five Boilers, in full load of operation, were capable of producing steam of 1,650 TPH. To conserve energy, the Boilers were required to be operated to produce steam to the maximum extent, to generate required power and meet the process needs. The details of hourly rate of steam production with reference to utilised hours by TPP Boilers during 2014-15 to 2018-19 are given below:

Table-13.2.4: Hourly rate of steam generated by each Boiler

Year	MOU Target for Steam (T)	Total TPP Steam (T)	Hourly Rate of Steam Production (T)					
			Boiler 1	Boiler 2	Boiler 3	Boiler 4	Boiler 5	Boiler 6
2014-15	130,71,480	102,89,785	253.2	252.8	263.3	253.7	273.1	275.1
2015-16	135,78,000	107,71,645	239.8	233.1	223.4	231.4	250.4	303.6
2016-17	135,78,000	104,99,682	225.2	223.5	218.3	243.2	257.5	319.2
2017-18	128,33,400	106,78,349	242.4	**213.1**	225.5	229.8	240.1	313.1
2018-19	130,61,868	112,14,754	231.5	221.7	237.9	241.6	268.7	**324.0**

It can be seen from the above that the overall steam production was less when compared to the MoU targets set with the Ministry of Steel. The hourly steam production was decreasing in respect of Boilers 1 to 5 during the period 2014-15 to 2016-17 and slightly increased / decreased during 2017-18 and 2018-19. Further, steam production by Boilers 1 to 5 reached a maximum of 273.1 TPH in the period of five years against a rated capacity of 330 TPH. However, the hourly rate of Boiler 6, being newly commissioned in June 2013, was improving during the period 2014-15 to 20108-19.

Further, the efficiency of TPP boilers to produce HP steam was between 74.12 *per cent* (2017-18) and 79.09 *per cent* (2014-15) as under:

Table-13.2.5: Boiler efficiency during 2014-15 to 2018-19

Year	Total steam produced by TPP with utilised hours (T)	Overall average hourly steam production per Boiler for utilised hours (T)	Boilers efficiency (3/ 330 x 100) (*per cent*)
1	**2**	**3**	**4**
2014-15	102,89,785	261.0	**79.09**
2015-16	107,71,645	247.7	75.06
2016-17	104,99,682	248.7	75.36
2017-18	106,78,349	244.6	**74.12**
2018-19	112,14,754	256.8	77.82

Management replied (January 2020) that the reduction in steam was due to receipt of coal with high ash content and high moisture content in rainy season and also due to aging of equipment. It was also stated that broad initiatives for the improvement of performance of TPP Boilers 1&2 were taken during 2018-19 and 2019-20 and replacement of ducts would be taken up in other Boilers during their Electrostatic Precipitator (ESP) Revamping Project.

The reply is not acceptable as concerted and fruitful efforts to sort out the issue of receipt of inferior boiler coal with high ash content from MCL, by taking up at the highest level and resolve the same proved inadequate. It is evident from the reply that the Company belatedly took up the initiatives in 2018-19 for the improvement of 30-year-old Boilers 1&2. Delayed action was the main reason for low performance of the boilers, as evident from the better performance of Boiler 6, which was relatively newer.

13.2.7.3 Performance of Thermal Power Plant and Auxiliary Power Generation Units

i) Performance of TPP (Boilers and Turbo Generators (TGs))

Capital repairs of Boilers were planned once in every year for 30-35 days and capital repairs of Turbine Generators (TGs) were planned for 40 days every year on need basis. Further, due to operational problems, Boilers and TGs would also be under unplanned/ forced outages and repairs were to be carried out on urgent basis.

(a) Impact on steam production and power generation

The details of average hourly generation of power from the turbine generators (TGs) during 2014-15 to 2018-19 may be seen at ***Annexure-XXVIII***, the abstract of which is given below:

Table-13.2.6: Average hourly generation of power during 2014-15 to 2018-19

Year	TG-1 - 60 MW	TG-2 - 60 MW	TG-3 - 60 MW	TG-4 - 67.5 MW	TG-5 - 67.5 MW
2014-15	45.8	49.2	48.6	48.9	**59.1**
2015-16	45.4	44.1	38.2	44.5	51.1
2016-17	48.9	**36.5**	41.6	**43.9**	51.3
2017-18	47.6	36.9	45.9	44.4	53.6
2018-19	48.5	**50.8**	48.5	55.7	58.6

Further audit analysis revealed that:

- The average hourly production of steam by TPP Boilers during 2014-15 to 2018-19 ranged between 213 TPH (Boiler 2 in 2017-18) and 324 TPH (Boiler 6 in 2018-19), against the installed capacity of 330 TPH. Forced shutdown hours of TPP boilers for the years 2014-15 to 2018-19 ranged between 73 hours (2016-17) and 780 hours (2014-15). Due to forced outages of Boilers during these years, the Company was unable to generate 3,17,910 tons of steam.

- The average hourly generation by TGs 1, 2 and 3 ranged between 36.5 MW (TG-2 in 2016-17) and 50.8 MW (TG-2 in 2018-19) as against 60 MW capacity each and that of TGs 4 and 5 was between 43.9 MW (TG-4 in 2016-17) and 59.1 MW (TG-5 in 2014-15) against 67.5 MW capacity each. Forced shutdown hours of TGs of TPP for the years 2014-15 to 2018-19 ranged between 89 hours (2015-16) and 1,077 hours (2014-15). Due to forced outages of TGs during these years, the Company was unable to generate 4,65,485 MWh of power.

- This apart, there was forced outage of TG-5 for 160 days during April to September 2014 due to the negligence of the Technical Consultant in identifying the defect during the supervision of the fixation of thrust collar of rotor shaft at the time of commissioning of TG-5 in November 2013.

(b) Time taken for outages/ shutdown

The details of the time taken for planned outages/ shutdown of Boilers and TGs for the years 2014-15 to 2018-19 is at ***Annexure-XXIX***, the abstract of which is given below:

Table-13.2.7: Excess time taken for planned outages/ shutdown of Boilers and TGs

(In number of days)

Year	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Boiler-1	29	22	18	21	246	336
Boiler-2	18	34	27	29	-	108
Boiler-3	51	25	8	7	-	91
Boiler-4	43	38	26	-	37	144
Boiler-5	11	31	-	25	-	67
Boiler-6	-	30	7	4	-	41
					Total	**787**
TG-1	-	-	-	-	139	139
TG-2	-	-	-	-	25	25
TG-3	-	-	43	-	-	43
TG-4	-	-	-	-	-	-
TG-5	-	-	-	-	-	-
					Total	**207**

While reviewing the time taken on capital repairs during April 2014 to March 2019, from ***Annexure-XXIX***, Audit observed that -

- Out of the 24 planned capital repairs for TPP Boilers, total excess time of 787 days was taken against the stipulated 35 days for each capital repair in 23 cases, with excess time on each occasion ranging between 4 (Boiler 6 in 2017-18) and 246 days (Boiler 1 in 2018-19); and
- Out of the three planned capital repairs carried out in TGs, in all the cases, RINL has taken total excess time of 207 days when compared to the planned days.

Management replied (January 2020) that the capital repairs to TG-1, 2 & 3 were taken up on an emergency basis due to sudden breakdown of the machine and non-availability of spare rotor and inner casing at site as they were undergoing repairs at BHEL. It also assured that efforts were being made to minimise such delays in future.

The reply is not acceptable as the delays in completion of capital repairs of TG-1&2 in 2018-19 and TG-3 in 2016-17 were mainly due to non-availability of a spare rotor, other than a rotor procured as a two-year operational spare way back in 1988 and declared as beyond repair in May 2019. Management's reply was silent on the excess time taken on capital repairs to Boilers and failure of the Technical Consultant to identify the defects during the commissioning of TG-5.

Thus, excess time taken beyond planned shutdown for annual capital repairs was causing reduced hours of utilisation of Boilers/ TGs with resultant reduction in steam and thereby causing lower power generation with consequential purchase from APEPDCL. Since Boilers were taken down for planned capital repairs once in every year, excess down time than that stipulated was avoidable.

ii) Performance of Auxiliary Power Generation units

The following table indicates the details of calendar hours, utilised hours and hours lost by Auxiliary Power Generation units during 2014-15 to 2018-19.

Table-13.2.8: Utilised hours and hours lost by Auxiliary Power Generation Units

Year	Calendar hours	BPTS-1 (7.5 MW)		BPTS-2 (7.5 MW)		GETS-1 (12 MW)	
		A (*per cent*)	B	A (*per cent*)	B	A (*per cent*)	B
2014-15	8,760	8,121 (93)	47	7,421 (85)	752	0 (0)	0
2015-16	8,784	8,657 (99)	64	8,501 (97)	181	0 (0)	0
2016-17	8,760	8,473 (97)	184	8,348 (95)	361	341 (4)	0
2017-18	8,760	7,168 (82)	1,592	8,556 (98)	204	6,749 (77)	2,011
2018-19	8,760	8,691 (99)	69	8,164 (93)	596	597 (7)	8,213

Year	GETS-2 (12 MW)		COB-4 (14 MW)		NEDO Project (20.6 MW)		TRT (14.88 MW)	
	A (*per cent*)	B	A (*per cent*)	B	A (*per cent*)	B	A (*per cent*)	B
2014-15	6,057 (69)	1,550	7,717 (88)	359	1,424 (16)	3,414	--	--
2015-16	2,341 (27)	40	8,152 (93)	551	602 (7)	0	2,106 (24)	130
2016-17	0 (0)	0	8,624 (98)	59	1,591 (18)	0	6,445 (74)	882
2017-18	1,070 (12)	7,690	8,532 (97)	228	942 (11)	7,257	6,313 (72)	2,447
2018-19	5,076 (58)	3,684	8,350 (95)	410	75 (01)	8,685	5,671 (65)	3,089

A – Utilized Hours (*per cent* to Calendar Hours); **B** – Hours Lost towards Planned/ Unplanned/ Forced Shutdown

Note: COB-5 was commissioned in May 2018, hence, not considered in the analysis. Similarly, TRT was commissioned in June 2014, hence, not considered for 2014-15.

The utilisation of Auxiliary Power Generation units like GETS-1, NEDO Project and TRT was poor resulting in shortfall in generation of power with consequential purchase of power from APEPDCL. The Auxiliary Power Generation Units performance as scrutinised by Audit indicates that:

- **GETS-I (12 MW)** – The top gas generated from Blast Furnace (BF)-1 is routed through Gas Expansion Turbine for generation of power. The power generated from this Plant is used for excitation and for drives. The performance of GETS-I was poor due to the faulty design of Gas Cleaning Plant of BF-1 and breakdown of silencer supplied by Acoustics India Limited (GETS-1).

- **NEDO Project (20.60 MW)** – During the course of sinter production in Sinter Machine, hot air is generated which is routed through a Boiler Turbine Generator for generation of power. The Project was initiated in May 2009 with an estimated cost of ₹95.76 crore with scheduled completion within 34 months (February 2012). The Project was commissioned in March 2014 and ₹174.09 crore had been incurred till March 2019. RINL was unable to utilise the NEDO Project due to generation of insufficient steam by the 25 year' old Sinter Machine to run the NEDO Boiler for generation of power, making the decision to take up the Project without carrying out capital repairs to the Sinter Machine and ensuring required heat input as imprudent.

- **Top Recovery Turbine (14.88 MW)** - The top gas generated from Blast Furnace-3 is routed through a Turbo Generator for generation of electricity. The electricity generated is used by various associated devices and excitation system. The Plant was commissioned and trial run conducted in June 2014, however, the generation could start only by September 2015 with a delay of 15 months. The Plant could not be run efficiently as it was stated to receive insufficient top gas pressure (1.6 kilogram/ square centimetre[21] (Kg/ cm^2)) from BF-3.

Management replied (January 2020) that utilisation of Auxiliary Power Generation units were low for various problems on the side of production units to which they were connected such as:

- GETS-1 associated with BF-1 was idle during the years 2014-15 to 2016-17 due to vibration and noises at Gas Cleaning Plant (GCP) near septum valve area and utilisation was low in 2018-19 due to GCP side silencer breakdown and high vibration;
- Utilisation of GETS-2, associated with BF-2 was low during the years 2015-16 to 2017-18 due to BF-2 Category-2 repairs;
- NEDO Project commissioned in 2014 was dependent upon heat input coming from hot sinter and NEDO Boiler was not able to produce steam due to insufficient heat input. A study to enhance power generation from NEDO Project was in progress and plan for its revival was on the anvil; and
- Due to some teething problems in BF-3 immediately after commissioning of TRT, BF-3 top gas pressure was not reaching up to 1.6 Kg/ cm^2, the minimum pressure required for power generation from TRT. Because of this, power generation from TRT was delayed by almost 15 months and TRT was restarted on 25 August 2015 after getting clearance from BF-3.

The reply is not acceptable in view of the following:

- In case of GETS-I, though the BF top pressure was more than 1.5 Kg/ cm^2 for 245 days (equivalent to eight months) of the 18 months during October 2015 to March 2017, the same could not be utilised for power generation due to faulty design of Gas Cleaning Plant of BF-1. Similarly, inspite of higher BF top pressure for 172 days (equivalent to six months) during 11 months from May 2018 to March 2019 also, RINL failed to utilise the higher top pressure for power generation due to failure of silencer supplied by Acoustic India for BF-1;
- Though the utilisation of GETS-2 was low during the years 2015-16 to 2017-18 due to capital repairs, its utilisation during the years 2014-15 (69 *per cent*) and 2018-19 (58 *per cent)* was also low;
- Despite the known fact that Sinter Machines 1 & 2 were 25 years' old and capital repairs were very much essential for implementation of NEDO Project, the project

[21] ***Measure for indicating the pressure of steam***

was commissioned with a capital cost of ₹174.09 crore without carrying out the necessary capital repairs to the 25 years' old Sinter Machines and this was the main reason for not getting sufficient heat required for generation of power; and

- TRT generated power of 7,496 MWh during the period September 2015 to January 2016, even though the top gas pressure in BF-3 was lower than 1.6 Kg/ cm^2 during this period. Thus, the contention of Management that TRT could not be made functional due to insufficient top gas pressure of 1.6 Kg/ cm^2 is not acceptable.

13.2.7.4 Energy conservation

i) Auxiliary Power Consumption

Auxiliary Power Consumption (APC) is the internal consumption of power by the respective power generating units. The percentage of APC by TPP steam boilers and power generators during 2014-15 to 2018-19 is given below:

Table-13.2.9: Percentage of Auxiliary Power Consumption by Steam Boilers and Power Generators of Main TPP

Year	Total steam produced by TPP Boilers (Tons)	Total energy consumed for generation of steam (MWh)	Total power generated through TGs of TPP (MW)	Total steam consumed for power generation through TPP (Tons)	Total energy consumed for the steam used in TPP (MW)	Percentage of APC for power generated through TPP
1	**2**	**3**	**4**	**5**	**6 = (5/2x3)**	**7 = (6/4x100)**
2014-15	102,89,785	**3,52,225**	17,82,716	69,74,830	2,38,752	**13.39**
2015-16	107,71,645	3,85,732	18,76,396	72,63,903	2,60,120	13.86
2016-17	104,99,682	3,85,373	17,50,120	66,84,690	2,45,350	14.02
2017-18	106,78,349	4,00,250	18,34,687	69,16,868	2,59,261	**14.13**
2018-19	112,14,754	**4,07,667**	19,45,763	73,14,651	2,65,895	13.67

As per CERC notifications, norm for APC by power generating stations was nine *per cent*. During 2014-15 to 2018-19, APC for generation of power by the TPP alone ranged between 13.39 *per cent* (2014-15) and 14.13 *per cent* (2017-18), which was way beyond the stipulated norm of nine *per cent*. Excess APC, beyond the norm of nine *per cent*, resulted in avoidable expenditure of ₹230.56 crore.

Management replied (January 2020) that in addition to catering to the need of power requirement of different units of steel plant, TPP & Boiler House also met the process steam, DM water, soft water, chilled water requirement of different units of VSP and most of these utilities were not the part of a Conventional Power Plant. Hence, this resulted in higher APC due to its complex nature.

The reply is not acceptable. Keeping in view the complex nature of TPP and Boiler House of RINL, the APC had been computed by considering the energy (power) consumed for the steam generated and used for the production of power by TPP only. Audit did not consider the APC for the production of steam required for other process needs. Hence, APC pointed out by Audit was very much comparable with CERC norm of nine *per cent.*

ii) Impact of excess consumption of steam on cost of power generation

Fuels and consumables were the major elements of cost for power generation. During 2014-15 to 2018-19, total cost of power generation by TPP was between ₹5,791 per MWh (2015-16) and ₹7,036 per MWh (2018-19). Steam was the major component for power generation. During 2014-15 to 2018-19, steam cost alone (towards HP steam consumption by TGs of the TPP) ranged between 87.13 *per cent* (2014-15) and 91.53 *per cent* (2016-17) of the total cost of power generation.

Benchmark consumption of HP steam to generate one MWh power in TPP was fixed by Management at 3.50 tons. Audit observed that steam consumption rate during 2014-15 to 2018-19 varied between 3.91 tons/ MWh (2014-15) and 3.76 tons/ MWh (2018-19) against the benchmark steam consumption rate of 3.50 tons/ MWh. Considering benchmark rate of 3.50 tons/ MWh, excess consumption of steam during 2014-15 to 2018-19 accounted for 29,91,055 tons of steam which when converted to monetary terms valued ₹382.48 crore, taking into account only the variable operating cost incurred for production of HP steam by TPP Boilers.

Management replied (January 2020) that TGs of TPP did not only generate power but also supply process steam which was extracted in the form of 13 ata[22] and 4 ata from Turbine after certain stages of expansion and sent to plant network for process requirements.

The reply is not relevant as Audit had pointed out the excess steam consumption by TGs (101 ata steam) excluding the 13 ata and 4 ata steam extracted from the TGs and sent to the network for process requirements.

iii) Transmission and Distribution Loss

Power is distributed through a large and complex network involving transmission lines, sub - stations, transformers, cables and other equipment until it reaches the end users. The difference between the power generated at power plants and received at sub-stations at the end user points is considered as Transmission and Distribution (T&D) loss. Due care needs to be taken to reduce T&D loss.

Audit analysed the distribution loss data from 2001-02 onwards and noticed that the T&D loss was 0.60 *per cent* in 2001-02 and 2002-03 and was on increasing trend thereafter. During 2014-15 to 2018-19, the T&D loss ranged between 2.26 *per cent* and 2.30 *per cent* with a total loss of 3,39,824 MWh.

Management replied (January 2020) that longer transmission circuits in the form of transmission lines and cable network were added with capacity increase, which was one of the reasons for increase in T&D loss. Continuous efforts were being made by RINL to contain the T&D losses by following the same concept of electrical network as done earlier i.e., to provide the high voltage substation in close vicinity of the equipment minimising the T&D loss. The Supervisory Control and Data Acquisition (SCADA) system was in place for energy monitoring and with the improvement in the system, the accuracy of energy consumption could be monitored and the same would help in reducing the T&D losses.

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[22] ***ata (Atmosphere absolute) is a term used to measure pressure of the steam.***

The reply is not acceptable in view of the following:

- As compared to large network of power distribution companies, network distribution of RINL is limited and hence distribution losses should have been below one *per cent*, as was maintained for six years during 2001-07;
- Despite integration of both SCADAs to enable to account for energy consumption and take measures to reduce T&D losses, the losses continued to be on higher side during the years 2014-15 to 2018-19.

Thus, Management needs to make concerted efforts to reduce the T&D losses.

13.2.7.5 Energy Audit

Energy audit analyses energy consumption pattern by each user and suggests improvements for the conservation of energy. It is a management tool to achieve cost control by using energy effectively. Energy audit for the first time was entrusted by RINL to National Productivity Council (NPC) in November 2014 after GoI issued notification in May 2014 directing every designated energy consumer to conduct Energy Audit by an Accredited Energy Auditor. Accordingly, RINL got conducted energy audit during the period December 2014 to September 2015.

As per Bureau of Energy Efficiency (Manner and intervals of time for conduct of Energy Audit) Regulations, 2010, energy audit would be conducted every three years from the date of the submission of the previous Energy Audit Report. However, RINL had not conducted the energy audit subsequently within the due date, i.e., by September 2018, as stipulated by the Regulations. The next spell of audit was entrusted only on 2 November 2019.

Management replied (January 2020) that it initiated the process of engaging Accredited Energy Audit agency on 17 January 2018 and finalised M/s. Development EnviroEnergy Services on 2 November 2019 to carryout mandatory Energy Audit. Energy Audit work was commenced by the Accredited Auditor.

It was evident from the reply of Management that the Company failed to take up the mandatory Energy Audit within the stipulated schedule (i.e. by September 2018). Further, as the subsequent Audit had not yet been completed, the extent of compliance reported by Management in response to the previous Energy Audit observations and suggestions/ recommendations could not be examined.

13.2.8 Conclusion

- PLF achieved by the Main TPP was less than the norm prescribed by CERC. Even assuming the operation of TPP at PLF of 80 *per cent*, savings to the extent of ₹85.48 crore would have accrued to the Company towards the cost of power imported from APEPDCL.
- RINL curtailed TPP generation due to shortage of boiler coal and blended high cost Medium Coking Coal with boiler coal without envisaging for alternate source of procurement of boiler coal leading to increased cost of power generation. Savings to

the extent of ₹145.21 crore were lost by the Company due to improper blending of MCC with indigenous boiler coal.

- The Company could not generate steam as per the rated capacities of the Boilers and Turbine Generators, which had an impact on the generation of power and for meeting the process needs.
- The Company lost the opportunity to generate steam to the extent of 3.17 lakh tons due to forced outage of Boilers and also failed to generate power to the extent of 4.65 lakh MWh due to forced outage of TGs. Further, it took excess time than required for maintenance of Plant.
- The utilisation of Auxiliary Power Generation units like GETS-1, NEDO Project and TRT was poor due to faulty design/ insufficient heat recovery from Sinter Machine/ insufficient top gas pressure resulting in shortfall in generation of power with consequential purchase of power from APEPDCL.
- Auxiliary Power Consumption, beyond the norms prescribed by CERC, resulted in avoidable expenditure of ₹230.56 crore.
- The excess consumption of steam during 2014-15 to 2018-19, beyond the stipulated norms, accounted for 29.91 lakh tons of steam which when converted to monetary terms valued ₹382.48 crore.

13.2.9 Recommendations

1) RINL should strive to achieve operation of TPP with allied Plants such as Boilers and Turbine Generators as per the standards/ norms fixed by CERC.
2) RINL should ensure regular supply of boiler coal by entering into Fuel Supply Agreements with Coal Companies or through e-auctions.
3) RINL should initiate measures for optimal utilisation of Auxiliary Power Generation Plants such as GETS-1, NEDO Project and TRT so that the reliance on import of power from APEPDCL could be minimised.
4) RINL should minimise the time required for maintenance of Plant to avert production losses.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

Steel Authority of India Limited

13.3 Performance of Captive Mines of SAIL

13.3.1 Introduction

Steel Authority of India Limited (SAIL or the Company), a leading steel manufacturing company in India operates five integrated steel plants[23] and three special steel plants[24] and

[23] ***Bhilai Steel Plant (BSP) in Chhattisgarh, Bokaro Steel Plant (BSL) in Jharkhand, Rourkela Steel Plant (RSP) in Odisha, Durgapur Steel Plant (DSP) and IISCO Steel Plant (ISP) in Burnpur, West Bengal***

produced 17.51 million tonne (mt) of Hot Metal (HM) during 2018-19. Iron ore, flux materials (limestone and dolomite) and coking coal are primary raw materials in steel making and constitute 50 *per cent* of the total cost of production. Availability of raw material at affordable price on sustained basis is essential for success in the steel industry. The requirement of iron ore is met from the captive mines of SAIL which produced 28.35 mt in 2018-19. However, Company was not self-sufficient in flux and metallurgical or coking coal. SAIL took up Modernization and Expansion Plan (MEP) in 2008 to enhance HM production capacity from 14.6 mt *per annum* (mtpa) to 23.46 mtpa which would proportionately also increase the requirement of raw material.

SAIL has 28 captive mines for iron ore, flux and coal in Jharkhand, Odisha, Chhattisgarh, West Bengal, Karnataka and Madhya Pradesh. Based on proximity of mines with steel plants, mines are annually linked with steel plants for supply of mined material.

13.3.2 Organisational set up

Director (Raw Material & Logistic) heads the mining activities of SAIL. The responsibility for development, renewal and management of company's iron ore and flux captive mines is with Raw Material Division (RMD)[25] Kolkata, Bhilai Steel Plant (BSP)[26] and Visvesvaraya Iron and Steel Plant (VISP), Bhadravati. Coal mines are under the control of Collieries division[27] Kolkata. Corporate Raw Material Group (CRMG) at New Delhi liaises with Ministry of Environment, Forest & Climate Change (MoEFCC), Ministry of Coal (MoC), Ministry of Mines (MoM) and the State Government authorities for acquisition of mines andgrant of statutory clearances. SAIL had 28 captive mines[28] and 47 mining leases as on 31 March 2019 ***(Annexure-XXX*)**.

13.3.3 Audit objectives, criteria, scope and methodology

The audit objectives were to assess whether:

- SAIL took adequate and effective measures to renew and develop its captive mines,
- mines were effectively managed to achieve planned production;
- production capacities were augmented to meet the enhanced raw material requirement of the steel plants after completion of MEP; and
- adequate measures were taken to comply with safety and environmental laws.

The Audit criteria used were Mines and Minerals (Development and Regulation) Act, 1957 (MMDR 1957), Odisha Minerals Rule, 2007 (OMR 2007), Forest Conservation Act, 1980 (FCA 1980), Mineral Concession Rules, 1960 (MCR 1960), Environment Protection Act,

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[24] ***Alloy Steels Plant in Durgapur, W. Bengal, Salem Steel Plant in Tamilnadu, Visvesvaraya Iron and Steel Plant (VISP), Bhadravati in Karnataka***

[25] ***Iron ore mines at Kiriburu (KIOM), Meghahatuburu (MIOM), Bolani (BOM), Gua (GOM), Manohaprur (MOM), Barsua (BIM), Kalta (KIM), Taldih (TIM); Kuteshwar (KTR) and Bhawanathpur (BNP) limestone mines, Purnapani Limestone & Dolomite Quary (PLDQ), and Tulsidamar dolomite mines (TDMR)***

[26] ***Iron ore mines at Rajhara, Dalli Mechanical-Jharandalli & Kokan east, Dalli Manual, Mahamaya & Dulki, Rowghat, KalwarNagur, Nandini limestone mines and Hirri and Baraduar Dolomite mines***

[27] ***Chasnalla, Jitpur, Ramnagore and Tasra coal mines***

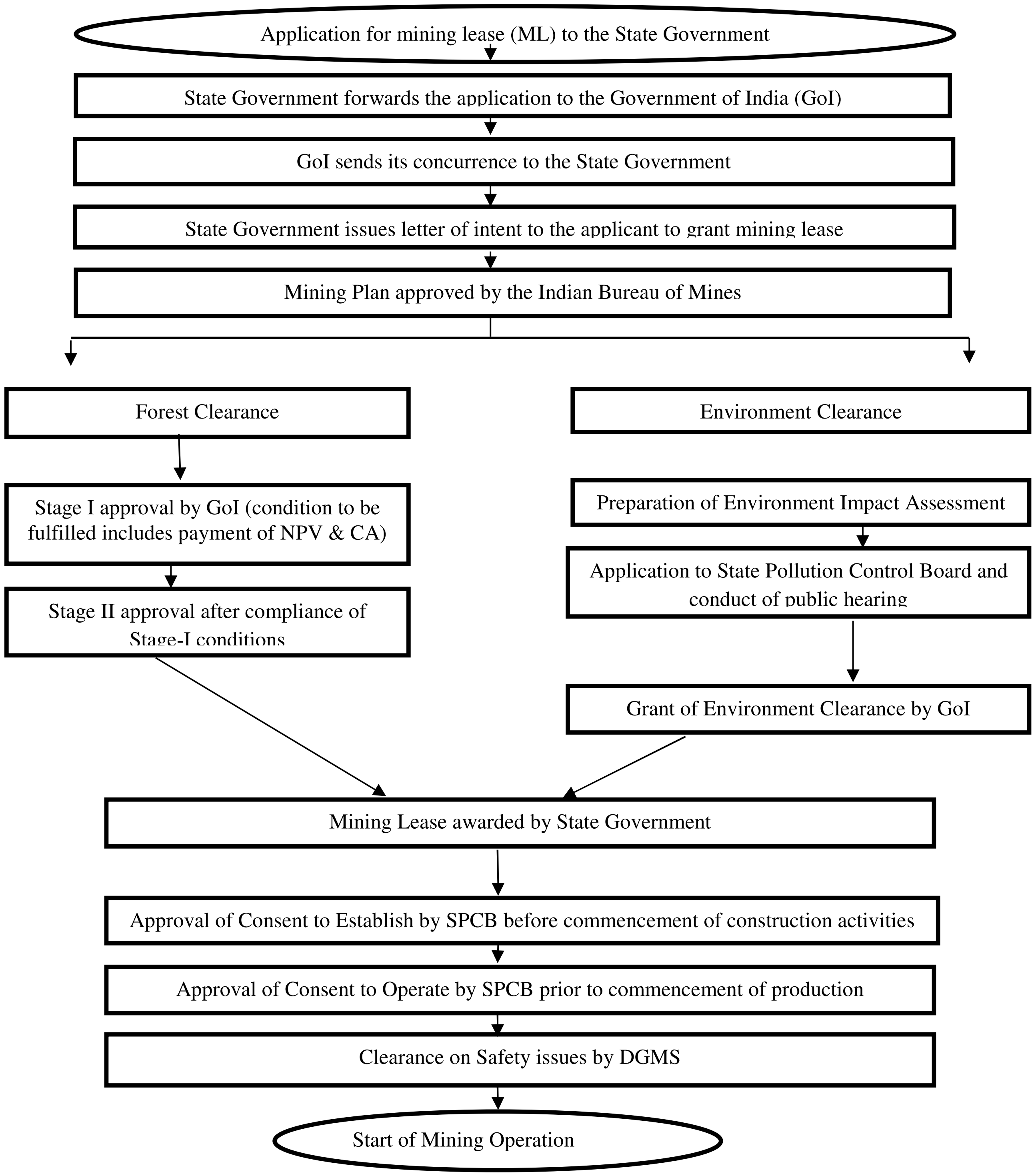
[28] ***RMD-13, BSP-9,VISP-2 and Collieries-4***

1986 (EPA 1986), Annual Production Plan (APP), Production records of mines, Mining Plan (MP) approved by Indian Bureau of Mines (IBM), Norms for utilisation of equipment. Audit examined records of all captive mines, RMD HQ and CRMG of the Company for 2014-19.

13.3.4 Audit findings

13.3.4.1 Mining leases

For mining operation in an area, a lessee should have a valid mining lease. The activities involved in getting the mining lease and operations are given below:



During the course of audit, two instances were noticed where SAIL did not apply technical due diligence and conduct Techno-Commercial Viability Study (TCVS) to assess viability of project before acquisition of unviable coal mines. These were subsequently surrendered and led to entire amount spent becoming infructuous. Audit also observed two instances where SAIL failed to develop its mining leases by fulfilling conditions for obtaining the requisite clearances in time. This led to payment of dead rent, stamp duty etc. on such mines. Delays were also noticed in surrendering of closed mines that also led to avoidable expenditure on maintenance of these mines. Instances of delays in augmentation of production capacity of mines, low utilisation of Heavy machinery, less deployment of statutory manpower and environment and safety issues were also noticed. These are discussed in detail in subsequent paras.

13.3.4.2 Acquisition of unviable mines

i) Infructuous expenditure of ₹123.66 crore on Parbatpur Coal Block

SAIL applied (September 2015) to MoC for allocation of Parbatpur Coal Block, with an area of 880 ha, keeping in view the requirement of coal after MEP, future capacity expansion and to overcome dependence on imported coal. The coal block was allotted (March 2016) through Government Dispensation Route.

Audit noted that the coal block was allocated with the condition to enter into a 'Co-development Agreement' (CDA) with ONGC for simultaneous extraction of Coal Bed Methane (CBM) and coal because of overlapping of area with adjacent CBM block allotted to ONGC. SAIL could not enter into CDA with ONGC as Director General of Mines Safety (DGMS) did not give permission (January 2017) for simultaneous extraction of CBM and coal. The area available to SAIL was reduced from 880 ha to 463.72 ha and reduction of geological reserve of coal from 273.86 mt to 147.3 mt. Due to reduction of area and reserve, SAIL conducted a TCVS through MECON which suggested (January 2018) that the project was not viable. SAIL Board decided (March 2018) to return the block to MoC (8 March 2018) and requested to refund the expenditure incurred including the Performance Bank Guarantee (PBG) and also to allot potential coal block in lieu of Parbatpur block. In the meantime, MoC issued show cause notice (June 2018) for slippage of milestone by SAIL. MoC further directed (September 2018) SAIL to re-examine the viability of the mines if complete lease area of 880 ha is given to SAIL. The viability of the project was assessed again by MECON which suggested (March 2019) that it was commercially unviable. SAIL again requested (April 2019) MoC to surrender the mines.

Audit observed that SAIL was aware of the adverse geo-mining condition and high gas content while submitting application for the coal block. SAIL was also aware that the scale of operation would be restricted to lower levels due to the fact that the coal block overlapped with CBM blocks. Despite these adversities, SAIL went ahead with allocation of the block. Audit noted that MoC terminated (December 2019) the allotment and noted that SAIL had made very little progress in development of mine before taking the decision to surrender it. It also directed the Bank to encash BG of ₹62.57 crore which was an additional loss to the Company.

Management replied (February 2020) that uncertainties due to overlapping with Petroleum Mining Lease of ONGC and non-grant of exclusive Coal Mining Lease was not anticipated at the time of allotment.

The reply is not acceptable as the coal block was allotted on the request of SAIL and it was aware of the adverse geo mining condition and high gas content as it was mentioned in the application for allocation of the block.

Thus, ₹123.66 crore[29] spent on Parbatpur Coal block upto March 2019 became infructuous.

ii) Infructuous expenditure of ₹29.28 crore on Sitanala Coal Block

Sitanala coal block comprising of 321 ha was allocated to SAIL (April 2007) to develop a high productivity mine to commence operation from April 2011. The production did not commence due to delay in preparation of Detailed Project Report (DPR) and non-creation of infrastructure. In the meantime, Supreme Court cancelled (August 2014) the allocation of coal block. SAIL submitted application for re-allotment of block (February 2015) and was re-allotted in March 2015. Audit noted that, out of 321 ha, only 214 ha was recommended (2017) by Government of Jharkhand (GoJ) because 66 ha came under Damodar river-bed and 41 ha overlapped with CBM lease granted to ONGC-CIL.

Audit observed that, TCVS conducted by MECON showed (January 2018) that the project was unviable. SAIL decided (March 2018) to surrender the coal block and requested MoC (March 2018) to refund the BG amount. MoC terminated (October 2018) the allotment and directed to appropriate the BG and other payments made by SAIL. MoC while terminating the allotment stated that, SAIL being a prior allottee was fully aware about the coal block being geographically disturbed due to presence of gassy seams and therefore, SAIL should have undertaken the TCVS prior to entering into the process of re-allotment. Ministry further noted that very little progress was made by SAIL in development of mine before its decision to surrender the mine and there was unjustified delay on the part of SAIL. Accordingly, Ministry appropriated all payments and BG submitted by SAIL.

Audit noted that entering into re-allotment process of unviable coal block despite being aware of the adverse geo-mining condition and not conducting TCVS before re-allotment resulted in infructuous expenditure of ₹29.28 crore[30].

Management replied (February 2020) that, in view of uncertainties due to non-grant of Mining Lease for 321 ha area by State Government, SAIL was drawn into a precarious situation which was not anticipated at the time of allotment.

The reply is not acceptable as SAIL, was aware that the coal block was geographically disturbed with gassy seams and should have undertaken TCVS before applying for reallotment of coal block.

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[29] ***₹93.89 crore towards upfront amount, assets created by prior allottee, ₹7.25 crore on dewatering of the mines and ₹22.52 crore on power, security, consultancy etc.***

[30] ***Comprising of amount spent on Geological report (₹10.18 crore), Other Project Expenses (₹7.78 crore, Upfront amount (₹0.89 crore), Performance BG (₹10.43 crore)***

13.3.4.3 Non development of Mining leases

i) **Non-production from Baraduar dolomite mines:** Baraduar Dolomite Mine (BDM) allotted to SAIL in 1970 was closed in 1983 due to labour unrest and lease was cancelled (January 1993). The lease was subsequently restored (1996) to SAIL and is valid upto December 2020. SAIL was granted EC in September 2015. FC is given in two stages (Stage I and II). SAIL, however, did not pay CA and NPV and CA amount was revised to ₹59.19 crore based on April 2019 rates.

Audit observed that SAIL did not pay CA and NPV on the grounds of non-receipt of revised LOI from Government of Chhattisgarh (GoCG), which was not valid, as payment of CA and NPV was pre-requisite for FC Stage-II and had no link with Letter of Intent (LOI). The delay resulted in additional liability of ₹10.27 crore which was avoidable. SAIL also spent ₹1.36 crore on dead rent and stamp duty on the mines. In the absence of FC, mining from Baraduar mines was not started and BSP had to get its requirement of dolomite from sources other than its captive mines as discussed in para 13.3.4.10.

Management replied (February 2020) that non-payment of CA by SAIL was due to uncertainty with regard to extension of lease and absence of clear intent of GoCG for further extending mining rights of Dolomite to SAIL.

The reply is not acceptable as BSP management itself requested (November 2017) GoCH to issue demand for CA and NPV. The decision of BSP to withhold the payment of CA and NPV for want of revised LOI was not justified as there was no link between receipt of LoI and payment of CA and NPV. Further, the fact remains that, mining at BDM was not started due to unavailability of FC.

13.3.4.4 Begunia coking coal mines

The estimated capital cost to develop Begunia coking coal project with reserve of 4.24 mt was ₹97.37 crore (2009) which increased to ₹172.21 crore in January 2018. With growing requirement of coal and consistent reduction in supply of coking coal from domestic sources, it was critical for the company to develop available coal mines.

Audit observed that production from Begunia coal seam did not commence though the geological and conceptual reports were prepared in 2006 and 2008 respectively. There were delays in preparation of mining plan, obtaining EC and engagement of Mines Developer and Operator (MDO) which resulted in non-commencement of mining operation even after 15 years. Management constituted a committee only in February 2019 to review the tender document, mining plan, mine closure plan, engagement of MDO etc. The Committee's report (May 2019) *inter alia* included recommendation for fresh techno economic study and engagement of reputed agency for preparation of DPR. MECON was awarded (December 2019) the work for preparation of DPR.

The above delays resulted in cost overrun of ₹74.84 crore. The company had also spent ₹8.95 crore on the feasibility studies as of March 2019, besides the avoidable excess cost incurred on imported coking coal.

Management replied (February 2020) that once DPR is finalised further action for development of Begunia Project will be expedited.

Management's reply did not address the reasons for delay in development of the Project.

13.3.4.5 Surrender of Mines

i) Avoidable expenditure due to delay in surrender of Purnapani mines

Mining lease at Purnapani (PLDQ) was allotted to SAIL in 1960. Mining operation at PLDQ was stopped from March 2004 due to high silica content (six *per cent)* in the limestone. Audit noted that 3.61 lakh tonne of limestone worth ₹11.98 crore was lying in the mine since 2004. SAIL attempted twice to set up cement plant to utilise the reserve of PLDQ. It formed a JV with JK Cement Limited in October 2008 to use slag from RSP and limestone from PLDQ but scrapped (August 2010) the project due to prevailing cost of slag and inability to hand over quarry. Another attempt was made in May 2019 but setting up the cement plant was found economically unviable as available reserve was less than the minimum requirement of 30 mt. The company decided to surrender the lease in May 2019.

Management replied (February 2020) that on approval of Final Mines Closure Plan, the Purnapani lease would be surrendered.

The fact however remains that, long delay in surrender of lease resulted in avoidable expenditure of ₹7.94 crore on maintenance, security and electricity and ₹5.22 crore on salary and wages during 2014-19.

13.3.4.6 Delay in surrender of Bhawnathpur limestone mines

Bhawnathpur Limestone Mine (BNP) with a capacity of 2.9 mtpa was not suitable for use in the steel plants due to high silica content in limestone (six to eight *per cent*). Production from BNP mines were reduced to five *per cent* from 2004 due to poor quality and high cost of production and was stopped from April 2013. As per MoEF notification (October 2004), it was mandatory for all mining projects with more than five ha lease area that had not obtained EC, to do so at the time of renewal of lease. BNP applied for EC in January 2013. MoEF, however observed (April 2013) serious violation as mining was continued without EC and therefore EC was not granted. SAIL decided (May 2017) to surrender the mine and advised to reduce CISF personnel from 85 to 65 to save ₹1 crore per annum. The final closure plan was approved by GoJ in May 2019.

Audit noted that though production from BNP was stopped in April 2013, SAIL took four years to decide to close the mines which resulted in payment of ₹1.14 crore as dead rent during 2014-19. Further, it was only in November 2014 that Management requested JSEB to provide domestic power supply at BNP township and to disconnect industrial power supply. BNP procured 119.75 lakh unit electricity for ₹8.43 crore during 2014-19 at industrial rate for consumption in township and recovered only ₹0.62 crore from the occupants. Further, ₹5 crore on security was spent annually at the closed mines.

Management replied (February 2020) that SAIL tried to get Environment Clearance (EC) and Forest Clearance (FC) and Environment Impact Assessment (EIA)/ Environment

Management Plan (EMP) studies for the limestone leases were conducted. Efforts were also made for conversion of Industrial power supply of BNP Mines to Domestic Supply.

The reply is not acceptable as production from BNP mines was suspended from April 2013, therefore, efforts taken by Management for getting FC, EC and EIA/ EMP studies thereafter were not required. Further, BNP did not pursue the matter with JSEB after November 2014 to avail domestic connection.

13.3.4.7 Mining operation

Mining operation involves excavation of Run off Mines (ROM) from mines, segregation of ROM into required size of Iron Ore Lumps (IOL) and Iron Ore Fines (IOF) through Crushing and Screening Plant (CSP), transportation of ores to railway siding and dispatch to steel plants. SAIL carries out mining operation either departmentally or through contractors by mechanised, semi-mechanised or manual means.

13.3.4.8 Production performance

Company fixed mine-wise Annual Production Plan (APP) for iron ore, flux and coal considering annual steel production plan and prevailing operating conditions. The details of Annual Rated Capacity (ARC) of mines, APP, Annual Production (AP) and Annual Consumption (AC) of raw materials for the period 2014-19 are given below:

Table 13.3.1: APP and AP of iron ore, flux and coal from captive mines

(In million tonne)

Year	Iron ore				Flux material				Coal			
	ARC	APP	AP	AC	ARC	APP	AP	AC	ARC	APP	AP	AC
2014-15	29.72	28.57	23.18	24.26	3.81	2.53	2.10	6.43	1.14	0.92	0.62	15.00
2015-16	29.72	29.50	24.83	24.75	5.23	2.68	2.27	7.00	1.14	0.92	0.71	14.97
2016-17	39.05	28.25	26.16	25.45	5.23	2.65	2.08	7.04	1.14	1.01	0.74	14.87
2017-18	39.05	30.25	26.69	25.92	5.23	2.86	2.04	7.14	1.14	0.73	0.79	14.45
2018-19	37.80	32.98	28.35	28.64	5.24	2.65	1.87	8.04	1.14	1.01	0.74	15.25
Total	**175.34**	**149.55**	**129.21**	**129.02**	**24.74**	**13.37**	**10.36**	**35.65**	**5.70**	**4.59**	**3.60**	**74.54**

From the table above, it can be seen that APP was fixed less than ARC and production of raw material was also less than APP during last five years. Audit also noted that, though production of iron ore was sufficient to meet the requirement of steel plants, BSP and RSP were linked to distantly located mines which entailed extra expenditure of ₹295.39 crore on freight differential. Further, shortfall in production of flux was met though procurement from market at extra expenditure of ₹136.33 crore as discussed below:

iii) Extra expenditure of ₹235.12 crore on differential freight by BSP

As per the APP of BSP, its requirement of iron ore was 39.80 mt during 2014-19 whereas, production from linked mines of Rajhara and Dalli were only 35.36 mt during the period. Audit observed that, the reasons for less production were increasing stripping ratio[31], delay in finalisation of contracts at Dalli mine, underutilisation of equipment due to over-aging in both the mines etc. BSP had to procure 2.84 mt iron ore from distantly located mines which resulted in extra expenditure of ₹235.12 crore on account of differential freight.

Audit also observed that the above shortfall in production of iron ore could have been made good to the extent of 1.73 mt from Dalli manual mines and Jharandalli mines. Audit noted that MoEFCC issued circular (March 2017) that all mines should obtain EC by September 2017 and in absence of EC mining activity would be ceased. The Collector, Balod issued (December 2016) a show cause notice to BSP for non-availability of EC in Dalli mine. As BSP had not applied for EC, mining operation was stopped from February 2017 and planned production of 0.63 mt during 2017-19 was not achieved.

Audit further noted that, CSP at Jharandalli mines could not process the total iron ore feed from mines and therefore BSP placed an order (May 2016) to install CSP and dispatch iron ore from August 2016 for two years (1.20 mt). The contractor failed to execute the work as per schedule. Consequently, there was shortfall of 1.10 mt during 2017-19. Management did not take any action to issue fresh order for crushing and screening of ore.

Management replied (February 2020) that transportation of IOF from RMD to BSP was a technical necessity to take care of techno-economical parameters of steel making and the transportation cost was gainfully compensated by blending with poor quality of fines of BSP Group of Mines. It also stated that closure of Dalli mine was not due to non-availability of EC but based on exhaustion of mineable ore.

The reply of Management is not acceptable as in the mining plan 0.628 million tonne of ore was proposed for excavation during 2017-18 and 2018-19. Moreover, the fact remains that, due to less production than APP, iron ore had to be transported from distantly located mines by incurring higher freight on transportation. Freight on transportation of raw material from RMD during last five years ending 2018-19 ranged between 74 *per cent* and 101 *per cent* of the landed cost of in-house production of iron ore at BSP. Further, there were no records to support the claim that transfer of IOF was a technical necessity to take care of techno-economical parameters of steel making.

13.3.4.9 Extra expenditure of ₹60.27 crore on differential freight at Barsua mines

As per Section 2 of the FCA 1980, prior approval of MoEFCC was required for use of forest land for non-forest purpose.

Barsua Iron Ore Mine (BIM) in Odisha has two mining leases. Mining was carried out from ML-130 allotted in January 1960. ML-162 (77.94 ha) allotted to the company in April 1960 comprised of forest land and mining was not carried out but was used (since 1961) for

[31] ***Stripping ratio refers to the ratio of the volume of overburden (or waste material) required to be handled in order to extract some tonnage of ore***

beneficiation and transportation of iron ore excavated from ML-130 through conveyor belts, in violation of the above provisions. BIM applied (February 2014) for diversion of 77.940 ha of forest land for development of mining infrastructure to which Stage-I FC was granted in February 2015 and Stage-II FC in October 2017.

Audit observed that due to absence of FC of ML-162, mining operation at ML-130 was stopped from May 2014 to May 2018 resulting in less production of 5.704 mt iron ore. During this period, RSP procured 3.40 mt of iron ore from other distantly located mines of SAIL by paying avoidable differential freight of ₹60.27 crore. Production at BIM was restored from 20 May 2018 after getting FC.

Management replied that technically, no violation of FCA 1980 has been done prior to expiry of the first renewal period up to 28 April 2000.

The reply was not acceptable as development of infrastructure on forest land without approval was a violation of the FCA. Further, the GoO in its show cause notice (June 2013) also stated that, operation of ML-162 without prior approval was violation of FCA.

13.3.4.10 Extra expenditure due to underutilisation of capacity at Hirri dolomite mines

The annual requirement of dolomite of BSP is 1.30 mt which would increase to 1.60 mt after MEP. The production capacity of Hirri mines is one mtpa where excavation is done departmentally and other mining activities like crushing, transportation and loading is executed through contractor. Considering poor availability of machineries and future enhanced requirement of dolomite, SAIL prepared capacity expansion plan from one mtpa to two mtpa for ₹13 crore. EC for this purpose was granted in February 2009 but management did not execute the expansion plan.

Audit observed that production of dolomite during 2014-19 was only 3.09 mt against the production target of 4.40 mt whereas, the annual requirement of Dolomite at BSP was more than the existing capacity of one mt. Due to non-implementation of expansion plan of Hirri mines, BSP had to procure 1.33 mt of dolomite during 2014-19 at higher cost of ₹136.33 crore as compared to cost of captive production.

Management replied that shortfall in production was due to poor performance of contractor and also stated that purchase of required quantity of Low Silica Dolomite by BSP was a technical necessity to improve the techno-economic parameters of Blast Furnace.

Management's reply was silent on non-implementation of expansion of the mines. The estimated cost for expansion was ₹13 crore whereas BSP procured Dolomite worth ₹136.33 crore during 2014-19. Further, Management of third parties is intrinsic to good project management.

13.3.4.11 Compliance of statutory provisions

i) Avoidable expenditure of ₹14.38 crore on penal NPV and CA by Barsua mines

Stopping of mining at Barsua mines from May 2014 to May 2018 in absence of FC has been discussed in para 13.3.4.9 above. Audit noted that Section 2 (ii) of the FCA 1980 stipulated that prior approval of MoEFCC is required for use of forest land for non-forest purpose. In case of non-compliance, the state government would charge penal NPV and CA from the user agency.

GoO noted (June 2013) that no mineral extraction was carried out by the company and the installations made in the lease area were for processing and transporting iron ore excavated from ML-130, which was a clear deviation from the terms and conditions of the lease deed and violation of provision of Section-2 of FCA 1980. Show-cause notice was issued (June 2013) by GoO for above violations. BIM applied (February 2014) for diversion of 77.940 ha of forest land for development of mining infrastructure to which Stage-I FC was granted in February 2015 and Stage-II FC in October 2017.

Audit observed that non-compliance of FCA 1980 on use of forest land for non-forest purpose without approval in ML-162 of Barsua mines led to avoidable expenditure of ₹14.38 crore as penal NPV and CA (NPV ₹12.27 crore and CA ₹2.11 crore).

Management replied (February 2020) that the installations within the forest land were made before enactment of FC Act, 1980 and that had operations been stopped, loss would have been multifold.

The reply was not acceptable as mining activities were required to be undertaken in compliance with stipulated Act and Rules.

ii) Payment of royalty on iron ore at the highest rate by Bolani mines

Rule 10(5) of OMR, 2007 stipulates that the lessee, after proper dressing, stacking, grading and analysis of minerals would apply to the concerned authority for removal of such minerals. As per rule 10(7) of the OMR, 2007, if the lessee declared to pay highest rate of royalty as prescribed, stacking and sampling would be dispensed.

Audit observed that BOM management did not comply with the provisions of OMR, 2007 and sought exemption (18 August 2012) from stacking of ore on the grounds of its dynamic nature. GoO exempted (23 August 2012) BOM with the condition that lessee would pay highest rate of royalty for the iron ore dispatched from the mine. BOM has been paying highest rate of royalty w.e.f. August 2009[32]. Management cited reasons that sufficient space was not available at BOM to prepare stacks considering the volume of material loaded daily.

Audit observed that BOM management did not make any effort to comply with the provisions of OMR 2007 since last 10 years and opted to get exemption from stacking by paying royalty at highest rate. Audit further observed that, in Panposh quary of BOM, mining was done through contractor who separates ROM into fines, lumps and oversize lumps through mobile screen inside the lease area and transports them directly to respective stockpile of railway. Despite the fact that fines are separated from ROM inside the lease area of Panposh quary, separate stack of fines were not made within the lease area to avail the benefit of lower rate of royalty on IOF.

[32] ***GoO notified (Sept 2010) to charge royalty on output from mines at IBM rate of IOL or on the processed form i.e. IOF and calibrated lump ore (CLO) whichever is higher w.e.f. August 2009***

Management replied (February 2020) that sufficient space was not available to prepare stacks of 4,000 tonne. Since separate loading siding is not available, separate dispatches of fines from Panposh was also not feasible.

Reply of Management was not acceptable as, whereas the total lease area of BOM was 1,321.45 ha, Management had assessed requirement of 11.40 ha only for space for stacking. Further, management had not engaged any consultant or conducted feasibility study to comply with the provisions of OMR 2007 on stacking and grading of ores.

Thus, Bolani mines continue to pay royalty on iron ores at highest rate which resulted in additional expenditure of ₹451.79 crore[33] on account of payment of differential royalty during 2014-19 which would increase with passage of time.

iii) Payment of additional royalty in Manoharpur iron ore mine (MOM)

As per Jharkhand Mineral Transit Challan Regulations, 2005 and Jharkhand Minerals (Prevention of Illegal Mining, Transportation and storage) Rules, 2017, all miners are required to obtain transit/ transport challan for dispatch of iron ore from lease area. For this, the mines had to maintain proper dressing, stacking and grading of excavated iron ore and apply to District/ Assistant Mining officer (DMO/ AMO) enclosing analysis report along with proof of royalty paid. The DMO/ AMO verified the quality of ores and verification report within seven days to approve the transit challan. However, no analysis report was required if the mines paid highest rate of royalty as declared by IBM (for ore of Fe[34] 65 *per cent* or more).

Audit noted that MOM dispatched iron ore lump/ fines of 62-65 *per cent* grade and had been paying royalty (April 2016 to December 2017) based on ore quality dispatched. However, Fe content in iron ore was declared as 65 *per cent* or above (during January 2018 and February 2019) on the plea of unavailability of mining inspector and royalty was paid at highest grade (65 *per cent* or above). This resulted in payment of additional royalty of ₹7.88 crore.

Management replied (February 2020) that in absence of sampling by DMO, Chaibasa office and to avoid disruption in supply to Steel Plants, payment at highest rate of royalty was made during the period. Since February 2019, all the royalty payment has been made on the actual quality analysed at Government Lab.

The reply is not acceptable as the quality was declared at highest grade of ore (65 *per cent*) than actual quality which did not require any sampling from the mining inspector.

iv) Payment of royalty on rejected limestone chips

Nandini limestone mines were granted (1959) lease for 526.34 ha with validity upto December 2028. Audit noted that limestone chips mined from Nandini were with high silica content and were not suitable for making iron. The accumulated stock of rejected chips was 10.05 mt (March 2019). Audit further noted that out of above stock, 1.04 mt rejected chips were generated during 2006 to 2019 and ₹6.58 crore was paid as royalty on this stock.

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33 ***Rate of royalty for the highest grade of Lump and Fines has been considered***

34 ***Iron content***

Rule 64B (2) of MCR, 1960 provides that, if ROM mineral is removed from leased area to a processing plant located outside the lease area, royalty shall be chargeable only on unprocessed ROM. Audit noted that CSP was located outside the mining lease area. Since mineral was required to be taken outside the mining lease area for crushing, royalty was paid on ROM including the rejected chips.

Audit observed that SAIL did not take steps to extend the area of mining lease so that CSP would come within the mining lease areato avoid payment of royalty on rejected chips. Management belatedly applied (March 2015) for mining lease for additional 22.69 ha to bring CSP and stacking area within mining lease area which was pending (February 2020) with state authorities.

Management replied (February 2020) that Expression of Interest was being floated to introduce new technology where in-pit screening would be done to separate the chips of size 0-10 mm from RoM and then transport only Lump to Plant to avoid unnecessary transportation of chips and payment of royalty on this account.

The fact however remains that, delay in taking steps by Management resulted in avoidable expenditure of ₹6.58 crore as royalty for the rejected chips.

v) Mining without obtaining EC and Consent to Operate

Section 21(5) of the MMDR Act, 1957 provides that extraction of any mineral without EC amount to illegal/ unlawful mining. Supreme Court in its judgment (2 August 2017) in the Common Cause vs Union of India directed that if any mining operation is conducted in violation of FC Act, EP Act or any other such legal requirements, the mining operation was illegal or unlawful. Production in the year 1993-94 was to be treated as basis for determining the capacity of EC. Ore extracted in excess of quantity from 2000-01 onward permissible under the mining plan or EC would be termed as illegal mining and will attract compensation equal to 100 *per cent* cost of mineral recovered.

Audit noted that mines under RMD produced 43.61 mt of iron ore and 0.40 mt of limestone from 2000-01 onwards beyond quantity permitted under EC/ CTO. Considering this as illegal mining, GoO demanded (September/ October 2017) ₹204.58 crore as compensation/ penalty for excess mining in BIM, KIM and BOM. Further, GoJ issued eight demand notices between September 2017 and January 2018 for ₹1,425.60 crore for illegal mining in KIOM, MIOM, GOM, MOM and BNP. SAIL paid (December 2017) ₹66.89 crore to GoO and ₹200 crore to GoJ as compensation. However, SAIL has appealed against the entire demand in High Courts of Odisha and Jharkhand and has been granted stay from payment of remaining amount.

Audit observed that management was aware of excess mining in its captive mines under RMD and need for reconciliation of figures with State Governments to arrive at the financial impact. Due to mining beyond required statutory clearance, SAIL not only paid ₹266.89 crore but also continues to undertake the risk of paying huge amounts as compensation on account of illegal mining.

Management replied that iron ore mining in excess of limits prescribed under EC at the iron ore Mines of RMD as per the procedure suggested by CEC and recognised by the Supreme Court (i.e. actual production during 1993-94 is permissible production during each year till the mining lease did not have the EC) was only 7.77 mt.

It is evident from the reply of management that there was excess mining and that it needs to reconcile the figures with state governments, to arrive at mutually agreed quantity of excess production. Further, reply was silent on penalty imposed on mining of limestone.

13.3.4.12 Contractual issues

i) Award of work to ineligible bidder in Tulsidamar mines

SAIL issued (June 2016) tender for two years composite mining work in Tulsidamar mines for raising and dispatch of 2.5 lakh tonne dolomite and disposal of 78,000 cum waste per year. Five bids were received, and the work orders were awarded in the ratio of 60:40 to M/s Ashok Kumar (January 2017) and M/s R. S. Grewal and Company (November 2016) for ₹28.78 crore and ₹19.19 crore respectively.

As per section 2(1b) of the integrity pact signed by bidders and SAIL, the bidder would not enter with other bidder into any undisclosed agreement or understanding, whether formal or informal to restrict competitiveness or to introduce cartelisation in the bidding process. Further, Section 3 of integrity pact stipulates that if the bidder violated the above section, SAIL could disqualify the bidder or take action as per guidelines on ban of business dealings.

Audit observed that two firms (M/s R.S. Grewal and Company and M/s Prograssive Constn Corpn) had two common partners (Mr. ShivpujanYadav and Mr. Abhay Prasad), in violation of provisions of integrity pact, which was noted (July 2016) by the Tender committee (TC). The legal section of the Company advised (August 2016) to consider eligibility in accordance with the terms of NIT. Audit observed that the TC ignored the provisions of the integrity pact and advice of legal section and awarded (November 2016) the contract to M/s R.S. Grewal and Company. Management did not apply due diligence to prevent collusion and awarded the contract to a bidder who should have been disqualified.

Management replied (February 2020) that inter-connectivity clause has now been made part of Eligibility Criteria so that such situation does not arise in future.

ii) Unfruitful expenditure of ₹8.86 crore on Tailing pond project at Bolani

The work for reclamation of water from tailing pond was awarded (September 2011) to Kirloskar Brothers Limited (KBL) for ₹9.78 crore to be completed by February 2013. Supply of equipment was completed by September 2016, but there has been no progress in the work till date. KBL requested (February 2017) for commercial closure of contract which was agreed by Management in November 2018.

Audit observed that after supply of equipment, civil and erection work could not start due to resistance from villagers residing near the working site. Management noticed (September 2013) encroachment at site but were unable to provide hindrance free site to contractor even after lapse of five years. As a result, tailing dam work was not completed and ₹8.86 crore spent on the project remained unfruitful.

Management replied (February 2020) that, they were making efforts for gainful utilisation of materials supplied by the party and for commercial closure of the contract. Balance job would be taken up after the land dispute was resolved.

Reply of Management needs be viewed in the light of the fact that the guarantees for the material supplied had lapsed and the BG submitted by the party also was returned in February 2019. Management should have assessed the accessibility of land before awarding contract.

13.3.4.13 Augmentation of production capacity

SAIL decided to augment the capacity of the existing mines under RMD to meet the enhanced requirement of iron ore after MEP. The Composite Project Feasibility Report (CPFR) for KIOM, MIOM and BOM was prepared during 2008-09. Expansion plan for GOM was approved in March 2010. Audit observed that the MEP projects were lagging behind the completion schedule and not completed as on 31 March 2019 as given below:

Table 13.3.2: Status of MEP projects undertaken at mines

Name of Mines	Present Capacity (mtpa)	Proposed enhanced capacity (mtpa)	No of Packages	Contract cost (₹ in crore)	No of package completed	Cost of completed work (₹ in crore)	Cost remaining to be executed (₹ in crore)
BOM	4.10	10.00	26	377.55	4	291.00	86.55
KIOM	4.25	5.50	13	95.41	12	74.14	21.27
MIOM	4.30	6.50	5	105.77	3	75.00	30.77
GOM	2.40	10.00	5	1926.95	nil	26.06	1900.89
Total	**15.05**	**32.00**	**49**	**2505.68**	**19**	**466.20**	**2039.48**

The observations on augmentation of production capacity are discussed below:

i) Bolani ore mine

- SAIL approved (June 2008) enhancement of loading capacity of BOM from 4.10 to 10 mtpa for ₹123 crore and awarded (August 2008) to Techpro Systems Limited (TSL) for ₹104.15 crore to be completed by February 2010. Audit noted that Bucket Wheel Reclaimer which was part of the project, collapsed in November 2013. A committee of Management found that the root cause of the incidence was improper design of the Reclaimer structure and calculation of counterweight and addition of counter weight bloom. Risk Purchase Notice (RPN) was issued in August 2014 and the balance work was split into 24 sub-packages out of which 19 were completed, two were under progress and tendering of three packages was under process. So far SAIL had incurred ₹118 crore on this project and the same is yet to be completed.

Audit observed that TSL became insolvent in August 2017. Management submitted (May 2018) claim for ₹18.99 crore before Interim Resolution Professional (IRP[35]) which was rejected on the ground of being time barred.

Management replied (February 2020) that matter was taken up with Corporate Law for further course of action.

Management reply was silent on the reasons for non-submission of claims before IRP within the stipulated time.

- A project to enhance the production capacity of BOM from 4.10 to 10 mtpa was approved (November 2011) for ₹254.55 crore. The major work of installation/ up-gradation of conveyors and crushing/ screening building was awarded to Techno Fab Manufacturing Limited (January 2012) for ₹104.24 crore to be completed by January 2014. Due to poor performance of the contractor, BOM issued (February 2017) RPN to the contractor and balance work was divided into four sub-packages. So far ₹173 crore has been spent on the project which was yet to be completed. Audit observed that inability of BOM to provide working fronts, lack of statutory clearance and delay in completion of linked packages resulted in delay in completion of enhancement of production capacity.

  Management replied (February 2020) that statutory issues were not there at the time of conceptualisation of project and placement of order. Efforts were being made to finalise and complete the RPN packages so that clear front is provided for linked packages. Claim of ₹51.86 crore plus interest filed before the IRP was rejected and against the rejection, application was filed before the NCLT, Kolkata for enforcement of the claim.

  Reply of Management is not acceptable because there was delay on the part of BOM even before the statutory issues cropped up. BOM had handed over a portion of D and Panposh area to the contractor in April 2014 even after expiry of scheduled completion date i.e. January 2014. The liquidator rejected (January 2020) the claim of ₹51.86 crore on the grounds of the claim not being substantiated, various cases being pending between the parties and substantial amount being payable by SAIL to the other party.

iii) Meghahatuburu iron ore mines

To achieve production capacity of MIOM to 6.5 mtpa, management decided to implement five packages for ₹105.77 crore to be completed by May 2012. Main package work for Augmentation of Crushing, Screening, Downhill Conveyor System and Replacement of Reclaimer was awarded (May 2010) to M/s Tecpro Systems Limited (TSL) for ₹72.02 crore to be completed by April 2012. TSL abandoned the work in August 2014 and ₹57.35 crore was paid to them. The left-out work was awarded to Hindustan Steelworks Construction

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[35] ***An adjudicating authority to make a reference to the Insolvency and Bankruptcy Board of India for recommendation of an insolvency professional under provision of the Insolvency and Bankruptcy Code, 2016***

Limited (HSCL) in December 2015 and M/s Lepton Project Private Limited (October 2017) under RPN which was also not yet completed.

Audit observed that management took three years to award the entire contract under RPN which prevented the Company in taking legal action due to delay in finalising claim. TSL became insolvent in August 2017 and SAIL filed a claim of ₹7.72 crore before IRP on 30 May 2018 which was not considered being time barred.

Management replied (February 2020) that the matter has been taken up with its Corporate Law Department for further course of action.

iv) Expansion of Gua ore mine

SAIL approved (March 2010) expansion of GOM from 2.4 to 10 mtpa with installation of Pellet plant of four mtpa for ₹2,952 crore. The project was a priority project to gainfully utilise dumped iron ore fines, slimes and rejects from future production at GOM to produce pellet. The contract for installation of 'Crushing, Beneficiation and Pellet Plant' was awarded (April 2014) to L&T for ₹1,926.95 crore to be completed within 40 months.

Audit observed that work was awarded without obtaining Stage-II FC for GOM. Site for preliminary jobs could not be handed over to L&T and the contract was closed in October 2018. L&T claimed (January 2016) ₹93.08 crore being five *per cent* of the total contract value for initial drawing, design and supply of plant, equipment and building structure which was not yet paid. Management accepted the fact that L&T had incurred expenditure on jobs like mobilisation, soil investigation, test of materials at NMDC and foreign laboratory, engineering costs etc. for 44 months, for which a reasonable amount was to be paid.

Audit also observed that ₹25.05 crore was paid to MECON for procurement assistance services for installation of beneficiation and pelletisation facilities.

Management replied that they were in the process of making an amicable settlement with the consortium. The expenditure on MECON could not be considered as infructuous as the base documents prepared were being referred by Centre for Engineering and Technology, SAIL for preparation of revised scheme.

Audit noted that L&T claimed over ₹250 crore plus for jobs done by them and SAIL was in process of amicable settlement with the party.

13.3.4.14 Transportation of Raw materials

i) Avoidable expenditure due to delay in surrender of excess land at Bolani mines

Bolani mines acquired (April 2008) 38.504 acre of land from Railway on license basis for Railway siding. When land licensing fee was hiked by Railways, Management decided (March 2011) to engage RITES to submit new land licensing plan based on actual requirement and also to look into possibility of reducing the area. RITES arrived at (October 2011) land requirement of 19.016 acres of land instead of 38.504 acres acquired by the mines. It suggested to BOM to carry out survey of total land on which infrastructure was already installed. BOM awarded (October 2017) the job for survey of railway land and assess the requirement of land for ₹0.07 crore after lapse of six years. The work scheduled to be completed in January 2018 was not completed till March 2019.

Audit observed that structures were constructed by BOM at various locations for loading of iron ores on the railway land which were not taken into consideration by RITES because they were not marked on the plan. Presence of unplanned structures necessitated reassessment of requirement of land and non-surrender of excess land. Had Management undertaken planned construction of structures to utilise land optimally and taken decision to surrender surplus land at an early stage, payment of ₹27.37 crore during 2014-19 for surplus land could have been avoided.

Management replied that land requirement of only 19.016 acres for Railway siding could not be verified from the records/ correspondence available at the Mines.

The reply was not acceptable as RITES had stated (20 October 2011) that required land for siding at Bolani mines was 19.016 acres.

ii) Avoidable expenditure due to delay in surrender of excess land at MIOM

MIOM entered into an agreement with Railways in June 2005 for 9.072 acre of land for private siding at Karampada for dispatch of iron ore. As per the agreement, SAIL was to pay license fees at six *per cent* per annum of the market value to be revised every five years. SAIL noticed that only 1.107 acre of land was being used for rack movement and decided (July 2013) to surrender the unused 7.965 acres of land. Railway suggested (November 2013) to submit revised plan and SAIL appointed a consultant in February 2017. The consultant asked (May 2017) SAIL to submit copy of land agreement plan, siding agreement, land licensing agreement etc. to prepare the revised plan.

Audit observed that SAIL was unable to submit the documents as it did not have land agreement plan and the contractor requested to rescind the contract. The surrendering process of unused land is yet to be completed. Inordinate delay in completing the surrendering process of unused railway land resulted in avoidable expenditure of ₹14.17 crore during 2014-19 as license fees which would increase with passage of time.

Management accepted (February 2020), that Land Agreement Papers required for preparation of DPR could not be traced, and in the meantime, the validity of the appointed consultant expired and he left the job. MIOM is exploring options for appointment of an alternate consultant.

iii) Extra expenditure on transportation of coal in Jitpur collieries

Coal from Jitpur colliery is transported to washery plant at Chasnalla colliery by aerial ropeway with nine km running through inhabited areas thereby posing threat to the safety of inhabitants. The cost of transportation of coal by road (₹168 to ₹179 per tonne) was significantly less as compared to the cost incurred (₹632 to ₹1,003 per tonne) during the period 2014-19 through aerial ropeway. A committee constituted by ISP in August 2007 recommended discontinuance of ropeways and transportation through alternative route by constructing new road. Transportation of coal at higher cost was taken up by Audit earlier also and SAIL management in its reply (April 2013) had assured to undertake a fresh study under present condition for road transport through alternative routes. It was, however, noted that no progress was made in this regard and coal transportation continued to be done through ropeways entailing additional expenditure of ₹25.74 crore in the last five years.

Management replied (February 2020) that transportation of Jitpur Coal by ropeway to Chasnalla was necessary to comply with statutory norms.

Audit could not find anything in records to support the fact that transportation of Jitpur Coal by ropeway to Chasnalla was necessary to comply with the statutory norms.

iv) Payment of demurrage, overloading and under loading charges

Railways recover demurrage from SAIL if wagons are not loaded within prescribed time and punitive charges for overloading of wagons. Railways also charges freight as per permissible carrying capacity even if wagons are loaded below permissible capacity. During 2014-19, SAIL paid ₹33.83 crore, ₹70.99 crore and ₹248.12 crore to Railway for demurrage, over loading and under loading charges respectively

Audit observed that there were delays in starting contractual wagon loading at BSP mines, absence of rapid loading system at BOM, absence of proper dimension conveyor belt at KIOM, excess time consumed for loading which resulted in payment of demurrage. Further, in absence of weighment system, loading was done on eye estimation. As a result, rakes were either overloaded or under loaded which attracted overloading and under loading charges.

Management replied (February 2020) that belt weigher at KIOM, MIOM & BOM is optimised to reduce the impact of under and overloading. The reason for increased demurrage at Gua and BSP mines was due to reduction in free time by Railways from five to three hours.

The fact however remains that Management paid ₹352.94 crore on demurrage, overloading and underloading.

13.3.4.15 Manpower and machineries

i) Irregular payment of ₹94.22 crore as incentive to the employees

Section 28 and 30 of Mines Act, 1952 stipulates that no person shall be allowed to work in a mine for more than six days or 48 hours in a week. Further, as per Section 29(1), any person employed therein deprived of any of the weekly days of rest shall be allowed compensatory days of rest.

To build up the stock in mines to meet the requirement of steel plants, four[36] iron ore mines under RMD and Collieries[37] deployed employees for entire week without any holiday. Employees were compensated with extra wages as 'Make-up' incentive for their work on seventh day and paid ₹94.22 crore during 2014-19.

[36] *MIOM, KIOM, GOM and BOM*
[37] *Ramnagore and Chasnalla*

Audit noted that 'Make-up' incentive scheme was not approved by SAIL Board. Moreover, the APP of company (based on six working days in a week), is linked with the production linked incentive scheme, where actual production is compared with the APP for payment of incentive and production of seventh day of the week is also considered for payment of production linked incentive. The 'Make-up' incentive to employees was paid with approval of head of mines. Thus, the company made irregular payment of ₹94.22 crore during 2014-19 to its employees, which would further increase.

Management replied (February 2020) that in order to meet increased demand from Steel Plants for fulfilling their annual target of production, operation of RMD mines on holidays sometimes was necessary and the concerned employees got paid in the form of 'Make-up' incentive. Deployment of manpower in Collieries on Sundays was approved by ED (Colliery) to overcome the threat of safety *vis-a-vis* statutory compliance.

The reply of Management is not acceptable as ED does not have delegated power to approve incentive or reward schemes. Moreover, out of the total payment of 'Make-up' incentive made, only two *per cent* was made to the statutory manpower in collieries.

13.3.4.16 Utilisation of heavy earth moving machinery (HEMM)

Mines use HEMM like dozers, drill machine, dumpers, excavators, pay loaders, shovels etc. The norms for utilisation of HEMM are based on recommendations of two committees'[38] of 2008. The status of utilisation of HEMM during 2014-19 is shown as under:

Table 13.3.3: Utilisation of HEMM vis-à-vis norms at RMD and BSP mines

(in percentage of working hours to scheduled hours)

HEMM	RMD Mines				BSP Mines			
	Norm	Utilisation during 2014-19			Norm	Utilisation during 2014-19		
		Min	Max	Average		Min	Max	Average
Dozers	49	10	70	20	42	7	57	26
Drill Machines	49	9	41	23	49	14	67	39
Dumpers	56/ 68	8	34	24	53	20	37	31
Excavators	68	10	51	27	39	4	79	32

Audit observed the following:

- Utilisation of Excavators (in percentage) at BOM ranged between 22 and 25 *per cent*. Similarly, dozers were under-utilised (23 to 30 *per cent*). Management attributed the underutilisation to shortage of HEMM operator, procurement of dozer (2014), excavator (2015) and three dumpers (2015) under augmentation scheme of BOM though the expansion of mines was yet to be completed (March 2019).
- In KIOM, three 100 tonne dumpers were added during 2014-17. However, net utilisation decreased from 59.62 *per cent* (2014-15) to 28.70 *per cent* (2018-19) due to less utilisation of old 50 tonne dumpers.

[38] ***Committee for fixing fleet strength and equipment size in RMD mines (August 2007) and a Committee (November 2006) for fixing norms for availability and utilisation HEMM for RMD iron ore mines***

- In MIOM, utilisation of dumpers increased from 29.95 (2014-15) to 36.93 *per cent* (2015-16) but after addition of two dumpers in 2016-17, net utilisation decreased to 30.50 *per cent* (2018-19) due to non-availability of matching number of shovels.
- At Gua mines, utilisation of HEMMs was less than 50 *per cent* due to delay in procurement of spares/ sub-assemblies due to financial limitations, ageing of HEMMs etc.
- In Nandini mines of BSP, the percentage utilisation of dumpers and dozers was very low between 22 and 51 due to underutilisation of CSP.

Management replied (February 2020) that action has been taken to engage four attendant-cum-technician to operate HEMM in BOM. In KIOM, 50 tonne dumpers had completed the economic life and were under process of survey off. In MIOM, one shovel was shifted from KIOM to match the requirement of dumpers and shovels. In GOM, a shovel has been commissioned in September 2019 to increase dumper utilisation and procurement action of spares/ sub-assemblies was under process. In BSP mines, mining operation is carried out in different locations and benches due to scattered ore body.

The reply of Management needs to be viewed in the light of the fact that Management failed to assess the HEMM utilisation and take corrective action during 2014-19. Moreover, the norms for equipment utilisation werebased on consideration of all operational factors and condition of equipments and therefore the norms should have been achieved by mines.

13.3.4.17 Environment and Safety Issues

i) Environmental hazards caused by overflow of Hitkasadam at BSP

The tailings[39] generated from Crushing and Screening Plant (CSP), Dalli mines in slurry form is deposited in Hitkasa dam. 15.14 mt of slime was accumulated in the dam since inception (1978). As per mining plan (2018-23) CSP would continue to discharge 0.75 mt of slime slurry annually. These iron ore slimes with average Fe content greater than 45 *per cent* are suitable for use as blast furnace grade pellets after beneficiation. The capacity for de-silting operation was not sufficient and therefore SAIL awarded contracts for desilting of slime at Hitkasa dam for ₹42.03 crore from 2008-19.

The proposals (2007 and 2013) for setting up iron ore beneficiation cum pellet plant of 0.9 mtpa capacity and installation of 1.0 mtpa pellet plant along with Slime Beneficiation System (October 2014) did not materialise due to lack of viable technical and commercial bids and the financial non viability. SAIL engaged (April 2015) HSCL for ₹13.65 crore for a period of two years to de-silt Hitkasa dam. HSCL executed only half of the work for ₹6.95 crore and left the work. Management estimated ₹8.12 crore to complete unexecuted quantity but did not take RPN action against HSCL.

Audit observed that red water had overflown from dam and damaged nearby paddy fields and therefore the Chhattisgarh Environment Conservation Board issued a closure notice in 2009.

[39] ***Tailings are the materials left over after separating the valuable fraction from uneconomic fraction of an ore***

The work of desilting (Phase-V) of Hitkasa Damwas awarded to M/s. Technoblast. Audit however observed that, desilted material was being stacked in Slime Dumps near Hitkasa Tailing Dam and the issue of red water degrading of agriculture soil still persists.

Management replied (February 2020) that a consultant has been appointed for survey/ assessment of condition of Hitkasa Tailing Dam. The work has started from January 2020 onwards. After completion of technical study about stock of slime, condition of dam and other risk factors would be known and it was expected that problems in Hitkasa Dam would be controlled.

ii) Non-development of tailing dam

MIOM and KIOM are operating in same lease. As per conditions of EC, mines had to maintain catch drains and siltation ponds to prevent run off of water and flow of sediments directly into river and other water bodies. Further, as per clause 6 of specific condition of CTE there shall be zero discharge from mines. KIOM and MIOM each has a tailing dam where wastewater (slime) generated was collected to prevent contamination of surrounding water bodies and environment.

Audit observed that tailing dam of KIOM was full and there was no space for further collection of slime. In MIOM, the dam was filled upto height of 20 meters against maximum height of 23 meters. RMD in its Environment Impact Assessment/ Environment Management Plan report (April 2013) had proposed to set up beneficiation plant to de-silt the tailing dam but no action was taken. As tailing dam is constructed to prevent contamination of surrounding environment, delay in decision to de-silt the tailing dam may result in over flow of waste water to surrounding areas.

Management replied (February 2020) that they have submitted (September 2019) application to GoJ to grant permission to sell sub-grade mineral (tailings and sub-grade iron ore). Provision for excavation of tailings has been incorporated in Mining Plan 2020-25 and amendment of EC for excavation of tailings from KIOM & MIOM was also under consideration.

iii) Deployment of statutory manpower

Laws governing the mining activities (Mines Act 1952; Metalliferous Mines Regulations 1961, MMDR 1957) stipulate deployment of manpower with prescribed skills and qualifications in mines, known as statutory manpower (Surveyor, Mine foreman, Mining mate, Blaster). Position of deployment of statutory manpower in mines of SAIL on 31 March 2019 is shown as under:

Table-13.3.4

Category of Statutory manpower	RMD Mines			BSP mines			Collieries division		
	Sanctioned strength as per statute	Actual strength	Short fall	Sanctioned strength as per statute	Actual strength	Short fall	Sanctioned strength as per statute	Actual strength	Short fall
Surveyor	12	7	5	9	7	2	3	2	1
Mine Foreman	80	61	19	62	53	9	49	36	13
Mining Mate	119	69	50	78	47	31	95	25	70
Blaster	18	2	16	21	15	6	0	0	0
Total	**229**	**139**	**90**	**170**	**122**	**48**	**147**	**63**	**84**

Audit observed that there was shortfall in deployment of required statutory manpower in every mine as on 31 March 2019. Against requirement of 546 statutory manpower under the above four categories, the actual deployment was 324 (shortfall of 41 *per cent*). Running of mines without adequate statutory manpower is not only violation of statutory provisions but it also poses threat to safe mining operation.

Management replied (February 2020) that process has been initiated to fill up vacancies and to meet norms and future requirements against statutory positions.

13.3.5 Conclusion

SAIL did not apply due diligence and conduct techno-commercial viability study to assessviability before the allotment of Parbatpur and Sitanala Coal Block and which had to be surrendered subsequently. The amount spent on development of these coal mines thus became infructuous. Production lower than the planned levels at Dalli, Rajhara and Barsua mines, led to transfer of iron ore from distantly located mines by BSP and RSP with extra expenditure on freight differential. At Barsua mines, the non-compliance of FCA 1980, on account of use of forest land for non-forest purpose, without approval led to payment of penal NPV and CA. Non-compliance of OMR 2007 by Bolani mines led to additional expenditure on differential royalty. Additional royalty payments were made at Manoharpur mine, as Iron ore was graded at the highest grade and at Nandini mines on rejected limestone chips that were not suitable for iron making. GoO and GoJ demanded compensation on account of mining beyond quantity permitted under EC/ CTO by the Iron ore and Limestone mines under RMD. Delay in surrender of excess Railway land at Bolani at Meghahatuburu mines led to avoidable expenditure. There was 41 *per cent* shortfall in statutory manpower against the requirement in mines.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

13.4 Safety and Environment Management in SAIL

13.4.1 Introduction

Steel Authority of India Limited (SAIL or the Company), a leading steel-producing company in India produced 17.51 million tonnes (mt) of hot metal during 2018-19. The company has five integrated steel plants[40] and three Special Steel Plants[41].

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[40] ***Bhilai Steel Plant (BSP), Bokaro Steel Plant (BSL), Rourkela Steel Plant (RSP), Durgapur Steel Plant (DSP) and IISCO Steel Plant/ Burnpur (ISP)***

13.4.2 Audit Objectives and criteria

The objectives of audit were to assess whether

- the company's safety policy, procedures and practices conform to the norms/ standards as prescribed under Act/ Rules/ Regulations and Standard Operating Practices (SOP);
- adequate measures were taken on the recommendations of various Committees and safety audit;
- the company has Environment and Pollution Control Policy, Environment Management Plan and System to discharge environment related responsibilities like pollution control, management of waste and compliance with laws; and
- adequate resources were provided for social responsibility on environmental and pollution control, safety standards and application of the best industrial practices.

The audit criteria used were the Factories Act 1948, Safety Policy and SOPs of SAIL, Inter Plant Standard for Steel Industry (IPSS)[42], National Environment Policy 2006, Environment (Protection) Rules 1986 amended in 2012 and EIA notification 2006, Water (Prevention and Control of Pollution) Act 1974 amended in 2011, Air (Prevention & Control of pollution) Acts 1981 amended in 1987, National Ambient Air Quality Standard 2009, Bio-medical Waste Management Rules, 2016 amended in 2018, Solid Waste Management Rules 2016, Guidelines and instructions issued by the Central and State Pollution Control Board (SPCBs).

Audit examined the records relating to decisions, management processes and activities relating to safety policy and environment management in all the steel plants, SAIL Safety Organisation and Environment Management Division for a period of five years (2014-19).

13.4.3 Audit Findings

13.4.3.1 Safety Management in SAIL

SAIL Safety Organization (SSO) was set up at Ranchi to coordinate, monitor and facilitate the safety related activities of the Company. SSO formulates safety policies, procedures, systems, action plans, guidelines and follows up their implementation to ensure accident-free work environment. Safety Engineering Department (SED) in each steel plant implements the safety policy of the company.

13.4.3.2 Non-compliance of Safety Policy and Safety Manual

Corporate Safety Policy of SAIL stipulates safety audit to assess compliance to safety standards, mitigating plans, develop improvement plan and accountabilities for completion and follow up on timeline and recommendations. Audit observed that, SSO did not develop any plan or frame timeline to implement its recommendations. Out of 686 recommendations

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[41] *Alloy Steels Plant (ASP), Salem Steel Plant (Salem) and Visweswaraiya Iron & Steel Plant/ Bhadravati (VISP)*

[42] *Inter Plant Standards in Steel Industry –issued by the committee of different steel plants but mainly finalised by SAIL.*

made by SSO to different plants prior to 2018, 258 recommendations were yet to be complied.

Management replied (February 2020) that it would ensure that all the recommendations were implemented in a phased manner.

13.4.3.3 Non-achievement of zero accident

Safety Policy and Safety Manual envisages zero accident. As per Section 88 of The Factories Act 1948, notice in respect of any accident, in any factory which causes death, or bodily injury due to which a person is injured or is prevented from working for 48 hours or more immediately following the accident, shall be sent by the manager of the factory to such authorities[43], in the prescribed form and within the prescribed time. In the event of occurrence of an accident in plant area, initial report is prepared by the concerned plant shop and sent to Safety Department. The Safety Department reports only those cases, which meet the criteria for reporting, to the Factory Inspector.

Audit noted that 85 fatal and 577 non-fatal accidents occurred in the company during 2014-19. Out of above 577 non-fatal accidents, 158 were reported to the authorities. The company lost 5.34 lakh man days and paid ₹9.62 crore to the employees besides payment to contractual workers through ESIC. Audit however observed that, all cases of non-fatal accidents were not reported at BSL. 45 cases were reported as non-fatal accidents (2014-19), whereas as per the Incident Investigation Report prepared by Safety Department, BSL there were 134 non-fatal accidents. Audit also observed that the accidents occured due to non-adherence to SOP, lack of communication, supervision and non-compliance of Inter Plant Safety Standards-Steel Industry (IPSS) 1-11-011-01.

Management replied (February 2020) that strict adherence to safety measures and SOPs, awareness programmes and training of workers were being ensured to prevent accidents.

It is recommended that, Management should ensure that all reportable cases are reported to the statutory authorities as per the Factories Act, 1948.

13.4.3.4 Accident in gaseous area

As per (IPSS): 1-11-002-12, gas masks should be used while working in hazardous gas area; workers shall carry portable Carbon Monoxide (CO) gas monitor; all workers should be trained.

i) Fire incident at BSP during De-Blanking job of CO Gas Line

CO gas Line in BSP was installed to facilitate supply of CO gas to various shops. A Blank Plate at Column C-50 of COB (Coke Oven Battery) #11, separating the entire gas main into parts was causing pressure fluctuation. To stabilise the gas network, Blank Plate of Column C-50 was required to be removed. During this process (9 October 2018), flames burst out and persons present on the spot got trapped/ exposed in the fire and 14 people died.

Audit noted that, for safe working in the gas line, jobs should be done after depressurising and purging the gas line by bleeding out the gas present because blanking/ de-blanking job

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[43] ***Factory Inspector of the State Government***

done on charged gas lines was risky. Audit observed that, on many occasions, request for shutdown was turned down and the practice was to do the de-blanking/ blanking jobs on charged pipelines without shutdown. BSP therefore decided to do the job under reduced gas network pressure and as a result the fire incident took place. IPSS 1-11-030-2017 on Safety Standard for working on Gas line in Steel Industry specified positive isolation while working on gas lines, but the SOP and protocol of BSP in this regard was not in line with the IPSS. Laxity in taking safety measures and unsafe practice led to death of personnel, loss of production, payment of compensations of ₹30 lakh for each case and ₹15 lakh for each reportable injury.

Management replied (February 2020) that possibility of doing the job in non-gas conditions was also explored but could not be done due to technical difficulties. Due to non-availability of positive isolation facilities, job was carried out on live gas condition. Now all live Gas line Blanking/ De-blanking jobs are stopped and it is carried out by 100 *per cent* positive isolations only.

The reply was not acceptable because in all earlier protocols at BSP for similar jobs, these were carried out after reducing the pressure only to some extent. Moreover, it was noted that other plants of SAIL carried out de-blanking job after complete isolation. Management reply also did not elaborate the technical difficulties.

ii) Leakage of Gas at Pump House-2 of BSP

Blast Furnace (BF) Gas generated in BSP, which contains highly poisonous Carbon Monoxide gas is carried through the pipeline to the Gas Cleaning Plant (GCP) to clean them through water. Pump House-2 (PH) supplies water to GCP. On 12 June 2014, Water Management Department (WMD) noticed fall in the water pressure and huge accumulation of water in the PH due to leakage as Header Water Line-2 of PH supplying water to GCP ruptured between the Header Valves- 47 and 55 side. BF gas leaked and spread in the PH. Six persons died due to the effect of the gas and 30 persons were affected.

Audit noted that as per the show cause notice issued (June 2014) by Dy Controller, Industrial Health and Safety, Government of Chattisgarh, the pipelines in PH were not inspected and maintained and due to absence of non-reversible valves in the water pipeline, BFG came into water pipeline and spread into PH through the ruptured header. Audit observed that despite knowing that the entire plant was a gas prone area, Management had not installed adequate gas monitors and therefore, workers were not aware of the presence of poisonous gas and could not take precautionary measures like use of gas masks. BSP gave compensation of ₹25 lakh for each worker who died.

Management replied (February 2020) that design provision was not envisaged earlier for stoppage of reverse gas leakage from BF and gas leakage incidence was unprecedented. After the above incidence, non-return valves were installed at all GCPs of BF and adequate numbers of CO Monitors were installed at the gas prone PHs.

Reply of Management needs to be seen in the light of the fact that, similar incident had occurred (January 2004) in Bulgaria’s largest iron and steel plant, Kremikovtzi when the pressure in the water pipeline supplying the blast furnace’s gas-purifying machinery fell. The poisonous gases started leaking due to a rapid decrease in the water level and the noxious gas killed three people. Management should have gathered knowledge from the incident and envisaged the possibility of such occurrence in their plants and taken necessary precautionary steps for system improvement.

iii) Fatal accidents occurred in DSP in December 2014 and November 2017 due to work in gaseous area without carrying portable CO monitor. Another accident occurred in ISP (September 2014) when CO gas leaked during cleaning the pre-heater tubes of COB#11. The CO gas accumulated in a place with inadequate ventilation caused fire resulting in burn injuries to 24 persons, of whom 05 died. As per enquiry report, the main reasons for accident were leakage of CO gas through pre-heater inlet valve, poor ventilation of pre-heater area and closure of inlet and outlet valves without making pre-heater CO gas completely free.

Management replied (February 2020) that in DSP, more than 212 fixed CO monitors have been installed covering all gas prone areas of the plant to strengthen the safety of personnel working in gaseous areas. In ISP, management has taken action like preparation of pre-check list, SOPs, SMPs, ensured cross ventilation around all gas prone areas etc.

iv) Accident due to fall from height

Para 3.2 of IPSS 1-11-005-14 stipulates that before start of work at height of two meters, all safety requirements (body harness, fall arrester, protective helmets, safety nets) should be applied. Audit noted that absence of adequate safety measures and proper supervision thereof in steel plants of the company, led to many accidents due to fall from height.

Five accidents relating to fall from height occurred in BSP during 2014-17 due to slippage from height. One accident each took place in ASP (October 2015) because support of Trusses was not fool proof. In RSP, a worker lost balance (March 2017) while working and fell as there was opening in the lower level of platform. In BSL an accident took place (September 2017) because corrugated sheet on which work was to be done was not fixed. In SSP an accident occurred (February 2018) due to non-covering of ladder of jib crane, lack of support for holding to reach the platform of jib crane.

Audit observed that these accidents took place because the workers were not using body harness while working on height.

Management replied (February 2020) that remedial measures were being were taken. Trainings were provided and all safety appliances for working at height were being ensured in ASP and BSL.

v) Availability of safety officers

Clause 40B of the Factories Act, 1948 stipulates that, State Government by notification in Official Gazette, may specify the number of safety officers to be appointed in each factory where the process or operation involves any risk of bodily injury, health hazard etc. The duties, qualifications etc. of safety officers shall be such as may be prescribed by the state govt. As per Bihar Factories Rules, 1950, the duties of Safety Officer shall be to advise and assist the factory management in the fulfillment of its obligations, statutory or otherwise, concerning prevention of personal injuries and maintaining a safe and healthy working environment. As per rules, 26 safety officers were required in BSL as against which there were only 17 to 19 safety officers during 2014-19. West Bengal Factories (Safety Officers) Rules, 1978 prescribed the number of Safety Officers as six whereas, in DSP, only three safety officers were in place (March 2019). Similarly, 20 safety officers were available in September 2019 against requirement of 26 in RSP.

Management while accepting the audit views replied (February 2020) that recruitment of required number of safety officers was under process in BSL, DSP and RSP.

13.4.3.5 Fire Management

The Factories Act, 1948 categorised integrated steel industry as hazardous process industry. Section 38 of the Act stipulates that in every factory, all measures be taken to prevent outbreak of fire and its spread and to provide safe means of escape in event of fire and necessary equipment and facilities for extinguishing fire. Audit noted that there were 1,405 fire incidents in SAIL plants during 2014-18. Out of these, 515 fire incidents took place in ISP, 268 in ASP, 192 in VISP and 190 in BSP. Main reasons for the fire incidents were hot metal/ slag/ spark, overheating/ heat radiation and electrical fault/ short circuit, non-cleaning of spillage of oil, non-working of fire detection etc.

Management replied (February 2020) that measures were being taken to prevent outbreak of fire.

Reply of management needs to be seen in light of the fact that despite taking measures, fire incidents continued to take place. For instance, in ISP, 60 fire incidents (2 major and 58 minor) took place during 2019-20.

13.4.3.6 Availability of fire hydrant and extinguishers

BSL had procured 8,500 fire extinguishers till 2008-09. As per Bureau of Indian Standard (BIS) (IS: 15683-2006) implemented in 2012, all fire extinguishers were to be replaced. Audit observed that only 5,100 fire extinguishers were procured till December 2019. Further, number of specialised men in fire services was reduced from 97 as on March 2015 to 41 as on March 2019. In DSP there was six operational fire tenders. The stipulated life of the fire tenders is 10 years but two fire tenders were more than 30 years old and one was 16 years old. Audit observed that requisite criteria was met at BSP, RSP and ISP.

Management replied (February 2020) that in BSL, remaining fire extinguishers would be procured and replaced during 2019-21. In DSP, proposal to replace two fire tenders would be moved in 2020-21.

13.4.3.7 Inadequate Fire detection and Alarm system

BIS IS 2189:2008 stipulates that the purpose of fire detection and alarm (FDA) system is to detect fire and give an alarm so that appropriate action can be taken. Audit observed that FDA was not installed in all shops vulnerable to fire in BSL. Further, automatic FDA system installed in the shops were not working (September 2019). Automatic FDA system was not installed in DSP except those installed under MEP, power station areas and Computer and Information Technology. In RSP, out of 82 FDA systems in various areas/ units of the plant, 43 were not working and four were yet to be commissioned. In ISP out of 71 automatic FDA systems, 33 were defective and in BSP out of 18 automatic FDA systems, 10 were defective.

Management replied (February 2020) that, in many shops except Cold Rolling Mill-III, FDA systems in BSL were obsolete due to old technology and thus required replacement. In DSP, to strengthen fire safety measures, Dry Chemical Powder modular system with automatic detection and suppression mechanism would be installed in old assets, vulnerable to fire and procurement action were initiated for retrofitting/ replacement of FDA Systems in RSP.

13.4.3.8 Environment Management in SAIL

As per Corporate Environment Policy, SAIL is committed to improve environmental performance. Each steel plant has Environment Control Department (ECD), which is responsible to monitor environmental issues and report to the SPCB and CPCB. Environment Management Division (EMD) at Kolkata carries out functions related to environment and enactment of environmental laws. Ministry of Environment, Forests and Climate Change (MOEF&CC) is the nodal agency for planning, promotion, co-ordination and overseeing the implementation of environmental and forestry programmes.

13.4.3.9 Non-renewal of environment clearance certificate for MEP

Environment Clearance (EC) granted (October 2008) for Modernisation and Expansion Plan (MEP) of BSL was valid for five years, which was extended upto October 2018. Extension of EC for further period was not allowed. Audit noted that, MEP at BSL was not fully completed (October 2018) and BSL applied for fresh EC in February 2018 which was pending with MoEFCC. Work for installation of new Sinter Plant and Up-gradation of SMS-I packages was stopped (October 2018) on which ₹991 crore was spent due to non-availability of EC. Delay in issue of EC was mainly due to non-fulfilment of conditions like disposal of fly ash dumps in project area, disposal of slag dump, non-setting up of sewage treatment plant etc.

Management replied (February 2020) that to obtain fresh EC, the process was started in February 2018 and EC was expected to be issued by March 2020. Management further intimated (April 2020) the process for obtaining EC was disrupted and would be resumed after lock-down.

The reply of Management may be seen in the light of the fact that the preconditions for issuing EC being the setting up of sewage treatment plant over Garga River was yet to be approved by the company. Further, reply was silent regarding disposal of fly ash.

RSP started the work of installation of Hot Strip Mill (HSM) in September 2015 i.e. prior to obtaining EC, which was availed in December 2016. Odisha SPCB directed RSP (April 2016) to stop construction activity of new HSM till receipt of EC and as a result the work was suspended between May 2016 and September 2016. The contractor claimed ₹20 crore for compensation for idling of resources during that period.

Management replied (February 2020) that RSP started tendering for enabling jobs parallely in anticipation of Public Hearing, which could be held in June 2016.

Management reply needs to be viewed in the light of the fact that taking up enabling jobs without obtaining consent to establish from the Board and EC was a violation of various Acts.

13.4.3.10 Air Emission Management

Steel industry accounts for 6-7 *per cent* of the total Green House Gas (GHG) emissions in India. CO_2 in steel plant is generated from burning of coke/ charcoal as fuel. Blast Furnace gas (BFG), Coke Oven gas (COG) and LD[44]/ BOF gases produced from BF, Steel Melting Shop and Basic Oxygen Furnace respectively. These gases contain CO, CO_2 and Nitrogen, which are used as fuel for heating in steel making process, power generation or burnt in air. India, a signatory to the Paris Agreement under United Nations Framework Convention on Climate Change (UNFCCC) has committed to reduce the emission intensity by 33 to 35 *per cent* by 2030 from 2005 level. Details of emission and reduction of CO_2 by SAIL, RINL and TATA Steel during 2014-15 to 2018-19 is given below:

Table- 13.4.1

(Unit: Tonne/ Tonne of crude steel (t/ tcs))

Year	SAIL	RINL	TATA Steel
2014-15	2.65	2.79	2.47
2015-16	2.60	2.79	2.30
2016-17	2.61	2.78	2.29
2017-18	2.56	2.62	2.30
2018-19	2.57	2.59	2.29
Reduction during last 5 years (*per cent*)	3.01	7.17	7.29

Audit noted that international standards for CO_2 emission was 1.8-1.9 t/ tcs. CO_2 emission in SAIL was higher as compared to the international standards and also TATA Steel. SAIL fixes plant wise norms for CO_2 emission yearly. It was noted that among the steel plants of SAIL, BSL, RSP and ISP achieved the target during all the years 2014-19. BSP could not achieve the target for CO_2 emission during 2014-15 to 2018-19. DSP could not achieve the target in 2014-15, 2016-17 and 2018-19.

Management replied (February 2020) that, BSP and DSP could not achieve the target due to delay in execution of MEP and non-stability of newly added units respectively. SAIL would be in position to achieve specific CO_2 emissions of 2.43 t/ tcs by 2020-21 and 2.3 t/ tcs by 2030-31.

Reply of Management is to be viewed in light of the fact that the Ministry of Steel emphasised (July 2018) to achieve international benchmarks.

13.4.3.11 Flaring up of gases in absence of Gas holder

In an integrated steel plant, many gases are generated from BFs, Coke Ovens and Steel Melting Shops or Basic Oxygen Furnace. These gases contain high amount of CO gas, which can be used as a fuel for different purposes. Gas Holder helps in storage of useful CO gas,

[44] *Converter gas or BOF gas is also known as LD (Linz and Donawitz) gas*

which is otherwise flared into the atmosphere. Audit noted instances of flaring up of gases to environment due to delay in completion of air pollution control system.

(i) SAIL decided (May 2007) to install a gas holder of higher capacity and new ID Fan at BSL with energy conserving mechanism to prevent flare up of LD gases (mainly CO and CO_2 gas). Contract for Gas Holder package and ID Fan Complex was awarded in August 2008 and January 2013 respectively. Though the gas holder was completed in 2013, ID fan complex could be completed in April 2017. During commissioning of gas holder, management found that most of the items fitted in it were not functioning and required replacement or rectification as the same was idle for about four years. The gas holder unit was yet to be operationalised. Thus, due to delay in completion of gas holder and ID fans, BSL vented out LD gas (6.68 lakh tonne CO_2 for ₹81.35 crore[45]) between April 2017 and June 2019 causing air pollution, loss of saving of energy and excess consumption of coal.

Management replied (February 2020) that though LD Gas Holder project was available for use since 2013, the same was not commissioned due to malfunctioning of various equipments. National Safety Council (NSC)[46] has conducted Hazard and Operability (HAZOP) Study and Dispersion Modeling of LD Gas Holder required for regular recovery of LD gas. Recommendations of NSC for safe operation of the facilities were likely to be implemented by 31 October 2020.

Audit noted that due to mismatch in planning and delay in pre-commissioning activities of gas holder project, project was delayed which resulted in venting of CO gas in air and excess consumption of coal.

(ii) BSP placed order (October 2008) for installation of SMS-3 and Gas Holder on M/s GmbH Austria. Production from SMS-3 started from March 2018 but the gas holder has not been completed till date. In the absence of gas holder LD Gas was flared up in the air during 2018-19 (0.40 lakh tonne CO_2 valuing ₹4.91 crore).

Management replied (February 2020) that, Gas Holder was expected to be commissioned by September 2020.

13.4.3.12 Dust emission management

Steel making process produces huge amount of dust especially in Sinter Plant (SP) and SMS, which can be recycled to produce sinter. Capturing of dust is made in two modes by Electrostatic Precipitation (ESP) and Battery Cyclone[47]. Charter on Corporate Responsibility for Environmental Protection (CREP)[48] issued by the MoEF (March 2003) stipulated to reduce the fugitive emission by 100 *per cent* by March 2008. SAIL selected various projects not only to reduce dust within the current prescribed limit but also to meet higher standards

45 ***Calculated considering calorific value of LD gas and equivalent tonnage and value of coal***

46 ***National Safety Council – set up (1966) by the Ministry of Labour, Government of India with the mission of eliminating preventable deaths at work, in homes and communities, and on the road through leadership, research, education and advocacy***

47 ***ESP works in dry mode where dust are accumulated and reprocessed in SP and Battery Cyclone was of wet type dust collection system in which the slurry water is discharged to settling tank.***

48 ***MoEF launched (March 2003) CREP with the purpose to go beyond the compliance of regulatory norms for prevention and control of pollution through various measures including waste minimization, in-plant process control and adoption of clean technologies.***

applicable in future. Audit noted higher emission of dust in air due to non-completion of the following schemes/ projects.

(i) BSL awarded (August 2007) project to replace battery cyclone (BC) with six ESPs in Sintering Plant to reduce emission, which was to be completed by August 2010. Audit noted that out of the six planned ESPs, one ESP was commissioned in 2010 and emission from this ESP was within the envisaged project norm (<50 mg/ Nm3). Due to non-commissioning of five ESPs, there was higher emission of PM ranging from 140 to 150 mg/ Nm3 in BCs. Thus, sinter dust of 3.08 lakh tonne could not be recycled/ reused and was flown to the main sludge compartment during last five years.

Management replied (February 2020) that emissions were within existing norm of 150 mg/ Nm^3. Erection of another ESP was expected to be completed by March 2020. Remaining BCs would be replaced subsequently.

The reply of Management may be seen in view of the fact that the project was finalised with the envisaged target of dust emission below 50 mg/ Nm^3, considering future revision of norms as well as deterioration in health of equipment.

(ii) Due to high stack emission at Refractory Material Plant (RMP) of BSL, CPCB directed (March 2011) to upgrade Air Pollution Control Device (APCDs) in RMP by 2012. Due to non-adherence of timelines submitted by BSL for refurbishing the ESPs of RMP, CPCB forfeited the BG of ₹0.50 crore. BSL decided (July 2014) to replace ESPs and awarded a contract in January 2017 with schedule completion of April 2019. Till date only three ESPs (out of six) could be refurbished. Audit noted that PM emission from new ESPs (1, 3 and 6) were within the envisaged project norm (<50 mg/ Nm^3) but in remaining ESPs the emission was in the range of 140 to 150 mg/ Nm^3 which was more than the prescribed norm.

Management replied (February 2020) that ESP 4 was completed in January 2020 and job for balance two ESPs (2&5) would be completed by September 2020. However, stack emission from these two ESPs was meeting existing norms of 150 mg/ m^3, hence there was no non-compliance.

Management reply may be viewed in light of the fact that the envisaged emission norms for the project was <50 mg/ Nm^3.

(iii) Sinter Machine-1 of SP-3 at BSP was installed initially to clean the waste gas up to maximum of 75mg/ Nm^3. The norm of stack emission was reduced from 150 mg/ Nm^3 to 50 mg/ $Nm^{3,}$ which was not met through the existing systems. BSP placed (September 2016) order for installation of the same with schedule date of completion of October 2017. However, the project has not been commissioned resulting in emission of dust in a range of 65-80 mg/ Nm^3, which was more than the prescribed norm.

Management replied (February 2020) that the Sinter machine-1 of SP-III is adhering to emission norms as prescribed by CECB i.e. below 50 mg/ Nm3 by regular maintenance and through process control. The emission range stated are sporadic instances of emissions exceeding norms for which corrective action was taken immediately. All efforts are being taken to complete the up gradation of ESPs by September 2020.

The fact remains that the project taken up for upgrading of ESP was yet to be commissioned.

(iv) Dust extraction system at Ore Bedding and Blending Plant (OBBP) of RSP became defunct which was a serious concern to health and safety risk to employees and environment. OSPCB granted (March 2014) consent to operate with the condition to install Dry Fog Dust Suppression (DFDS) to control emission of fugitive dust and comply with the norm of 100 mg/ Nm^3 for PM emission. OSPCB noted (May 2017) that PM_{10} ranged from 121-155 mg/ Nm^3 against the norm of 100 mg/ Nm^3 and directed to complete the scheme by May 2019. Audit observed that the timeline given by OSPCB had lapsed but RSP had not completed the system.

Management replied (February 2020) that OSPCB had extended timeline for completion of Dry Fog Dust Suppression System in OBBP by 31 March 2020. The system was, however, yet to be commissioned (May 2020).

13.4.3.13 Conservation of energy and natural resources

i) Specific Energy Consumption

Specific Energy Consumption (SEC) is energy consumed in production of one tonne of crude steel. Energy consumption in SAIL, Tata Steel, RINL and World Average during 2014-15 to 2018-19 is given below:

Table 13.4.2

(Unit-Gcal/ tcs)

Year	SAIL	TATA Steel	RINL	World Average
2014-15	6.53	6.01	6.37	4.5 to 5.0
2015-16	6.51	5.77	6.40	
2016-17	6.60	5.67	6.39	
2017-18	6.38	5.67	6.05	
2018-19	6.50	5.69	5.98	
Decrease during 5 years (*per cent*)	0.46	5.32	6.12	--

From the above, it is seen that average SEC in SAIL was more than the world average as well as its peers like Tata Steel and RINL during the last five years. SAIL also lagged behind its peers with regard to reduction of energy consumption. BSP, ISP and RSP could not achieve the self-fixed target of SEC during 2014-19, which resulted in excess consumption of 112.63 lakh Gcal of specific energy which lead to increase in GHG and adverse impact on environment.

Management replied (February 2020) that there was no annual statutory norm for SEC and Bureau of Energy Efficiency (BEE) set targets for SEC on a three-year cycle. The overall SEC of SAIL has reduced and after stabilisation/ enhancement of production of new units and phasing out of older energy consuming Units, SEC was expected to reduce further.

The fact remains that, higher consumption of SEC lead to increase in GHG and adverse impact on the environment.

ii) Excess consumption of coke

Coke is an important ingredient in iron making and coke rate is denoted by consumption of coke in producing hot metal. Lower coke rate indicates better performance and lower emission of CO_2.

Table 13.4.3: Consumption of coke during 2014-19

(Unit: kg/ thm)

Year	SAIL	TATA Steel	RINL	International Norm
2014-15	504	443	543	275-350
2015-16	489	380	543	
2016-17	473	360	490	
2017-18	456	348	459	
2018-19	452	352	465	
Decrease during 5 years (*per cent*)	10.32	20.54	14.36	

From the above, it could be seen that coke consumption in SAIL was more than the international norm and Tata Steel but less than RINL. SAIL could achieve only 10.32 *per cent* reduction in coke consumption during 2014-19. Further, all five integrated steel plants of SAIL could not achieve the target for coke consumption during the period 2014-19 which resulted in excess emission of 45.96 lakh tonne of CO_2 gas.

Management replied (February 2020) that coke rate of SAIL had improved during last five years and further reduction is expected with progressive upgrading of old BFs, closing down the old and inefficient BFs and up-gradation/ installation of new stoves.

13.4.3.14 Solar Power management

Solar power, a renewable energy helps in reduction of CO_2 emission by reducing consumption of fossil fuel. GoI has committed to United Nations to increase share of electric power from non-fossil fuel-based resources to 40 *per cent* by 2030. GoI also issued (January 2016) notification to promote generation of electricity from renewable sources.

13.4.3.15 Non-installation of solar power system

SAIL committed (February 2015) to Ministry of New and Renewable Energy (MNRE) to install solar plants of 200 MW by 2019 and decided to install 162 MW of solar projects by JV Companies NSPCL and BPSCL[49]. The Company, however ascertained (March 2018) that the projected tariff of solar power (₹3.59/ unit) was high and decided not to pursue through the JVs. SAIL Board accorded (February 2019) 'In-principle' approval for installation of solar power plants of total 240 MW in a new JV to be selected through tariff-based bidding process. Tendering was under progress with estimated cost of ₹972 crore. SAIL has to invest 26 *per cent* of ownership in the JV to ensure status of captive power plant.

Audit noted that as per business plan of SAIL for 2018-19, out of 10,700 million units (MU) of power required by the company, only 6,700 MU was expected to be generated by own captive power plant and rest to be purchased from grid. The cost of grid power ranged between ₹4.50 to ₹7.60/ kwh which was considerably higher than the cost from solar (₹2.50 to ₹3/ kwh). Thus, due to delay in taking decision to install solar power plant, the

[49] *NTPC-SAIL Power Company Limited and Bokaro Power Supply Company Private Limited*

Company lost opportunity to save cost of energy and also emitted 3.30 lakh tonne of CO_2 gas annually in the atmosphere.

Management replied (February 2020) that proposal to provide land to the proposed JV in this regard has been submitted to MoS for approval.

MNRE emphasised (July 2018) that roof solar sector had tremendous potential for generating solar power and to reduce energy bills by utilising available rooftops, vacant areas in the premises of public and private buildings. MNRE advised MoS to issue necessary directions to install roof top solar projects in all public buildings. Audit noted that BSP installed a Rooftop Solar Photovoltaic (0.2 MW) at Bhilai Niwas in 2013 for ₹2.44 crore which was inoperative from March 2018. BSL, RSP and ISP installed (2015/ 17) roof top solar system of two MW, 10 KW and 160 KW respectively. No roof top solar system was installed in DSP.

Management replied (February 2020) that tender for the project for installation of about 6.195 MW capacity Rooftop Solar Plants across SAIL Plants under MNRE's 'Award-cum-Incentive Scheme' had been taken up. Rooftop Solar Photovoltaic system at Bhilai Niwas would be operative by July 2020. Tendering for installation of Rooftop Solar system at DSP was under process.

13.4.3.16 Shortfall in meeting Renewable Energy Purchase Obligation (RPO)

The Electricity Regulatory Commissions of various states have notified RPO. Under this, the power distribution licensees, users of captive power and those utilising power through open access have obligation to utilise specified percentage of renewable energy or purchase renewable energy certificates from energy exchange.

(i) The Odisha Electricity Regulatory Commission (OERC) published (2010) OERC (Renewable & Co-ordination Purchase Obligation and its compliance) Regulation, 2010. As per the regulation, RSP being user of captive generation of electricity, was an obligated entity and had to purchase electrical energy under RPO from renewable sources. As per stipulation it was to purchase, not less than five *per cent* of the total energy used from captive plants from the year 2011-12 which was subject to increase of 0.5 *per cent* every year till 2015-16. Further, out of five *per cent* of RPO, 0.1 *per cent* must be purchased from solar power plant. Audit noted that RSP treated the co-generation in CPP-I through gas/ steam generated in the steel making process as fulfilment of RPO obligations. OERC had not granted (August 2015) any exemption to co-generation captive users and demanded ₹43.23 crore as RPO obligation from 2010-11 to August 2015. RSP challenged (April 2016) the OERC order before Hon'ble High Court of Odisha which is pending.

Management replied (February 2020) that High Court had stayed the implementation of order of OERC.

(ii) OERC published (September 2015) OERC (Procurement of energy from Renewable sources and its compliance) Regulation, 2015 which states that every obligated entity should meet its RPO target from its own renewable sources or by way of purchase of Renewable Energy Certificates (REC). If the obligated entities does not fulfil the RPO obligation during any year and also does not purchase the RECs, the Commission may direct the obligated entity to deposit a penalty on the basis of the shortfall in units of RPO and the forbearance price decided by the Central Commission. Audit observed that RSP has not fulfilled the RPO (332.32 MU) during 2015-16 to 2018-19 and liability against RPO was ₹64.94 crore.

Management replied (February 2020) that in the light of order of Ministry of Power (1 October 2019) relating to RPO for power plants commissioned before 2015-16, the RPO and corresponding liability was ₹54.21 crore. Appropriate decision to purchase renewable energy or REC would be taken based on the outcome of the judgment. Audit however noted that the liability would be ₹64.94 crore as per the revised order and RSP has not yet purchased renewable energy.

13.4.3.17 Waste management in steel plants

Industrial solid wastes are source of toxic metals and hazardous wastes, which may spread on land and can cause harm to soil productivity. Toxic substances may leach or percolate to contaminate the ground water. An inefficient solid waste management system may create serious negative environmental impacts like infectious diseases, land and water pollution, obstruction and impact biodiversity. Huge quantity of slag wastes from BF and BOF (or LD) are generated in steel making process. BF slag is rich in silica, ferrous, lime, alumina, silicon dioxide, which can pollute air and water. As per Charter of CREP 2003, 100 *per cent* of BF and BOF slag were required to be to be utilised by 2007.

13.4.3.18 Under-utilisation of BF slag in BSL and BSP

CPCB directed BSL (March 2011) to install Cast House Slag Granulation Plants (CHSGP) at BFs and utilise 100 *per cent* BF slag by October 2012. CPCB issued show cause notice to BSL in June 2013 due to non-compliance of above. Since BSL was already having CHSGP in BF 4 and 5, it planned to install CHSGP in remaining BFs (1, 2 & 3) under MEP. Audit noted that only four out of six CHSGPs were installed. Due to delay in completion of CHSGP project, granulation of slag was 45 to 74 *per cent,* resulting in under-utilisation of BF slag. MoEF during inspection (November 2018) found that a large dump of slag was lying in the project area which needed to be disposed in an environment friendly manner. Audit observed that only current generation of BF slag were being utilised. MoEF&CC while granting EC (March 2008) for MEP of BSP imposed condition to granulate all the BF Slag and to provide it to cement manufacturers. Audit noted that utilisation of BF Slag at BSP during 2014-19 was between 72 *per cent* and 90 *per cent*.

Management replied (February 2020) that in BSL, CHSGP 4 had been commissioned in BF-2 recently and CHSGP 2 was expected to be commissioned by March 2020. Audit noted that due to delay in installation of CHSGPs, only 45 to 74 *per cent* slag could be granulated by BSL. In case of BSP, Management replied that, 100 *per cent* slag from all working BFs was being granulated and sold regularly based on market demand. Audit however noted that stock of slag increased from 1.59 lakh tonnes as on March 2018 to 5.54 lakh tonnes as on March 2019.

13.4.3.19 Under-utilisation of LD slag in BSL, DSP and RSP

BOF/ LD slags are generated in Basic Oxygen furnace (BOF) during steel making. Para 4.10.4 of the National Steel Policy, 2017 stipulated steel plants to set up SMS slag weathering/ steam ageing plants to enable them to supply processed/ sized slag for road making, rail ballast etc. However, during last five years SAIL did not make efforts for alternate use of LD slag in road making or rail ballast or any other eco-friendly use. The utilisation of LD slag in SAIL ranged between 56 and 84 *per cent* during 2014-15 to 2018-19.

- In BSL, for installation and commissioning of a pilot scale steam ageing facility of LD slag, order was placed in May 2016. However, the same was not implemented and around 30-35 *per cent* of slag generated was used in internal road making. The utilisation of LD slag in railway ballast and external road making processes was less than five *per cent*. Ministry of Steel had requested SAIL (December 2016) for commercial availability of processed slag in rural road construction and setting up of pressurised steam ageing plant for reduction of free lime**.** However, no action was taken by Management in this regard.

Management replied (February 2020) that consumption of 0-5 mm processed LD Slag increased significantly in sinter making since August 2019. Cost benefit analysis of steam matured slag vis-à-vis naturally weathered slag was being explored.

- BSP could utilise 100 *per cent* of BOF slag generated but utilisation of BOF slag in DSP, RSP and ISP ranged between 65 and 76 *per cent,* 15 and 58 *per cent* and 22 and 45 *per cent* respectively during 2014-19. In DSP, 10 lakh ton of BOF slag was lying (September 2018) in open yard. DSP had not taken any initiative for utilisation of this waste. Gainful utilisation of slag helps not only in reduction of cost of steel production but also helps in reducing environmental hazards.

Management replied (February 2020) that in BSP, BOF slag was utilised in SMS-I, however, in other plants there were limited avenues for utilisation. Other avenues were being explored by BSL and RSP to increase the sale of slag. In DSP initiative has been taken to utilise weathered slag in road making under Pradhan Mantri Gram Sadak Yojana.

13.4.3.20 Other waste and hazardous waste in steel plants in SAIL

i) Under-utilisation of BOF sludge[50]

BOF sludge is the fine solid particles recovered after cleaning of gas emerging from LD convertors. In BSL, BOF sludge had significant Fe content and could be used for sinter making. Audit noted that BOF sludge generated at BSL (24,500 tonnes annually) flowed to the mixed sludge compartment. This remained unutilised due to unavailability of dedicated pond for this purpose and absence of wastewater/ slurry water treatment facility. It also contributed in polluting the water and impacted the soil condition. The utilisation of BOF sludge, in other steel plants of the company ranged between - RSP (32 *per cent* and 58 *per cent),* DSP (nil to 20 *per cent*), ISP (seven and 15 *per cent*) and BSP (2 *per cent*) during 2014-15 to 2018-19.

Management replied (February 2020) that to sort out the issue, expert agencies had been roped in to explore the utilisation of BOF sludge at BSL. RSP, DSP and ISP were taking steps to increase utilisation of BOF sludge.

[50] ***Also called SMS sludge or LD sludge***

ii) Non completion of hazardous pit

As per Hazardous and other Wastes (Management and Trans-boundary Movement) Rules, 2016 (HWMR), the waste generator is required to ensure proper and safe collection, storage, treatment, transportation and disposal of hazardous waste. In BSL, on an average 1,700 tonne of hazardous wastes (acid tar sludge, vanadium pentaoxide, sulphur sludge and decanter tar sludge etc) are generated annually. We noted that two hazardous pits used (since 2007) for disposal of hazardous waste in BSL were filled up and were required to be closed. As a result, BSL disposed off the waste in open area in violation of the above rule**.**

Management replied (February 2020) that hazardous waste pits were filled up due to accumulation of rainwater which will evaporate gradually. Construction of new pit was under process.

iii) Accumulation of hazardous EAF dust in ASP

Electric Arc Furnace (EAF) of ASP generates bag filter dust or EAF dust during production process. Being hazardous in nature, the disposal of EAF dust was to be carried out under the provisions of HWMR, 2016. As per Section 8(1) of the Rule, on site storage of hazardous waste was not permitted beyond 90 days. Audit noted that 174 tonne to 270 tonne per year of EAF dust was generated in ASP during 2014-19. WBPCB also served (February 2018) a notice on ASP, for violation of disposal norm of hazardous waste. Non-disposal/ utilisation of EAF dust has resulted into accumulation of hazardous waste polluting environment and violating the statutory guidelines**.**

Management replied (February 2020) that ASP has reduced stock by 1,100 tonne during 2014-19 and new avenues were being developed to utilise EAF dust as per the SOPs issued by CPCB. Audit however noted that, over 2,000 tonne (31 March 2019) of EAF dust was accumulated and stored on site for more than 90 days in violation of rules.

iv) Management of Municipal Solid Waste

Municipal Solid Waste (MSW) comprises of all waste/ garbage generated from domestic households, residential colonies and market areas. MoEF&CC notified (September 2000) 'Municipal Solid Waste (Management and Handling) Rules 2000' (replaced by Solid Waste Management Rules 2016-SWMR, 2016) for collection, segregation, transportation, processing, treatment and disposal of the MSW scientifically. Audit observed that the plant management did not take appropriate steps to fulfil the legal and social requirements regarding environment and pollution control, as discussed in the following paragraphs:

v) Processing/ disposal of MSW

BSP could not identify space for disposal and processing of MSW even after 16 years of implementation of the MSW Rules. MSW was dumped at different places, which was stopped after protest by residents. BSP initiated (December 2018) a proposal to establish a Solid and Liquid Resource Management Center at Jawahar Udyan (Bhilai) for processing of MSW by segregation of solid waste, composting, recycle of plastic waste etc. It entered into an agreement for installation of Baling Machine to make plastic balls for use at cement plants which was yet to be installed. Audit also observed that, there was no waste disposal centres for domestic hazardous waste in RSP.

Management replied (February 2020) that RSP plans for establishment of waste deposition centres for collection of domestic hazardous waste in coming year.

vi) 'Waste to Energy' plant and solid waste processing facilities not implemented

Rule 21 of the SWMR, 2016 stipulated that non-recyclable waste having calorific value of 1500K/ cal/ Kg or more shall not be disposed of on landfills but utilised for generating energy either through refuse derived fuel or by giving away as feed stock for refuse derived fuel. Rule 22 stipulates that the local bodies and other concerned authorities may directly or by engaging agencies, set up solid waste processing facilities having one lakh or more population within two years from notification (8 April 2016) of this rule. Audit observed that BSL, RSP, ISP and BSP have not set up solid waste processing facilities.

Management replied (February 2020) that in BSL, a Technology Selection Committee has been constituted to examine proposal to set up Solid Waste Processing and Sanitary Landfill Facility. In BSP, tendering for setting-up of Waste to Energy plant was under process. RSP was also exploring alternatives for setting up micro-compost facility.

vii) Bio-Medical Waste

MoEF&CC issued (July 1998) 'Bio-Medical Waste (Management and Handling) Rules, 1998' for management of Bio-Medical Waste generated in hospitals which was revised (March 2016) as Bio-Medical Waste Management Rules, 2016 (BMW, 2016).

viii) Non-installation of Effluent Treatment Plant in Hospital

Schedule I Rule-F of BMW, 2016 stipulates to install Effluent Treatment Plant (ETP) in hospitals. Audit noted that BSP, BSL, and ISP have not installed ETP in their hospitals. Effluents from these hospitals are drained to oxidation pond and discharged into open nallah/ river.

Management replied (February 2020) that, ETP at the main hospital of BSP would be installed before December 2021. BSL was planning to construct Sewage Treatment Plant (STP) after completion of which no effluent from Bokaro General Hospital (BGH) would be discharged in Garga River. ETP at ISP was expected to be commissioned by March 2020.

ix) Water Conservation System

CPCB and SPCB issued instructions to the steel plants to re-use/ recycle water, which is flown to the river by installing ETP/ STP with Zero Liquid Discharge (ZLD). CPCB issued (January 2015) guideline on implementation of ZLD for water polluting industries to recover clean water from wastewater.

13.4.3.21 Non-installation of ETP and ZLD in plants

BSP and DSP have installed ETP/ STP, however, ZLD has not been installed fully in all the steel plants. Cases of non-installation of STP/ ETP and ZLD are given below.

i) In BSL, total water requirement is about 30 million gallons per day (MGD) for plant and township. About 10 MGD sewage water was discharged in oxidation ponds and 10 MGD was discharged into Garga River. CPCB issued (September 2011) direction for installation of STP with ZLD by December 2012. Since it was not complied by BSL, show cause notice was issued (June 2013) to complete the STP. Jharkhand PCB also advised BSL to stop discharging sewage and waste water to river without treatment. Audit observed that management initiated (2015) project for treatment and recycling of sewage and waste water of BSL Township but thereafter no action was taken. Due to non-installation of STP, BSL was losing 547.5 million gallons (approx.) of water annually and draining water without treatment to Garga River polluting the water. In plant area, recycling of water was not fully achieved because one out of two outfalls were not completed and water was discharged in Garga river which would have saved 3471 million gallons of water annually. Thus, BSL lost opportunity of annual saving of ₹11.05 crore[51] due to non-recycling of water.

Management replied (February 2020) that setting up of STP in BSL township was at DPR stage.

ii) BSP had committed to zero discharge from its outlets along with seven mt expansion plan to prevent environment pollution. Out of three outlets for discharging industrial wastewater from plant, waste water was recycled in one outlet but was discharged into river in other two outlets. Chattisgarh Environment Conservation Board (CGECB) while renewing water consent instructed (August 2018) BSP to complete Water Recycling System for Outlet-B and C. BSP placed order (October 2014) for recycling of wastewater from Outlet-B to be completed in 15 months which was yet to be completed. Further, BSP placed order (May 2019) for Outlet-C to be completed by June 2020. Thus, due to delay in installation of Water Treatment Plant (WTP), BSP could not recover projected 16.43 Mm^3 of water and gross margin of ₹12.22 crore annually on account of water savings.

Management replied (February 2020) that target date of completion for both projects were within revised timeline issued by CGECB (October 2021). The reply may be viewed in the light of the fact that for granting extensions for some Environmental Schemes, BSP had to submit BG of ₹27.25 crore to CGECB.

iii) DSP has STP in plants and township for treatment of effluent water and treated water is discharged into river. MoEF has given conditional clearance for MEP of DSP in 1996 that after modernisation, DSP would not discharge any effluent to downstream (ZLD). DSP entered into an agreement with DVC (2016) for supply of water, which allowed incentive of 20 *per cent* on the water bill on taking measures for zero effluent discharge. DSP has not implemented the ZLD yet and treated water was still discharged in river. DSP also suffered a loss of benefit of rebate of ₹3.81 crore annually.

Management replied (February 2020) that actions to achieve ZLD was at proposal stage.

iv) In RSP, an average 6.5 MGD of domestic sewage generated by township and storm water is sent to three oxidation ponds for treatment, which is discharged in a river. However,

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[51] ***547.5 million gallon plus 3,471-million-gallon x ₹27.50 being current cost of water treatment for 1000 gallon***

6.5 MGD of treated sewage water could be reused/ recycled to achieve a zero discharge. The proposal initiated (January 2015) to recycle domestic sewage was yet to be completed. Due to non-implementation of STP, the company is losing ₹10.51 crore per annum.

Management replied (February 2020) that RSP is committed to implement the scheme of recycling the domestic sewage expeditiously. Reply was silent on the steps taken to implement the scheme.

13.4.3.22 Non-compliance of ZLD in ISP

ZLD was not started at ISP. Audit noted that the agreement with DVC for supply of water provides for 20 *per cent* rebate on ZLD certification from West Bengal PCB. As per water audit report (February 2019) of FICCI, the quality of wastewater measured at point of discharge (Dihika) in respect of total dissolved solid, chlorides, hardness etc was very high in comparison to that at the point of intake. Thus, due to delay in ensuring ZLD at ISP, the Company apart from causing water pollution was also losing rebate on water of ₹0.47 crore annually (2018-19).

Management replied (February 2020) that preparation of Feasibility Report and Tender Specifications for ZLD at ISP was in progress.

13.4.4 Conclusion

SAIL Safety Organisation did not develop any plan or frame time line to implement its recommendations. Out of 686 recommendations, 258 were yet to be complied. Rupture in pipelines in Pump House at BSP led to fall in water pressure and BF Gas spread into PH causing death of six persons. Laxity in taking safety measures and unsafe practice of doing De-Blanking job of CO Gas Line on charged pipelines caused accident at BSP where 14 people died. There were less number of Safety Officers posted in plants than the statutory requirement. Non-disposal of fly ash and slag dump and non-setting up of sewage treatment plant led to delay in issue of EC in absence of which work for Sinter Plant and SMS-I packages at BSL was stopped. CO_2 emission in SAIL was higher than international standards as well as TATA Steel. Delay in completion of air pollution control system led to flaring up of gases in the environment. Average Specific Energy Consumption in SAIL was more than the world average as well as Tata Steel and RINL.

The para was issued to the Ministry in March 2020; their response was awaited (June 2020).

13.5 Avoidable expenditure by SAIL/ RSP

Failure of SAIL/ Rourkela Steel Plant to comply with Industrial Policy Resolutions of Government of Odisha regarding availing exemption from payment of electricity duty on captive power generation, led to avoidable payment of ₹16.35 crore.

Government of Odisha (GoO) introduced an Industrial Policy Resolution (IPR) 2007 (effective from 2 March 2007) to extend various incentives to different Industries. Para 20.2 of IPR 2007 provided that new industrial units setting up Captive Power Plants (CPP) shall be exempt from payment of 50 *per cent* electricity duty (ED) for self-consumption for a period of five years from the date of its commissioning. Department of Energy, GoO issued (8 August 2008) Operational Guidelines to enable the eligible industrial units to avail the above exemption. Clause 6 of the guidelines stipulated that the exemption claim shall be filed in the prescribed form within six months from the date of commissioning of CPPs. Application received after the due date/ incomplete in any respect was liable to be rejected and delay in filing application was not to be condoned. Further, clause 7 of the guidelines stipulated that the eligible industrial unit claiming exemption shall submit application to the concerned General Manager (GM)/ Project Manager (PM), District Industries Centres (DIC) of GoO. Receipt of application along with relevant documents would be acknowledged by the department in prescribed form.

GoO subsequently introduced IPR 2015 (effective from 24 August 2015) wherein Para 5.4.4 (c) provided that new and existing industrial units setting up CPP with non-conventional sources and bio-fuel shall be exempted from payment of ED for five years from the date of commissioning as Green Energy Subsidy. The procedure to avail exemption from payment of ED was similar to that prescribed in operational guidelines under IPR 2007 except that the applicant was required to submit the claim within a period of one year from the date of commissioning of the unit.

Three power generating units[52] of different capacities were commissioned at SAIL/ Rourkela Steel Plant (RSP) in March 2014, December 2014 and March 2015 respectively for its captive use. Another one MW Solar Power Plant (SPP) was also commissioned in February 2016 at RSP. As per the Operational guidelines, the application for exemption of ED was to be submitted by September 2014, June 2015, September 2015 and February 2017 respectively.

Audit observed that RSP submitted (July 2014), the application for exemption of ED under IPR 2007, in respect of 2x18 MW Steam Turbine Generators (STG) power plant. The acknowledgement of receipt of application from the Department of Industry, GoO was however, not available in the records. The Department of Energy, GoO, in response to a correspondence from RSP, denied (April 2015) receipt of any communication from RSP for exemption of ED. While applying for exemption from ED in respect of STG (July 2014), Management had informed GoO in the forwarding letter, that 'another 14 MW TRTG and 6.5 MW BPTG' were going to be commissioned soon. Application for exemption of ED was not submitted (July 2019) in respect of TRTG, BPTG and SPP, in the prescribed format as stipulated by the Operational Guidelines by RSP.

Audit also noted that generation of power started from STG and RSP started paying ED since November 2013. In respect of TRTG and BPTG also full payment for ED is being made by RSP since inception, whereas in respect of SPP, no payment of ED is being made. Claim was raised (16 November 2018) by GoO regarding payment of ED from SPP and in response, RSP requested (28 November 2018) for exemption from payment of ED. GoO however, clarified (December 2018) that such exemption could be availed only in case application for such exemption was made within prescribed time period as per IPR-2015.

[52] ***2x18 MW Steam Turbine Generators (STG) at Power and Blowing Station, 1x14 MW Top Recovery Turbo Generator (TRTG) in BF-V complex and 1x 6.5 MW Back Pressure Turbo Generator (BPTG) in CO complex commissioned on 21/03/2014, 08/12/2014 and 15/03/2015 respectively.***

Management replied (November 2019) that RSP applied for exemption of ED for all the generating units (STG, TRTG and BPTG) for five years on 21 July 2014 as per IPR 2007. It further stated that the matter had been taken up by the highest authority of RSP with the GoO to exempt all the generating units of PBS from the purview of ED.

Reply of Management is not acceptable as:

- Acknowledgement was not available in records regarding the application for exemption from payment of ED filed for STG. Moreover, only reference of two other power plants was made in the forwarding letter for application for exemption of ED in respect of STG and separate applications in the prescribed format were not submitted. Though correspondence was taken up (June 2015) by CEO, RSP with Principal Secretary, Department of Energy, GoO, seeking exemption from payment of ED for the first three power plants (STG, BPTG and TRTG), the matter was not followed up closely. After August 2015, the matter was only taken up verbally and RSP continued to pay ED.
- GoO did not accept the request of RSP regarding exemption from payment of ED for SPP and while raising a claim of ₹3.47 crore including interest, it stated (December 2018) that exemption could not be availed unless same had been applied for within prescribed time and obtained.

Thus, the failure of RSP to comply with the Industrial Policy Resolutions of Government of Odisha regarding availing exemption from payment of Electricity Duty on captive power generation, led to avoidable payment of ₹16.35 crore between November 2013 and March 2019 in respect of three power plants, which will increase till the completion of five years since commissioning of BPTG[53]. Further, GoO raised (December 2018) demand for ₹3.47 crore on account of ED (including interest) with respect to the SPP which was yet (January 2020) to be paid.

The para was issued to the Ministry in December 2019; their response was awaited (June 2020).

[53] ***BPTG (March 2020)***

CHAPTER XIV- RECOVERIES AND CORRECTIONS/ RECTIFICATIONS BY CPSEs AT THE INSTANCE OF AUDIT

Air India Limited, Northern Coalfields Limited, National Highways Authority of India, Oil & Natural Gas Corporation Limited, Madras Fertilizers Limited, Mahanadi Coalfields Limited, Oriental Insurance Company Limited, United India Insurance Company Limited, The New India Assurance Company Limited

14.1 Recoveries at the instance of audit

In 10 cases pertaining to nine CPSEs, audit pointed out that an amount of ₹80.60 crore was due for recovery. Management of CPSEs had recovered an amount of ₹51.43 crore during the period 2018-19 as detailed in **Appendix-I.**

Rashtriya Chemical and Fertilizers Limited, India Oil Corporation Limited, Steel Authority of India Limited

14.2 Corrections/ rectifications at the instance of audit

During test check, cases relating to violation of rules/ regulations and deficiencies in the system were observed and brought to the notice of Management. Details of the cases where corrective action was taken or changes were made by Management in their rules/ regulations, etc. at the instance of audit are given in **Appendix-II**.

CHAPTER XV

Follow-up on Audit Reports (Commercial)

Audit Reports of the CAG represent the culmination of the process of scrutiny of accounts and records maintained in various offices and departments of PSUs. It is, therefore, necessary that appropriate and timely response is elicited from the executive on the audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/ corrective action taken by them on various paragraphs/ appraisals contained in the Audit Reports (Commercial) of the CAG as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/ appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99-Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- Setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);
- Setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and
- Submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up ATNs duly vetted by Audit in respect of all Reports of the CAG presented to Parliament.

While reviewing the follow up by the Government on the above recommendations, the COPU in its First Report (1999-2000-Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/ Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/ Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of the CAG.

A review in Audit revealed that despite reminders, the remedial/ corrective ATNs on 54 transaction audit/ compliance audit paragraphs/ reviews contained in the last five years' Audit Reports (Commercial) and six Performance Audit Report relating to the PSUs under the administrative control of various Ministries, as detailed in **Appendix III**, were not received by Audit for vetting.

New Delhi
Dated: 15 December 2020

(Shubha Kumar)
Deputy Comptroller and Auditor General
(Commercial) and Chairperson, Audit Board

Countersigned

New Delhi
Dated: 16 December 2020

(Girish Chandra Murmu)
Comptroller and Auditor General of India

Appendices & Annexures

Appendix-I
(Referred to in para 14.1)
Recoveries at the instance of Audit during 2018-19

(Amount ₹ in lakh)

Name of Ministry/ Department	Name of the CPSE	Audit observations in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Chemicals and Fertilisers	Madras Fertilisers Limited	Purchase of naphtha without obtaining assurance from Tamil Nadu Government regarding waiver of Value Added Tax.	439	439
Civil Aviation	Air India Limited	Non-compliance to penalty clauses of the contract resulting in non-levy of penalty from Caterers.	8.81	8.81
Coal	Northern Coalfields Limited	Excess payment to Forest Department on account of transit fee.	1874.29	218.81
Coal	Mahanadi Coalfields Limited	Non recovery of interest for the period March 2016 to March 2018 from NBCC in respect of advances given for CSR work.	218	218
Finance	Oriental Insurance Company Limited	Excess payment of commission to insurance agents and insurance intermediaries in violation of IRDA Regulations.	9.51	4.99
Finance	United India Insurance Company Limited	Recovery of Marine cargo claim in favour of State Trading Corporation towards damage of urea occurred during collapse of two vessels. The claim was settled subject to obtaining letter of subrogation to effect recoveries from the vessel owners.	1582	333

Finance	The New India Assurance Company Limited	Excess payment of Commission.	16.46	8.56
Finance	The New India Assurance Company Limited	Excess payment of survey fee.	2.21	2.21
Road Transport and Highways	NHAI	Non recovery of Mobilisation advance from contractor.	1076	1076
Road Transport and Highways	NHAI	Short recovery of damages from contractors.	3.00	3.00
Petroleum and Natural Gas	ONGC	Non sharing of expenditure towards installation and commissioning of Vessel and Air Traffic System of East Coast from other project partners.	2831	2831
		TOTAL	**8060.28**	**5143.38**

Appendix-II
(Referred to in para 14.2)
Corrections/Rectifications at the instance of Audit

Name of Ministry/Department	Name of the CPSE	Audit observations/suggestions in brief	Action taken by the Management
Chemical and Fertilizers	Rashtriya Chemicals and Fertilizers Limited	Non provision of crèche facility under section 48 of the Factories Act, 1948.	The crèche facility was made operational from 14.12.2018.
Petroleum and Natural Gas	Indian Oil Corporation Limited	IOCL reimbursed the cost of spectacles/contact lenses to employees in respect of self and/or eligible family members upto the prescribed annual ceiling per financial year on self-certification basis which is not permissible as per DPE guidelines.	The company decided to discontinue the current provision of reimbursement of the cost of spectacles/ contact lenses with immediate effect
Steel	SAIL	Durgapur Steel Plant, SAIL was making advance payment of electricity bill to DVC which was undue benefit to DVC and loss of interest to SAIL.	Advance payment of bill to DVC has been stopped.

Appendix-III
(Referred to in Chapter XV)
Statement showing the details of Audit Reports (Commercial) upto to 2019 for which Action Taken Notes were pending

No. & year of Report	Name of Report	Para No.
Ministry of Chemicals and Fertilizers		
11 of 2018	Compliance Audit	Para 1.1
Ministry of Civil Aviation		
15 of 2016	Compliance Audit	Para 2.3
13 of 2019	Compliance Audit	Para 1.1 to 1.9
Ministry of Coal		
12 of 2019	Performance Audit	
13 of 2019	Compliance Audit	Para 2.1 to 2.3
Ministry of Finance		
21 of 2015	Compliance Audit	Para 7.3
15 of 2016	Compliance Audit	Para 7.3
9 of 2017	Compliance Audit	Para 7.1
16 of 2017	Performance Audit	
11 of 2018	Compliance Audit	Para 5.1
13 of 2019	Compliance Audit	Para 3.1 to 3.4
Ministry of Heavy Industries and Public Enterprises		
29 of 2017	Performance Audit	
11 of 2018	Compliance Audit	Para 6.2
13 of 2019	Compliance Audit	Para 4.1
Ministry of Mines		
6 of 2016	Performance Audit	
Ministry of Petroleum and Natural Gas		
11 of 2018	Compliance Audit	Para 9.4
7 of 2019	Performance Audit	
13 of 2019	Compliance Audit	Para 6.1, 6.2, 6.5, 6.7, 6.9 and 6.12
Ministry of Power		
13 of 2019	Compliance Audit	Para 7.1, 7.3, 7.4, 7.5, 7.6, 7.8 and 7.9
Ministry of Road Transport and Highways		
11 of 2018	Compliance Audit	Para 11.3, 11.5 and 11.6
13 of 2019	Compliance Audit	Para 8.1 to 8.3
Ministry of Steel		
5 of 2019	Performance Audit	
13 of 2019	Compliance Audit	Para 10.1 to 10.8
Ministry of Textiles		
11 of 2018	Compliance Audit	Para 13.1
13 of 2019	Compliance Audit	Para 11.1

Annexure-I
(Referred to in Para No.3.1)

Statement showing year wise benefit derived by the contractor under the mining contract for power cost component

Year	Coal extracted (in lakh tone)	Mining fees (₹ per tone)	Cost for the power component included in the mining fees (₹ per tone)	Total cost paid to the contractor for power component as part of the mining fees (₹ in crore)	Electricity charges actually recovered from the contractor (₹ in crore)	Benefit accruing to the contractor (₹ in crore)
(a)	(b)	(c)	(d)	(e) = [(b) x (d)]	(f)	(g) = [(e) – (f)]
2012-13 (from 1/ 2013)	44.51	155.55	2.84	1.26	0.15	1.11
2013-14	167.80	165.77	3.40	5.71	0.76	4.95
2014-15	197.44	178.10	4.07	8.04	1.29	6.75
2015-16	235.62	178.27	3.71	8.74	1.48	7.26
2016-17	250.00	171.87	4.08	10.20	1.70	8.50
2017-18	262.50	191.07	4.08	10.71	1.55	9.16
2018- 19 (upto 12/ 2018)	200.62	198.77	4.35	8.73	1.29	7.44
Total				**53.39**	**8.22**	**45.17**

Annexure-II
(Referred to in Para No.5.1.1)

Sl. No.	Name of project	Lead Bank	Project Length (in KM)	Amount of original sanction of Loan without cost overrun		Sanction of Loan for Cost overruns		Present Status of CA	Amount outstanding as on 31.12.2019		Quality of Loan
				Date	Amount (In ₹ Cr.)	Date	Amount (In ₹ Cr.)		Principal Amount (In ₹ Cr.)	Interest Amount (In ₹ Cr.)	
1	IVRCL Indore Gujarat Tollways Limited	Bank of India	155.15	08/03/2010	208	(24-3-2015, March-2016, Oct- 2016, May-2014)	108.64	Not Terminated	299.71	130.79	NPA
2	Barasat-Krishnagar Expressway Limited	Oriental Bank of Commerce	84.317	06/07/2011	152	9/15/2015	8.6	CA Terminated	121.18	54.29	Written Off
3	Bareilly Highways Project Limited	State Bank of India	151	01/12/2011	200	3/1/2016	58.69	CA Terminated	253.46	99.90	Written Off
4	Sidhi Singrauli Road Project Ltd	Punjab National Bank	102.6	08/01/2013	150		0	Not Terminated	142.91	23.91	NPA
5	SEW LSY Highway Limited	Punjab National Bank	206	30/04/2011	240		0	CA Terminated	89.06	54.77	Written Off

6	Sai Maatarini Tollways Limited	IDBI Bank	166.173	03/08/2012	280		0	CA Terminated	278.66	130.83	NPA
7	Haridwar Highways Project Limited	Axis bank	78.76	01/06/2010	105	24/03/2015, 29/03/2017	51.96	CA Terminated	156.96	53.36	Written Off
8	Concast Path Bameetha Satna Road Projects Pvt. Ltd	Oriental Bank of Commerce	97	11/03/2013	45.72		0	CA Terminated	43.20	19.06	Written Off
9	Sion-Panvel Tollways Private Limited	Indian Overseas bank	23.09	31/03/2011	160		0	CA Terminated	160.00	84.01	Written Off
10	Barwa Adda Expressway Limited	Bank of Baroda	122.88	31/11/2011	400		0	Not Terminated	350.36	44.19	NPA
11	Bansal Pathway Mangwan Chakghat Private Limited	Allahabad bank	52.071	08/12/2017	80		0	Not Terminated	71.61	0.00	Standard
12	Biora Dewas Highway Private Limited	Axis bank	141.259	09/06/2016	300		0	Not Terminated	295.30	0.00	Standard

13	Navayuga Jhanvi Toll Bridge Private Limited	SBH	50.943	31/03/2011	80		0	Not Terminated	39.15	1.27	Restructured standard
14	Pune Satara Tollroad Private Limited	IDFC bank (later on Axis Bank)	140.35	11/04/2014	200		0	Not Terminated	187.60	0.00	Restructured standard
15	DA Toll Road Limited	SBI	179.5	26/03/2014	400		0	Not Terminated	398.00	21.16	Restructured standard
16	Yadeshi Aurangabad Tollways Limited	IDBI bank	189.09	11/11/2014	400		0	Not Terminated	395.48	0.00	Standard
17	Rayalseema Expressway Pvt. Ltd.	IDFC bank	188.75	01/06/2010	240	17/12/2014, 29/12/2015, 30/12/2016	137.59	Not Terminated	305.87	0.00	Standard
18	Kaithal Tollway Private Limited	IDBI	165.76	16/12/2014	200		0	Not Terminated	120.98	0.00	Standard
19	AE Tollways Private Limited	IDBI	123.87	29/03/2016	330		0	Not Terminated	300.29	0.00	Loan prepaid
20	Navayuga Quazigund Expressway Private Limited	SBI	15.25	27/10/2010	375		0	Not Terminated	0.00	0.00	Loan prepaid

21	DBL Patan Rehli Tollways Limited	State Bank of India	86.6	01/03/2016	52			0	Not Terminated	49.66	0.00	Standard
22	BSCPL Aurang Tollways Limited	ICICI bank	150.4	03/08/2012	168			0	Not Terminated	164.64	1.24	Standard
23	ACP Tollways Limited	PNB	115	24/04/2012	240			0	Not Terminated	228.60	0.05	Standard
24	MEP Infrastructure Project Limited	Not applicable as it is a take out finance	Not Applicable (take out finance)	03/02/2016	269.9			0	Not Terminated	501.38	15.64	Standard
25	DBL Mangalwedha Solapur Highways Private Limited (DMSHPL)	IIFCL	56.5	21/08/2018	179.53			0	Not Terminated	58.24	0.00	Standard
26	Gawar Khajuwala BAP Highway Private Limited	IndusInd Bank	212.107	16/03/2019	80			0	Not Terminated	#N/A	#N/A	Yet to disburse funds
27	Apco Arasavalli Expressway Private Limited (AAEPL)	Union bank of India	54.19	21/08/2018	250			0	Not Terminated	#N/A	#N/A	Yet to disburse funds

28	Patel Sethiyahopu - Cholopuram Highway Private Limited	Punjab National Bank	50.48	28/09/2018	250		0	Not Terminated	#N/A	#N/A	Yet to disburse funds
29	Hazaribagh Ranchi Expressway Limited	Bank of India	71.16	08/02/2010	260	NA	0	NA	0	0	Loan Prepaid
30	IRB Tumkur Chitradurga Tollway Pvt. Ltd.	IDFC	114	05/10/2010	136	NA	0	NA	0	0	Loan Prepaid
31	Ashoka Belgaum DhrawadTollways Pvt. Ltd.	IDFC Bank	79.36	23/03/2011	82.02	NA	0	NA	0	0	Loan Prepaid
32	Oriental Nagpur Betul Highway Pvt. Ltd	Axis Bank	176.7	09/05/2011	380	NA	0	NA	0	0	Loan Prepaid

Annexure-III

(Referred to in Para No.5.3.4)

Details of selection of sample in the selected branches

State	Branch	Product	Amount of NPA (Overdue) (₹)	No. of cases
Karnataka	Sirsi	DL-SHG	4,324	1
		Loans to SHG	2,03,10,692	272
	Vijayapura	DL-SHG	3,015	1
		Loans to JLG (Joint Liability Group)	16,362	1
		Loans to SHG	1,41,72,284	155
	Tumkur	DL-SHG	5,001	1
		Loans to JLG	1,15,23,684	146
		Loans to SHG	20,36,845	7
Tamilnadu	Cuddalore	Loans to SHG	23,24,855	87
	Dindugul	Loans to SHG	65,60,486	80
	Madurai	Loans to SHG	63,43,683	74
	Erode	Loans to SLI	29,95,942	1
Maharashtra	Gondia	Loans to SHG	3,06,76,987	194
	Yavatmal	Loans to SHG	98,98,916	142
	Nanded	Loans to SHG	77,23,595	162
	Amaravati	Loans to SLI	6,81,027	1
Andhra Pradesh	Chittoor	Loans to SLI	44,66,779	6
		Loans to SHG	56,39,966	76
Telangana	Warangal	Loans to SLI	1,05,39,489	6
		Total	**13,59,23,932**	**1,413**

DL: Direct Lending
SHG: Self Help Group
JLG: Joint Liability Group

Annexure-IV

(Referred to in Para No.5.3.6.1)

Details of Financial & Physical targets and Achievements of the Company for the years 2015-16 to 2018-19

(a) Financial Targets (loan disbursed):

(₹ in crore)

Year	Details	BDC	Direct Lending	SLI-NBFC/ MFI	Skill Loans	Total
2015-16	Target	1000	-	20	-	1020
	Achievement	807.56	-	16.86	0.12	824.54
	***Per cent* of Achievement**	**80.76**	**-**	**84.30**	**-**	**80.84**
2016-17	Target	950	-	50	-	1000
	Achievement	736.25	10.53	84.16	2.21	833.15
	***Per cent* of Achievement**	**77.50**	**-**	**168.32**	**-**	**83.32**
2017-18	Target	1,070.00	100	100	-	1,270.00
	Achievement	1,046.08	88.38	81.13	2.09	1,217.68
	***Per cent* of Achievement**	**97.76**	**88.38**	**81.13**	**-**	**95.88**
2018-19	Target	1,101.56	200	112	0	1,413.56
	Achievement	962.43	193.35	112.53	0	1,286.31
	***Per cent* of Achievement**	**87.36**	**96.66**	**100.47**	**-**	**89.72**

(b) Physical Targets

Year	Details	No. of SHGs to be covered	No. of States to be Covered	No. of Districts to be covered	No. of BDCs to be covered
2015-16	Target	2,5000	5	85	255
	Achievement	2,0868	8	96	256
	***Per cent* of Achievement**	**83.47**	**160.00**	**112.94**	**100.39**
2016-17	Target	23,000	10	100	290
	Achievement	22,192	10	109	406
	***Per cent* of Achievement**	**96.49**	**100.00**	**109.00**	**140.00**
2017-18	Target	26,750	12	110	400
	Achievement	31,237	13	125	471
	***Per cent* of Achievement**	**116.77**	**108.33**	**113.64**	**117.75**
2018-19	Target	25,000	15	135	485
	Achievement	31,250	16	131	479
	***Per cent* of Achievement**	**125**	**106.66**	**96.32 %**	**98.76**

Annexure-V

(Referred to in Para No.5.3.6.2)

Statement showing the details of year wise and vertical wise Non-performance Assets during the years from 2015-16 to 2018-19

(₹ in lakh)

Year	Details	Name of the Vertical				
		BDC	Direct Lending	Second Level Institutions	Others #	Total
2015-16	Non-performing assets at the commencement of the year	1,811.72	0.00	80.32	0.00	1,892.04
	Portfolio classified as NPA during the year	2,052.56	0.00	80.10	0.00	2,132.66
	Recoveries made from the NPA accounts during the year	321.71	0.00	50.36	0.00	372.07
	Prudential write-offs made during the year	0.00	0.00	0.00	0.00	0.00
	Non-Performing assets at the year end	3,542.56	0.00	110.06	0.00	3,652.62
2016-17	Non-performing assets at the commencement of the year	3,542.56	0.00	110.06	0.00	3,652.62
	Portfolio classified as NPA during the year	1,695.17	0.00	325.44	0.00	2,020.61
	Recoveries made from the NPA accounts during the year	260.31	0.00	28.06	0.00	288.37
	Prudential write-offs made during the year	430.23	0.00	0.00	0.00	430.23
	Non-Performing assets at the year end	4,547.19	0.00	407.44	0.00	4,954.63
2017-18	Non-performing assets at the commencement of the year	4,547.19	0.00	407.44	0.00	4,954.63
	Portfolio classified as NPA during the year	2,398.02	0.00	(-)24.31*	0.00	2,398.02
	Recoveries made from the NPA accounts during the year	552.33	0.00	0.00	0.00	552.33
	Prudential write-offs made during the year	2,786.83	0.00	0.00	0.00	2,786.83
	Non-Performing assets at the year end	3,621.75	8.61	383.13	0.00	4,013.49
2018-19	Non-Performing assets at the commencement of the year	3,509.80	8.61	383.13	111.94	4,013.49
	Portfolio Classified as NPA during the year	2,476.65	134.19	(-)75.47*	100.45	2,711.29
	Recoveries made from the NPA accounts during the year	1,241.45	56.70	6.86	50.11	1,355.12
	Prudential write-offs made during the year	0	0	0	0	0
	Non-Performing assets at the year end	4,745.01	86.10	300.80	162.28	5,294.19

***** due to upgradation of NPA accounts as standard accounts***

 # from 2018-19, the segment 'Post Tsunami Sustainable Livelihood Programme' has been shown separately as Others.

Annexure-VI

(Referred to in Para No.5.3.6.2)

Statement showing the details of year wise and vertical wise Non-performance Assets during the years from 2015-16 to 2018-19

Age-wise analysis of Non-performing Assets as on 31 March 2019

Period		Amount outstanding (₹ in lakh)
From	**To**	
90 days	180 days	737.54
181 days	One year	1,017.80
More than One Year	Two years	1,584.54
More than Two Years	Three Years	1,523.18
Above Three Years		431.13
Total		**5,294.19**

Details of total outstanding portfolio and accumulated NPA amounts during the period 2015-16 to 2018-19

(₹ in lakh)

Year	Outstanding portfolio as on 31st March	*Per cent* of increase during the four years	Accumulated NPA as on 31st March	*Per cent* of increase during the three years	*Per cent* of NPAs to outstanding portfolio
2015-16	86,095.74	67.72	3,652.62	133.02	4.24
2016-17	87,194.03		5,384.86		6.17
2017-18	1,18,007.35		7,230.55		6.12
2018-19	1,44,397.57		8,511.25		5.89

Annexure-VII

(Referred to in Para No. 5.3.6.3(i)(b))

Statement showing the details of outstanding amounts against second level institutions

Sl No	Name of District	Name of SLI	Loan sanctioned	Amount Recovered up to 31.03.2019	Outstanding amount as on 31.03.2019	Remarks
				₹ in lakh		
1.	Chittoor – Andhra Pradesh	Sri Soundarya Mahila Mutually Aided Thrift Cooperative Society	25.00	10.18	14.82	The Company sanctioned (January 2015) a loan of ₹25 lakh to the SLI for onward lending to its members. In August 2015, the borrower applied for a top-up loan of ₹35 lakh. After receiving the application, the Company's staff conducted a field survey of the borrower in which it was stated that the details of savings, loan amounts required and the purposes of loans were not matching when verified on the field. The details of share capital were not available with the borrower. As per the Company's loan policy, it should obtain personal/third party guarantees of the borrowers before disbursing the loan amounts to SLIs. However, no such guarantees were available on record. The Company did not make efforts to verify the genuineness of the beneficiary members of the borrower and the genuineness of the book debts list at any stage of the loan sanctioning/repayment collection process. The list of book debts was not certified by an auditor as required by the loan sanction letter of the Company. The utilization of the sanctioned loan amounts by the borrowers was not verified by the Company for ensuring that there was no diversion of the sanctioned amount without distributing to the genuine beneficiaries. The borrower did not submit the details of transfers/withdrawals from its bank account out of the loan amount sanctioned.

						Even though the borrower's repayment of principal and interest was not satisfactory since October 2016, the Company did not take timely action towards pursuance for early clearance of the outstanding amount. No correspondence was made with the borrower from September 2017 to October 2018, except addressing a letter (March 2018) to recoup the payment consequent upon dishonor of a cheque. The Company stated (May 2019) that they are strengthening their appraisal mechanism and exposure to such institutions is being avoided. In respect of non-certification of loans, it further stated that it obtained the details of some borrowers on a sample basis and disbursements were made. The Ministry replied (January 2020) that the Company had filed cheque bounce case and summons was served through local police by the order of Court. The same was being followed up through advocate. The reply is not acceptable as no progress was made in recovery of accumulated NPA. Had the Company done proper appraisal of the organisation regarding its financial position and conducted post disbursement visits, it could have prevented the loan from becoming NPA.
2.	Erode – Tamil Nadu	Kongunadu Vivasaigal Sangam	98.00	66.83	31.17	The Company sanctioned a loan of ₹98 lakh to the SLI based on share capital (Capital Fund of ₹32.10 lakh). The increase in share capital in a single year (from ₹1.20 lakh to ₹33.02 lakh) was not verified by the Company. The Company did not take any proper care to verify its genuineness from the original books, bank statements, etc. As per its Provisional balance sheet for the year 2013-14, the bank overdraft (current account) of the borrower was ₹30.32 lakh, which was not verified by the Company. The Company did not take adequate steps to verify the prevailing financial condition of the

						borrower for ensuring the genuineness of the loan requirement for onward lending to the members of the borrowers and the prompt repayment capability of the borrower. The borrower stopped paying the monthly instalments (principal and interest components) as per schedule and started to pay only part payments intermittently. The last repayment of ₹1.21 lakh (only the monthly interest component) was received from the borrower in April 2017. Since May 2017, there have been no repayments from the borrower. The details of post disbursement verifications conducted by the Company were not available on record. As per the Company's loan policy, it should obtain personal/third party guarantees of the borrowers before disbursing the loan amounts to SLI. However, no such guarantees were available on record. The Company did not make efforts to verify the genuineness of the beneficiary members of the borrower and the genuineness of the book debts list at any stage of the loan sanctioning/repayment collection process. The list of book debts was not certified by an auditor as required by the loan sanction letter of the Company The utilization of the sanctioned loan amounts by the borrowers was not verified by the Company for ensuring that there was no diversion of the sanctioned amount without distributing to the genuine beneficiaries. The borrower did not submit the details of transfers/withdrawals from its bank account out of the loan amount sanctioned. The Company did not take timely steps to persuade the borrower for early payment of the outstanding loan amount. Only in January 2018, the Company issued a notice to the borrower for immediate payment of the outstanding dues. There was no response from the borrower against the notice. There was no correspondence with the borrower from February 2018 to September 2019.

						The Company stated (May 2019) that they are strengthening their appraisal mechanism and exposure to such institutions is being avoided. In respect of non-certification of loans it further stated that it obtained the details of some borrowers on a sample basis and disbursements were made. The Ministry replied (January 2020) that the Company was in the process of filing civil suit against this institution. The reply is not acceptable as no progress was made in the recovery of accumulated NPA. Had the Company done proper appraisal of the organisation regarding its financial position and conducted post disbursement visits, it could have prevented the loan from becoming NPA.

Annexure-VIII

(Referred to in Para No. 5.3.6.5(a))

Statement showing the details of accounts contacted by the Company

State	Name of the District	PAR* < 30 days			PAR 30-60 days			PAR 60-90 days		
		No. of accounts	No. of accounts contacted	Amount (₹ lakh)	No. of accounts	No. of accounts contacted	Amount (₹ lakh)	No. of accounts	No. of accounts contacted	Amount (₹ lakh)
Karnataka	Sirsi	83	81	3.39	53	53	6.16	28	28	8.26
	Vijayapura	87	87	3.07	99	99	11.55	25	25	5.7
	Tumkur	622	601	6.63	80	80	13.44	20	20	9.27
Maharashtra	Gondia	75	75	3.86	18	18	3.33	14	14	5.11
	Yavatmal	145	145	3.84	37	37	4.5	25	25	4.68
	Nanded	1024	986	18.42	81	81	7.75	15	15	4.47
Tamil Nadu	Cuddalore	225	215	6.72	50	50	7.58	9	9	3.05
	Dindugal	66	66	1.97	11	11	1.61	5	5	1.08
	Madurai	3	3	0.01	4	4	0.92	1	1	0.67
Telangana	Warangal	0	0	0	0	0	0	0	0	0
Andhra Pradesh	Chittoor	120	115	2.16	22	22	3.88	4	4	0.73
Grand Total		**2450**	**2374**	**50.07**	**455**	**455**	**60.72**	**146**	**146**	**43.02**

***PAR: Portfolio at Risk**

Annexure-IX

(Referred to in Para No. 5.3.6.5(b))

Statement showing the details of correspondence made by various levels of hierarchy with NPA account holders

(₹ in lakh)

State	Name of the District	No. of loan accounts under NPA category as on 31.03.2018		No. of cases in which first reminders were issued by District Office		Percentage of reminders issued		No. of cases in which second reminders were issued by Head Office		No. of cases in which legal action was initiated	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Karnataka	Sirsi	306	390.53	203	330.89	66.34	84.73	306	390.53	27	69.51
	Vijayapura	173	190.84	76	123.50	43.93	64.71	173	190.84	38	78.76
	Tumkur	320	267.08	320	267.08	100	100.00	320	267.08	56	64.90
Maharashtra	Gondia	212	422.73	212	422.73	100	100.00	212	422.73	57	157.57
	Yavatmal	147	128.34	147	128.34	100	100.00	147	128.34	22	26.61
	Nanded	198	121.73	12	7.46	6.06	6.13	198	121.73	-	-
Tamilnadu	Cuddalore	156	68.96	13	8.54	8.33	12.38	156	68.96	17	6.09
	Dindigul	132	131.49	179	194.94	135.61	148.25	132	131.49	10	10.58
	Madurai	180	169.18	40	37.10	22.22	21.93	180	169.18	-	-
Telangana	Warangal	6	105.39	6	105.39	100	100.00	6	105.39	6	105.39
Andhra Pradesh	Chittoor	530	1,335.93	460	,.63	86.79	96.91	530	1335.93	450	1,289.80
Total		**2,360**	**3,332.20**	**1,668**	**2,920.60**	**70.68**	**87.65**	**2360**	**3,332.20**	**683**	**1,809.21 or say ₹18.09 crore**

Annexure-X

(Referred to in Para No.5.4.3.2(ii))

Statement Showing Short Collection of Premium under Group Mediclaim Policies for the period from 01 April 2014 to 31 March 2019

(Figure in ₹)

Sl. No.	Policy No. & Year	Name of the Insured	Premium Approved/ Ratified by the Head office	Premium Actually Collected by Operating office	Short Collection of Premium
(i)	(ii)	(iii)	(iv)	(v)	(vi) = (iv) - (v)
1	100100/50/16/10001158 (2016-17)	GE Power India Limited	65,00,000.00	56,52,174.00	8,47,826.00
2	100100/50/17/10000116 (2017-18)	Jindal Drilling and Industries Limited	25,00,000.00	20,00,000.00	5,00,000.00
3	100100/50/18/10000087 (2018-19)	Haldia Petrochemicals Limited	2,28,41,149.00	1,83,14,049.00	45,27,100.00
4	100300/50/18/10007565 (2018-19)	Durgapur Medical Centre Private Limited	62,14,031.00	47,94,944.00	14,19,087.00
5	100600/50/16/10009585 (2016-17)	Jadavpur University	1,75,00,000.00	1,72,74,439.00	2,25,561.00
6	100600/50/16/10009595 (2016-17)	Jadavpur University	1,88,00,000.00	1,25,24,857.00	62,75,143.00
7	100600/50/17/10000191 (2017-18)	Indian Explosives Private Limited	32,80,000.00	21,60,000.00	11,20,000.00
8	100600/50/17/10001244 (2017-18)	Linc Pen Plastic Private. Limited	12,35,766.00	11,00,000.00	1,35,766.00
9	100600/50/17/10005492 (2017-18)	Bandhan Bank Limited	6,98,88,000.00	6,76,00,000.00	22,88,000.00
10	100600/50/17/10008711 (2017-18)	Embee Software Private Limited	16,67,915.00	16,00,000.00	67,915.00
11	101101/50/1610003627 (2016-17)	RKM Provident Fund	1,45,79,599.41	1,43,39,460.00	2,40,139.41
12	150403/50/18/10003668 (2018-19)	The University Burdwan	62,29,188.00	57,24,022.00	5,05,166.00
13	154300/50/18/10000453(2018-19)	Magma Fincorp Limited	3,56,72,000.00	2,20,99,818.00	1,35,72,182.00
14	251100/46/16/85000000650 (2016-17)	M/s ICICI Lombard	10,90,00,000.00	9,75,00,000.00	1,15,00,000.00
15	251100/50/18/10000076, 77 and 78 (2018-19)	Group of Intelenet	8,00,75,812.00	7,43,39,200.00	57,36,612.00
16	251100/50/18/10000118 (2018-19)	ECGC of India Limited GMEDI	78,56,945.00	73,00,000.00	5,56,945.00
17	260501/50/18/10000494 (2018-19)	Initiative Media (India) Private Limited	38,67,505.00	36,97,826.00	1,69,679.00

18	260501/50/18/10000554 (2018-19)	Interactive Avenues Private Limited	50,15,498.69	43,01,282.00	7,14,216.69
19	260600/50/18/10000116 (2018-19)	Future Generalli India Life Insurance Co. Limited	2,98,61,765.00	2,34,00,000.00	64,61,765.00
20	260600/50/18/10000120 (2018-19)	Future Generalli India Insurance Co. Limited	3,22,59,088.00	3,00,00,000.00	22,59,088.00
21	261000/50/18/10000650 (2018-19)	Roundglass Sports Private. Limited	3,16,825.00	3,00,000.00	16,825.00
22	351500/50/18/10000425 (2018-19)	Integral Biosciences Private Limited	27,51,877.00	26,50,000.00	1,01,877.00
23	351500/50/18/10001372 (2018-19)	Velocis Systems Private Limited	36,06,491.84	35,16,949.00	89,542.84
24	351600/50/18/10001021 (2018-19)	Indian Spinal Injuries Centre	61,50,000.00	61,00,000.00	50,000.00
25	354301/50/18/10000697 (2018-19)	M/s Plasser India Private Limited	54,02,231.00	45,45,000.00	8,57,231.00
26	354500/50/18/10000664, 665, 666, 667, 668, 669 & 671 (2018-19)	Ericsson India Global Services Private Limited	33,91,41,416.00	32,83,80,562.00	1,07,60,854.00
27	355000/50/18/10000591 & 568 (2018-19)	Metlife Global Operations Support Centre Private Limited	2,43,30,225.00	2,39,12,180.00	4,18,045.00
28	355000/50/18/10001794 (2018-19)	Headstrong Services India Private Limited	1,44,49,345.00	1,08,63,410.00	35,85,935.00
29	360700/50/18/10004016 (2018-19)	M/s Select Infrastructure Private Limited	22,63,467.00	22,32,288.00	31,179.00
30	360800/50/18/10001926 (2018-19)	M/s Subros Limited	1,23,39,180.00	1,15,00,000.00	8,39,180.00
31	361300/46/16/850000039 (2016-17)	Taj Stats Air Catering Limited	41,85,193.00	30,00,000.00	11,85,193.00
32	361300/50/17/10002979 (2017-18)	M/s Amar Ujala Publication Limited	1,92,93,965.00	1,76,83,488.00	16,10,477.00
33	366010/50/17/10000637 (2017-18)	Public Health Foundation of India	39,09,824.00	37,30,678.00	1,79,146.00
34	500400/50/18/10001375 (2018-19)	Comstar Automotive Technologies Private Limited	54,46,072.00	52,13,172.00	2,32,900.00
35	501700/50/18/10000981 (2018-19)	M/s Beardsell Limited	26,00,000.00	22,14,296.00	3,85,704.00
36	501800/50/18/10000145 (2018-19)	India Garage	62,36,756.00	52,50,000.00	9,86,756.00
37	602000/50/16/10001206 (2016-17)	ITC Infotech India Limited	4,13,91,304.00	2,49,50,000.00	1,64,41,304.00
38	602000/50/17/10000344 (2017-18)	Exide Life Insurance Company Limited	2,44,03,000.00	2,27,33,089.00	16,69,911.00
39	602000/50/17/10001221 (2017-18)	M/s Star Health and Allied Insurance Co. Limited	3,45,28,987.00	3,10,00,000.00	35,28,987.00
40	602000/50/17/10001388 (2017-18)	M/s Orient Cement Limited	82,73,885.00	75,00,000.00	7,73,885.00
41	602000/50/17/10001942 (2017-18)	Ashok Leyland Limited	7,06,69,290.00	6,01,64,195.00	1,05,05,095.00

42	602000/50/17/10002418 (2017-18)	UEI Electronics Private Limited	44,38,957.00	40,00,000.00	4,38,957.00
43	602000/50/18/10000155 (2018-19)	Micromatic Machine Tools Private Limited	35,47,653.00	31,35,593.00	4,12,060.00
44	602000/50/18/10000345(2018-19)	Exide Life Insurance Limited	2,74,27,135.00	2,23,82,755.00	50,44,380.00
45	602000/50/18/10000565 (2018-19)	Exide Life Insurance Limited	1,12,17,428.00	98,51,865.00	13,65,563.00
46	602000/50/18/10001190 (2018-19)	M/s Star Health and Allied Insurance Limited	5,68,14,524.00	4,70,00,000.00	98,14,524.00
47	602000/50/18/10001191 (2018-19)	ITC Infotech India Limited	6,98,88,645.00	3,69,08,658.00	3,29,79,987.00
48	602000/50/18/10001382 (2018-19)	M/s Orient Cement Limited	1,05,40,378.00	95,50,000.00	9,90,378.00
49	602000/50/18/10001395 (2018-19)	M/s Star Health and Allied Insurance Limited	5,06,92,122.00	4,89,00,000.00	17,92,122.00
50	602000/50/18/10001423 (2018-19)	ITC Infotech India Limited	2,95,58,260.00	2,36,31,356.00	59,26,904.00
51	602000/50/18/1001907 (2018-19)	Capital One Services India Private Limited	39,56,522.00	39,20,320.00	36,202.00
52	602100/50/15/10000614 (2015-16)	TUV Rheinland India Private Limited	64,98,348.00	63,00,000.00	1,98,348.00
53	602100/50/18/10000447 (2018-19)	Yes Bank	13,00,00,000.00	10,55,66,935.00	2,44,33,065.00
54	602100/50/18/10000450 (2018-19)	M/s Audience Communications Systems India Private Limited	59,39,158.00	54,29,777.00	5,09,381.00
55	602100/50/18/10000625 (2018-19)	Bharatiya Reserve Bank Note Mudran Private Limited	3,40,13,928.00	2,80,00,000.00	60,13,928.00
56	602100/50/18/10000897 (2018-19)	Logix Health Solutions Private Limited	64,25,586.00	62,65,782.00	1,59,804.00
57	602100/50/18/10000914 (2018-19)	Logix Health Solutions Private Limited	27,76,093.00	22,51,587.00	5,24,506.00
58	602100/50/18/10001405 (2018-19)	Yes Bank Limited	11,43,20,874.00	8,59,84,100.00	2,83,36,774.00
59	602200/46/15/8500000207 (2015-16)	Intuit India Porduct Development Center-Unit II	1,22,85,709.00	1,13,20,000.00	9,65,709.00
60	602200/46/15/8500000350 (2015-16)	Waters India Private Limited	80,35,346.00	70,00,000.00	10,35,346.00
61	602200/46/17/8500000272 (2017-18)	Technip India Limited	6,59,89,173.00	5,17,26,187.00	1,42,62,986.00
62	602200/46/18/8500000044 (2018-19)	ANZ Support Services	7,28,89,551.00	5,81,11,534.00	1,47,78,017.00
63	602200/50/18/10000218 (2018-19)	Technip India Limited	8,72,38,027.00	7,18,98,221.00	1,53,39,806.00
64	602200/50/18/10000220 (2018-19)	Technip Global Business Services Private Limited	74,35,227.00	62,68,925.00	11,66,302.00
65	60220046/18/85/10000157 (2018-19)	Software AG Bangalore Technologies Private Limited	1,42,50,375.00	1,31,22,444.00	11,27,931.00

66	602400/50/18/10000008 (2018-19)	Bill Forge Private Limited	1,95,54,644.00	1,75,50,000.00	20,04,644.00
67	602400/50/18/10000088 (2018-19)	M/s Grundfos Pump Limited	92,17,373.00	69,51,225.00	22,66,148.00
68	602400/50/18/10000104 (2018-19)	Bank Note Paper Mill India Private Limited	48,76,077.00	40,06,168.00	8,69,909.00
69	603805/50/18/10000503 (2018-19)	Manipal Academy of Higher Education	8,68,39,436.00	6,87,70,100.00	1,80,69,336.00
70	603900/50/15/10001762 (2015-16)	Tata Power Strategic Electronics Division	2,30,00,787.00	1,93,00,000.00	37,00,787.00
71	603900/50/18/10000397 (2018-19)	Radiant System India Private Limited	20,27,551.05	18,22,500.00	2,05,051.05
72	603900/50/18/10000697 (2018-19)	Bisleri International Private Limited	55,62,388.00	42,50,000.00	13,12,388.00
73	603900/50/18/10000758 (2018-19)	Autoliv India Private Limited	1,71,54,454.00	1,37,50,711.00	34,03,743.00
74	603900/50/18/10000829 (2018-19)	Cvent India Private Limited	2,35,40,854.00	2,11,50,000.00	23,90,854.00
75	603900/50/18/10000852 (2018-19)	Micro Labs Limited	2,32,36,198.00	1,91,00,000.00	41,36,198.00
76	603900/50/18/10000951 (2018-19)	Valtech India Systems Private Limited	89,51,130.00	70,50,000.00	19,01,130.00
77	603900/50/18/10001398 (2018-19)	Tata Power Strategic Electronics Division	3,15,35,844.00	2,90,00,000.00	25,35,844.00
78	603901/50/17/10001778 (2017-18)	Goodrich Aerospace Services	4,47,60,250.00	3,88,00,000.00	59,60,250.00
79	603901/50/17/10004897 (2017-18)	Quess Corp Limited	2,82,81,171.00	2,73,00,000.00	9,81,171.00
80	603901/50/18/10001541 (2018-19)	Cypress Semiconductor Technology India Private Limited	1,69,83,859.00	1,42,80,495.00	27,03,364.00
81	603901/50/18/10003391 (2018-19)	Tata Advanced Materials Limited	1,10,36,532.00	1,06,50,332.00	3,86,200.00
82	604100/50/16/10001303 (2016-17)	M/s MTR Foods Private Limited	1,77,38,412.00	1,46,00,000.00	31,38,412.00
83	604100/50/17/10000638 (2017-18)	Pricewater House Coopers Service Delivery Centre Bangalore Private Limited	4,68,49,352.00	4,39,30,875.00	29,18,477.00
84	604100/50/18/10001397 (2018-19)	M/s MTR Foods Private Limited	1,79,05,086.00	1,72,42,657.00	6,62,429.00
85	604100/50/18/10001494 (2018-19)	M/s Bangalore Metro Rail Corporation Limited	3,48,33,312.00	3,32,50,000.00	15,83,312.00
86	604100/50/18/10001583 (2018-19)	M/s Altimetrik India Private Limited	2,88,89,318.00	2,22,59,566.00	66,29,752.00
87	604100/50/18/10002398 (2018-19)	M/s Syngene International Limited	3,71,22,014.00	3,36,56,000.00	34,66,014.00
88	604200/50/16/10000170 (2016-17)	M/s Yodlee Infotech Private Limited	1,71,05,960.00	1,02,43,009.00	68,62,951.00
89	604200/50/16/10000358 (2016-17)	M/s Make My Trip India Private Limited	2,59,97,373.00	1,62,01,345.00	97,96,028.00
90	604200/50/17/10000190 (2017-18)	M/s Yodlee Infotech Private Limited	2,35,89,100.00	1,91,30,435.00	44,58,665.00
91	604200/50/17/10001136 (2017-18)	M/s Reydel Automotive India	36,56,620.00	32,75,000.00	3,81,620.00

92	604200/50/17/10001140 (2017-18)	M/s Siemens Gamesa Renewable Power Private Limited	1,16,80,972.00	1,09,58,500.00	7,22,472.00
93	604200/50/18/10000432 (2018-19)	M/s Weir Minerals India Private Limited	1,02,97,711.00	95,40,000.00	7,57,711.00
94	604200/50/18/10000481 (2018-19)	Intellect Design Arena Limited	5,06,54,890.00	4,69,00,000.00	37,54,890.00
95	604200/50/18/10001204 (2018-19)	Siemens Gamesa Renewable Power Private Limited	1,90,22,271.00	1,33,36,700.00	56,85,571.00
96	604400/50/16/10002000 (2016-17)	Church of South India Karnataka Central Diocese	1,15,53,571.00	1,06,50,000.00	9,03,571.00
97	604400/50/18/10000497 (2018-19)	Vee Technologies Private Limited	15,26,258.04	13,49,972.00	1,76,286.04
98	604400/50/18/10000665 (2018-19)	Mann and Hummel Filter Private Limited	84,45,314.00	80,50,000.00	3,95,314.00
99	604400/50/18/10000913 (2018-19)	OSB India Private Limited	63,49,965.00	58,65,000.00	4,84,965.00
100	604500/50/15/10002106 (2015-16)	Advinus Therapeutics Limited	1,01,10,165.00	51,57,998.00	49,52,167.00
101	604500/50/18/10002397 (2018-19)	Euro Fins Advinus Limited	79,46,858.00	73,85,000.00	5,61,858.00
102	604600/50/15/10000150 (2015-16)	Akamai Technologies India Limited	3,04,99,581.00	2,75,00,000.00	29,99,581.00
103	604600/50/15/10000213 (2015-16)	Manhattan Associates India Dev. Centre Private Limited	2,49,37,837.00	1,90,00,618.00	59,37,219.00
104	604600/50/18/10000271 (2018-19)	Societe Generale Global Solution Centre Private Limited	12,10,96,770.00	11,72,37,401.00	38,59,369.00
105	604600/50/18/10000625 (2018-19)	Tata ELXSI Limited	2,75,45,767.00	2,29,69,020.00	45,76,747.00
106	604600/50/18/10000626 (2018-19)	Tata Elxsi Limited	2,28,91,862.00	2,17,01,824.00	11,90,038.00
107	604600/50/18/10000755 (2018-19)	Sony India Software Centre Private Limited	2,06,98,020.00	1,98,00,088.00	8,97,932.00
108	604600/50/18/10000773 (2018-19)	Akamai Technologies India Private Limited	4,63,26,609.00	4,35,00,160.00	28,26,449.00
109	604600/50/18/10000895 (2018-19)	Manhattan Associates India Dev. Centre Private Limited	2,91,10,921.00	2,57,47,934.00	33,62,987.00
110	604800/50/18/10000539 (2018-19)	Baehal Software Limited	30,89,743.00	27,00,000.00	3,89,743.00
111	605400/50/18/10000050 (2018-19)	VMware Software India Limited	12,82,64,274.00	12,29,25,000.00	53,39,274.00
Total short collection of premium			**3145007069.03**	**2721483050.00**	**42,35,24,019.03 or say ₹42.35 crore**

Annexure-XI

(Referred to in para 5.4.3.2(iii))

Statement Showing Short Charging of Premium due to Non-Imposition of Desired Loading in respect of Group Mediclaim Policies of NICL during the period from 2014-15 to 2018-19

(Figure in ₹)

Sl. No.	Policy No.	Name of the Insured	Annualized# Claim Outgo including IBNR@	Brokerage	TPA Charges	Medical Inflation	Total Premium	Adjusted premium #	Premium Actually Charged	Short Charging of Premium
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii) = Sum of (iv) to (vii)	(ix)	(x)	(xi) = (ix) - (x)
1	100600/50/16/10001748	Bandhan Bank Limited	4,21,79,667.00	0.00	22,77,702.00	21,08,983.35	4,65,66,352.35	4,65,66,352.03	3,89,95,000.00	75,71,352.03
2	100600/50/17/10005492	Bandhan Bank Limited	7,22,12,977.00	0.00	28,88,519.00	36,10,648.85	7,87,12,144.85	8,14,62,264.71	6,76,00,000.00	1,38,62,264.71
3	100100/50/18/10000258, 259, 260, 261, 262, 263, 264, 265, 266, 267 to 268	ATOS Group	19,25,74,612.00	1,44,43,096.00	77,02,984.00	96,28,730.60	22,43,49,422.60	22,44,49,217.12	19,28,74,772.00	3,15,74,445.12
4	100300/50/18/10018299	Department of Information & Cultural Affairs	3,03,14,171.00	0.00	6,06,283.00	15,15,708.55	3,24,36,162.55	3,24,36,162.97	3,09,64,842.00	14,71,320.97
5	103000/50/18/10003975	Kolkata Metropolitan Development Authority	2,09,37,796.00	6,28,134.00	11,30,641.00	10,46,889.80	2,37,43,460.80	2,17,39,237.26	1,94,09,678.00	23,29,559.26
6	103000/50/17/10004257	Kolkata Metropolitan Development Authority	1,03,42,643.00	7,75,698.00	5,58,503.00	5,17,132.15	1,21,93,976.15	2,17,66,817.15	1,66,25,871.00	51,40,946.15
7	100100/50/17/10000355, 357, 370, 371 & 372	ATOS Group	16,74,70,274.00	58,61,460.00	75,36,162.00	83,73,513.70	18,92,41,409.70	18,92,41,409.62	11,30,55,297.00	7,61,86,112.62
8	100100/50/16/10000425, 426, 427, 429 & 430	ATOS GROUP	12,27,31,657.00	61,36,583.00	36,81,950.00	61,36,582.85	13,86,86,772.85	18,30,71,552.79	8,38,50,000.00	9,92,21,552.79

9	101101/50/17/10003595	RKM Provident Fund	1,79,38,478.00	0.00	5,38,154.00	8,96,923.90	1,93,73,555.90	1,88,14,469.92	1,70,00,000.00	18,14,469.92
10	100100/50/17/10000368	India Medtronic Private Limited	2,05,85,613.00	15,43,921.00	11,11,623.00	10,29,280.65	2,42,70,437.65	2,51,57,279.51	1,98,00,071.00	53,57,208.51
11	100100/50/17/10000201	Electrosteel Steels Limited	3,10,80,093.00	11,65,503.00	6,21,602.00	15,54,004.65	3,44,21,202.65	3,44,21,202.73	3,07,53,247.00	36,67,955.73
12	100600/50/16/10009585	Jadavpur University	1,74,98,556.00	0.00	9,44,922.00	8,74,927.80	1,93,18,405.80	1,93,18,406.12	1,72,74,439.00	20,43,967.12
13	100600/50/16/10009595	Jadavpur University	1,87,63,975.00	0.00	10,13,255.00	9,38,198.75	2,07,15,428.75	2,07,15,428.58	1,25,24,857.00	81,90,571.58
14	100700/46/14/8500000077	Director General and Inspector General of Police West Bengal	19,80,43,385.00	0.00	1,06,94,343.00	99,02,169.25	21,86,39,897.25	21,86,39,896.90	17,66,97,223.00	4,19,42,673.90
15	100700/46/15/8500000072	Director General and Inspector General of Police West Bengal	28,19,23,345.00	0.00	1,52,23,861.00	1,40,96,167.25	31,12,43,373.25	31,12,43,372.56	17,28,94,101.00	13,83,49,271.56
16	100700/50/16/10003874	Director General and Inspector General of Police West Bengal	34,29,34,743.00	0.00	1,85,18,476.00	1,71,46,737.15	37,85,99,956.15	37,85,99,956.01	20,43,54,913.00	17,42,45,043.01
17	100700/50/17/10006715	Director General and Inspector General of Police West Bengal	40,57,60,994.00	0.00	1,62,30,440.00	2,02,88,049.70	44,22,79,483.70	44,22,79,483.46	15,02,55,084.00	29,20,24,399.46
18	153501/46/15/8500000809	Indian Statistical Institute	1,12,16,241.50	0.00	6,05,677.04	5,60,812.08	1,23,82,730.62	1,23,82,730.62	1,04,75,608.00	19,07,122.62
19	153501/46/15/8500000810	Indian Statistical Institute	74,96,830.00	0.00	4,04,828.82	3,74,841.50	82,76,500.32	82,76,500.32	76,24,392.00	6,52,108.32
20	154400/46/16/8500000017	Cadence Design System	64,98,691.00	11,37,270.93	3,50,929.31	3,24,934.55	83,11,825.79	83,11,825.79	82,08,000.00	1,03,825.79
21	154400/46/16/8500000019	Cadence Design System	1,27,31,353.00	22,27,986.78	6,87,493.06	6,36,567.65	1,62,83,400.49	1,62,83,400.49	1,60,80,000.00	2,03,400.49
22	154400/46/16/8500000020	Tensilica Technology	32,68,347.00	5,71,960.73	1,76,490.74	1,63,417.35	41,80,215.82	41,80,215.82	41,28,000.00	52,215.82
23	153501/50/16/10000924	Indian Statistical Institute	1,17,94,832.00	0.00	6,36,920.93	5,89,741.60	1,30,21,494.53	1,30,21,494.53	1,00,00,000.00	30,21,494.53
24	153501/50/16/10000925	Indian Statistical Institute	81,32,397.00	0.00	4,39,149.44	4,06,619.85	89,78,166.29	89,78,166.29	68,16,957.00	21,61,209.29
25	154400/46/16/8500000005	Cadence Design System	80,29,717.00	14,05,200.48	4,33,604.72	4,01,485.85	1,02,70,008.05	1,02,70,008.05	82,08,000.00	20,62,008.05
26	154400/46/16/8500000007	Cadence Design System	2,11,77,792.00	37,06,113.60	11,43,600.77	10,58,889.60	2,70,86,395.97	2,70,86,395.97	2,16,48,000.00	54,38,395.97
27	154400/46/16/8500000008	Tensilica Technology	41,32,252.00	7,23,144.10	2,23,141.61	2,06,612.60	52,85,150.31	52,85,150.31	42,22,553.00	10,62,597.31
28	154400/46/16/8500000009	Cadence Design System	4,70,04,368.00	82,25,764.40	25,38,235.87	23,50,218.40	6,01,18,586.67	6,01,18,586.67	4,80,48,000.00	1,20,70,586.67
29	153501/50/17/10004002	Indian Statistical Institute	86,40,358.00	0.00	4,66,579.33	4,32,017.90	95,38,955.23	95,38,955.23	90,00,000.00	5,38,955.23
30	153501/50/17/10004003	Indian Statistical Institute	1,25,31,560.00	0.00	6,76,704.24	6,26,578.00	1,38,34,842.24	1,38,34,842.24	1,10,00,000.00	28,34,842.24

31	154400/50/17/10000168	Cadence Design System	4,40,05,666.00	77,00,992.00	23,76,305.96	22,00,283.30	5,62,83,247.26	5,62,83,247.26	5,04,96,000.00	57,87,247.26
32	154400/50/17/10000169	Cadence Design System	2,75,24,456.00	48,16,780.00	14,86,320.62	13,76,222.80	3,52,03,779.42	3,52,03,779.42	3,15,84,000.00	36,19,779.42
33	154400/50/17/10000170	Cadence Design System	41,83,048.00	7,32,033.00	2,25,884.59	2,09,152.40	53,50,117.99	53,50,117.99	48,00,000.00	5,50,117.99
34	153800/50/17/1000087	Indian Institute of Technology, Khargpur	1,71,66,281.00	0.00	9,26,979.17	8,58,314.05	1,89,51,574.22	1,89,51,574.22	1,74,20,101.00	15,31,473.22
35	153501/50/18/10003994	Indian Statistical Institute	95,65,984.00	0.00	5,16,563.14	4,78,299.20	1,05,60,846.34	1,05,60,846.34	98,00,000.00	7,60,846.34
36	154400/50/18/10000624	Cadence Design System	10,22,888.00	76,716.60	55,235.95	51,144.40	12,05,984.95	12,05,984.95	11,75,000.00	30,984.95
37	154400/50/18/10000625	Cadence Design System	2,88,45,429.00	21,63,407.18	15,57,653.17	14,42,271.45	3,40,08,760.80	3,40,08,760.80	3,31,35,000.00	8,73,760.80
38	154400/50/18/10000626	Cadence Design System	4,25,93,038.00	31,94,477.85	23,00,024.05	21,29,651.90	5,02,17,191.80	5,02,17,191.80	4,89,27,000.00	12,90,191.80
39	154400/50/18/10000635	Cadence Design System	44,18,874.00	3,31,415.55	2,38,619.20	2,20,943.70	52,09,852.45	52,09,852.45	50,76,000.00	1,33,852.45
40	602200/46/16/8500000221	Analog Devices India Private Limited	44,59,189.00	3,34,439.00	2,45,255.00	2,22,959.45	52,61,842.45	54,71,120.00	43,43,040.00	11,28,080.00
41	602200/46/15/8500000195	Emc Software and Services	24,39,34,939.00	84,15,755.00	73,18,048.00	1,21,96,746.95	27,18,65,488.95	14,58,88,382.00	10,13,61,474.00	4,45,26,908.00
42	602200/46/17/8500000007	Anz Support Services (India) Private Limited	5,86,58,398.00	14,66,460.00	24,92,982.00	29,32,919.90	6,55,50,759.90	6,40,99,289.00	5,81,47,600.00	59,51,689.00
43	602200/46/18/8500000044	Anz Support Services (India) Private Limited	5,42,82,920.00	16,28,488.00	23,07,024.00	27,14,146.00	6,09,32,578.00	6,09,52,765.00	5,81,11,534.00	28,41,231.00
44	602200/46/18/8500000136	Scientific Games India Private Limited	3,16,39,886.00	23,72,991.00	9,49,197.00	15,81,994.30	3,65,44,068.30	3,51,50,289.00	3,40,50,000.00	11,00,289.00
45	602200/46/15/8500000350	Waters India Private Limited	76,16,442.00	5,71,233.00	3,61,781.00	3,80,822.10	89,30,278.10	89,30,278.00	70,00,000.00	19,30,278.00
46	602200/46/15/8500000207	Intuit India Product - Unit II	1,26,43,384.00	9,48,254.00	6,95,386.00	6,32,169.20	1,49,19,193.20	1,34,96,778.00	1,13,20,000.00	21,76,778.00
47	602200/46/16/8500000030	Terex India Private. Limited	77,34,180.00	5,80,064.00	4,25,380.00	3,86,709.00	91,26,333.00	85,24,884.00	67,81,414.00	17,43,470.00
48	602200/46/17/8500000272	Technip India Limited	6,04,61,188.00	24,18,448.00	18,13,836.00	30,23,059.40	6,77,16,531.40	6,64,28,922.00	5,07,74,200.00	1,56,54,722.00
49	602200/50/18/10000218	Technip India Limited	6,66,85,875.00	23,34,006.00	13,33,718.00	33,34,293.75	7,36,87,892.75	8,38,18,502.00	7,18,98,221.00	1,19,20,281.00
50	602200/46/15/8500000018	Verisign Services India Private Limited	12,44,296.00	93,322.00	68,436.00	62,214.80	14,68,268.80	12,01,311.00	11,71,800.00	29,511.00
51	604200/50/16/10001240	EVRY India Private Limited (Formerly Span Infotech (India) Private Limited)	1,45,21,190.00	10,89,089.00	7,98,665.00	7,26,059.50	1,71,35,003.50	1,70,24,588.00	1,30,40,000.00	39,84,588.00
52	604200/50/17/10000512	Intellect Design Arena Limited	3,45,22,425.00	13,80,897.00	12,08,285.00	17,26,121.25	3,88,37,728.25	3,98,56,391.00	3,60,00,000.00	38,56,391.00
53	604200/50/18/10000481	Intellect Design Arena Limited	4,59,81,737.00	16,09,361.00	16,09,361.00	22,99,086.85	5,14,99,545.85	5,11,45,216.00	4,69,00,000.00	42,45,216.00
54	604200/50/18/10000264	Raymond Limited	3,59,32,003.00	21,55,920.00	14,37,280.00	17,96,600.15	4,13,21,803.15	4,18,99,962.00	3,72,32,749.00	46,67,213.00

55	604200/50/17/10000300	Raymond Limited	3,12,08,286.00	23,40,621.00	17,16,456.00	15,60,414.30	3,68,25,777.30	3,24,50,583.00	3,02,81,294.00	21,69,289.00
56	604200/50/17/10001136	Reydel Automotive India Private. Limited.	34,22,733.00	0.00	1,88,250.00	1,71,136.65	37,82,119.65	37,82,120.00	32,75,000.00	5,07,120.00
57	604200/50/16/10000170	Yodlee Infotech. Private. Limited.	1,62,14,180.00	12,16,064.00	8,91,780.00	8,10,709.00	1,91,32,733.00	1,96,35,780.00	1,02,43,009.00	93,92,771.00
58	604200/50/17/10000190	Yodlee Infotech. Private. Limited.	2,23,59,337.00	13,41,560.00	12,29,764.00	11,17,966.85	2,60,48,627.85	2,56,59,012.00	1,91,30,435.00	65,28,577.00
59	603805/50/17/10000483	Manipal University (Clusters)	5,95,86,160.00	0.00	17,87,585.00	29,79,308.00	6,43,53,053.00	6,43,53,053.00	5,61,06,366.00	82,46,687.00
60	603805/50/18/10000503	Manipal Academy (Clusters)	6,84,25,973.00	0.00	20,52,779.00	34,21,298.65	7,39,00,050.65	7,90,01,068.00	6,87,70,100.00	1,02,30,968.00
61	603901/50/18/10002125	Goodrich Aerospace	4,71,47,481.00	28,28,849.00	25,93,111.00	23,57,374.05	5,49,26,815.05	5,57,38,308.00	4,90,00,000.00	67,38,308.00
62	603901/50/17/10001778	Goodrich Aerospace	4,02,90,513.00	30,21,788.00	22,15,978.00	20,14,525.65	4,75,42,804.65	4,74,48,909.00	3,88,00,000.00	86,48,909.00
63	604500/50/15/10002106	Advinus Therapeutics Limited	95,83,094.00	7,18,732.00	5,27,070.00	4,79,154.70	1,13,08,050.70	1,15,60,420.00	51,57,998.00	64,02,422.00
64	603900/50/15/10001602	M/s JDA Software India Private Limited	2,90,61,762.00	21,79,632.00	15,98,397.00	14,53,088.10	3,42,92,879.10	3,24,84,330.00	2,25,89,884.00	98,94,446.00
65	603900/46/14/8500000057	Radiant Systems India Private Limited	5,20,045.00	39,003.00	28,602.00	26,002.25	6,13,652.25	7,44,774.00	6,14,097.00	1,30,677.00
66	603900/50/15/10001762	Tata Power Strategic Electronics Division	2,18,01,694.00	16,35,127.00	11,99,093.00	10,90,084.70	2,57,25,998.70	2,85,72,098.00	1,93,00,000.00	92,72,098.00
67	603900/50/17/10001469	Tata Power Strategic Electronics Division	3,55,00,146.00	26,62,511.00	19,52,508.00	17,75,007.30	4,18,90,172.30	4,03,93,320.00	3,45,00,000.00	58,93,320.00
68	6039005/01/61/0000830 & 831	Tavant Technologies India Private Limited	1,24,55,330.00	9,34,150.00	6,85,043.00	6,22,766.50	1,46,97,289.50	1,59,18,161.00	1,32,00,000.00	27,18,161.00
69	604400/50/16/10002000	Church of South India Karnataka Central Diocese	1,09,51,253.00	8,21,344.00	6,02,319.00	5,47,562.65	1,29,22,478.65	1,29,08,881.00	1,06,50,000.00	22,58,881.00
70	604400/50/15/10001754	RBL Bank Limited	4,43,04,001.00	33,22,800.00	24,36,720.00	22,15,200.05	5,22,78,721.05	5,64,88,158.00	4,35,00,000.00	1,29,88,158.00
71	604100/50/15/10002185	Hilex India Private Limited	38,77,486.00	1,93,874.00	2,13,262.00	1,93,874.30	44,78,496.30	44,78,496.00	34,00,000.00	10,78,496.00
72	604100/50/16/10002626	Biocon Limited	2,97,37,906.00	22,30,343.00	16,35,585.00	14,86,895.30	3,50,90,729.30	3,60,44,368.00	2,69,00,560.00	91,43,808.00
73	604100/50/16/10001303	M/s MTR Foods Private Limited	1,57,21,913.00	11,79,143.00	8,64,705.00	7,86,095.65	1,85,51,856.65	1,85,51,857.00	1,46,00,000.00	39,51,857.00
74	604100/50/15/10001097	Nvidia Graphics Private Limited	4,24,41,855.00	31,83,139.00	23,34,302.00	21,22,092.75	5,00,81,388.75	4,96,99,023.00	4,01,34,526.00	95,64,497.00
75	604100/50/16/10001025	Nvidia Graphics Private Limited	5,25,12,679.00	39,38,451.00	28,88,197.00	26,25,633.95	6,19,64,960.95	6,61,12,294.00	4,75,46,300.00	1,85,65,994.00
76	604100/50/17/10001044	Nvidia Graphics Private Limited	5,67,16,473.00	42,53,735.00	31,19,406.00	28,35,823.65	6,69,25,437.65	6,73,22,261.00	5,93,96,071.00	79,26,190.00
77	604100/50/18/10001034	Nvidia Graphics Private Limited	6,80,96,773.00	37,45,323.00	23,83,387.00	34,04,838.65	7,76,30,321.65	8,17,56,117.00	7,70,77,985.00	46,78,132.00

78	604100/50/17/10000638	Pricewater House Coopers Service Delivery Centre Bangalore Private Limited	3,97,44,327.00	29,80,825.00	21,85,938.00	19,87,216.35	4,68,98,306.35	4,68,98,306.00	4,39,30,875.00	29,67,431.00
79	604600/50/15/10000150	Akamai Technologies India Private Limited	2,95,75,351.00	22,18,151.00	13,30,891.00	14,78,767.55	3,46,03,160.55	3,72,99,222.00	2,75,00,000.00	97,99,222.00
80	604600/50/16/10000636	Akamai Technologies India Private Limited	2,96,04,032.00	22,20,302.00	16,28,222.00	14,80,201.60	3,49,32,757.60	3,70,69,675.00	3,20,76,000.00	49,93,675.00
81	604600/50/17/10000766	Akamai Technologies India Private Limited	3,80,34,536.00	28,52,590.00	20,91,899.00	19,01,726.80	4,48,80,751.80	4,93,48,901.00	4,07,86,200.00	85,62,701.00
82	604600/50/18/10000773	Akamai Technologies India Private Limited	4,10,15,179.00	28,71,063.00	18,45,683.00	20,50,758.95	4,77,82,683.95	4,92,12,666.00	4,35,00,160.00	57,12,506.00
83	604600/50/15/10000213	Manhattan Associates India Dev Centre Private Limited	2,36,37,760.00	17,72,832.00	13,00,077.00	11,81,888.00	2,78,92,557.00	2,86,42,801.00	1,90,00,618.00	96,42,183.00
84	604600/50/17/10000045	Applied Materials India Private Limited	1,90,84,788.00	14,31,359.00	8,58,815.00	9,54,239.40	2,23,29,201.40	2,23,29,201.00	1,81,58,328.00	41,70,873.00
85	604600/5017/10000223	Sonus Networks India Private Limited	95,79,980.00	0.00	5,26,899.00	4,78,999.00	1,05,85,878.00	1,07,54,545.00	88,50,127.00	19,04,418.00
86	604600/50/18/10000271	Societe Generale Global Solution Centre Private Limited	11,02,02,512.00	0.00	52,34,619.00	55,10,125.60	12,09,47,256.60	12,31,33,874.00	11,72,37,401.00	58,96,473.00
87	604600/46/15/8500000079	Tata Elxsi Limited	1,57,92,784.00	0.00	6,31,711.00	7,89,639.20	1,72,14,134.20	1,73,55,233.00	1,01,96,782.00	71,58,451.00
88	604600/50/16/10000491	Tata Elxsi Limited	1,88,64,903.00	0.00	7,54,596.00	9,43,245.15	2,05,62,744.15	2,05,62,744.00	1,58,01,302.00	47,61,442.00
89	604600/46/16/10000736	SAP Labs India Private Limited	13,77,85,963.00	0.00	65,44,833.00	68,89,298.15	15,12,20,094.15	15,12,20,094.00	14,86,73,250.00	25,46,844.00
90	604600/50/17/10000768	SAP Labs India Private Limited	15,83,07,993.00	0.00	75,19,630.00	79,15,399.65	17,37,43,022.65	17,37,43,023.00	16,25,73,856.00	1,11,69,167.00
91	604600/5018/10000869	SAP India Private Limited	7,02,44,978.00	0.00	21,07,349.00	35,12,248.90	7,58,64,575.90	7,54,78,871.00	6,39,02,061.00	1,15,76,810.00
92	604600/50/1710000293	Amazon Development Center India Private Limited	17,68,82,612.00	1,32,66,196.00	79,59,718.00	88,44,130.60	20,69,52,656.60	21,86,92,290.00	15,67,34,247.00	6,19,58,043.00
93	604600/50/18/10000318	Amazon Development Center India Private Limited	24,56,32,576.00	1,22,81,629.00	85,97,140.00	1,22,81,628.80	27,87,92,973.80	31,23,64,581.00	23,61,69,421.00	7,61,95,160.00
94	604600/50/16/10001939	Ashok Leyland Limited	6,19,84,163.00	30,99,208.00	34,09,129.00	30,99,208.15	7,15,91,708.15	6,75,02,847.00	5,22,34,696.00	1,52,68,151.00
95	604600/50/17/10001942	Ashok Leyland Limited	6,69,85,109.00	33,49,255.00	23,44,479.00	33,49,255.45	7,60,28,098.45	7,60,28,098.00	6,01,64,195.00	1,58,63,903.00
96	602000/50/17/10000344	Exide Life Insurance Company Limited	2,31,31,343.00	0.00	8,09,597.00	11,56,567.15	2,50,97,507.15	2,72,51,932.00	2,27,33,089.00	45,18,843.00
97	602000/50/16/10001206	ITC Infotech India Limited	3,92,33,463.00	19,61,673.00	21,57,840.00	19,61,673.15	4,53,14,649.15	4,53,14,649.00	2,49,50,000.00	2,03,64,649.00

98	602000/50/18/10001191	ITC Infotech India Limited	3,62,19,775.00	12,67,692.00	10,86,593.00	18,10,988.75	4,03,85,048.75	4,34,46,083.00	3,69,08,658.00	65,37,425.00
99	602000/50/17/10001388	M/s Orient Cement Limited	77,48,903.00	3,87,445.00	2,71,212.00	3,87,445.15	87,95,005.15	87,95,005.00	75,00,000.00	12,95,005.00
100	602000/50/16/10001358	M/s Star Health and Allied Insurance Co. Limited	4,67,23,204.00	23,36,160.00	25,69,776.00	23,36,160.20	5,39,65,300.20	5,09,38,876.00	3,12,84,071.00	1,96,54,805.00
101	602000/50/16/10001201	M/s Star Health and Allied Insurance Co. Limited	2,83,47,975.00	14,17,399.00	15,59,139.00	14,17,398.75	3,27,41,911.75	3,08,92,673.00	2,70,00,000.00	38,92,673.00
102	602000/50/17/10001221	M/s Star Health and Allied Insurance Co. Limited	3,25,83,889.00	16,29,194.00	11,40,436.00	16,29,194.45	3,69,82,713.45	3,41,41,657.00	3,10,00,000.00	31,41,657.00
103	602000/50/17/10001414	M/s Star Health and Allied Insurance Co. Limited	4,95,64,212.00	24,78,211.00	17,34,747.00	24,78,210.60	5,62,55,380.60	4,41,88,556.00	4,27,50,000.00	14,38,556.00
104	602000/50/18/10001190	M/s Star Health and Allied Insurance Co. Limited	4,38,67,807.00	17,54,712.00	10,96,695.00	21,93,390.35	4,89,12,604.35	5,02,38,005.00	4,70,00,000.00	32,38,005.00
105	602000/50/15/10001288	Infineon Technologies India Private Limited	61,97,418.00	4,64,806.00	3,40,858.00	3,09,870.90	73,12,952.90	74,98,304.00	66,69,382.00	8,28,922.00
106	602100/50/15/10000614	Logix Health Solutions Private Limited	33,08,684.00	1,98,521.00	1,81,978.00	1,65,434.20	38,54,617.20	1,00,22,004.00	25,50,000.00	74,72,004.00
107	602100/50/15/10001445	Hospet Steels Limited	64,73,427.00	4,11,063.00	3,56,038.00	3,23,671.35	75,64,199.35	75,36,657.00	55,00,000.00	20,36,657.00
108	602100/50/17/10001960	TUV Rheinl and India Private Limited	61,59,572.00	4,61,968.00	2,15,585.00	3,07,978.60	71,45,103.60	69,66,476.00	63,00,000.00	6,66,476.00
109	602100/50/18/10001405	Yes Bank Limited	8,58,52,735.00	42,92,637.00	40,78,005.00	42,92,636.75	9,85,16,013.75	10,20,64,815.00	8,59,84,100.00	1,60,80,715.00
110	604600/50/16/10000309, 312 & 368	Amazon India Group	31,07,00,000.00	2,33,02,500.00	1,39,81,500.00	1,55,35,000.00	36,35,19,000.00	36,35,19,000.00	25,65,00,000.00	10,70,19,000.00
111	501800/46/148500000002	Hyundai Motors India Limited	7,96,45,978.00	15,00,000.00	30,00,000.00	39,82,298.90	8,81,28,276.90	8,81,28,277.00	7,05,00,000.00	1,76,28,277.00
112	501600/46/16/8500000015	M/s Flex Technologies India Private Limited	8,43,57,635.00	42,17,882.00	25,30,729.00	42,17,881.75	9,53,24,127.75	9,71,62,309.00	6,41,61,646.00	3,30,00,663.00
113	501800/50/16/10000021	Hyundai Motors India Limited	10,04,45,554.00	22,00,000.00	37,00,000.00	50,22,277.70	11,13,67,831.70	11,19,33,396.00	8,40,00,000.00	2,79,33,396.00
114	501800/50/17/10000009	Hyundai Motors India Limited	11,18,99,577.00	25,00,000.00	37,00,000.00	55,94,978.85	12,36,94,555.85	12,23,12,087.00	10,90,00,000.00	1,33,12,087.00
115	501800/5018/10000023	Hyundai Motors India Limited	11,75,45,901.00	21,74,599.00	29,38,648.00	58,77,295.05	12,85,36,443.05	12,87,40,145.00	11,70,19,516.00	1,17,20,629.00
116	500100/50/18/10000044	SRF Limited	29,78,403.00	0.00	89,352.00	1,48,920.15	32,16,675.15	29,89,372.00	27,68,313.00	2,21,059.00
117	500400/50/15/10001563	Caterpillar India Private Limited	7,44,42,904.00	89,33,148.00	29,77,716.00	37,22,145.20	9,00,75,913.20	9,00,75,913.00	8,29,39,302.00	71,36,611.00

118	500400/50/16/10001644	Caterpillar India Private Limited	7,97,49,895.00	95,69,987.00	31,89,996.00	39,87,494.75	9,64,97,372.75	10,27,49,316.00	8,76,92,830.00	1,50,56,486.00
119	501800/50/16/10000069	Hyundai Motor India Engineering Private Limited	1,01,01,357.00	7,57,602.00	5,55,575.00	5,05,067.85	1,19,19,601.85	1,19,19,601.00	85,00,000.00	34,19,601.00
120	500102/50/18/10000511	Randstad India Private Limited	4,37,75,105.00	21,88,755.00	13,13,253.00	21,88,755.25	4,94,65,868.25	4,56,49,165.00	4,45,00,000.00	11,49,165.00
121	500401/50/17/10002877	TPF Software India (P) Limited	29,90,297.00	59,806.00	1,64,466.00	1,49,514.85	33,64,083.85	33,64,085.00	24,00,256.00	9,63,829.00
122	500102/501/61/0000612	Randstad India Private Limited	3,78,18,842.00	18,90,942.00	11,34,565.00	18,90,942.10	4,27,35,291.10	4,51,33,524.00	3,43,75,190.00	1,07,58,334.00
123	500102/50/17/10000533	Randstad India Private Limited	4,41,74,139.00	22,08,707.00	13,25,224.00	22,08,706.95	4,99,16,776.95	5,07,75,728.00	4,16,40,197.00	91,35,531.00
124	500400/46/13/8500000248	Apollo Tyres Limited	30,88,191.00	4,63,229.00	1,46,689.00	1,54,409.55	38,52,518.55	44,38,849.00	38,32,892.00	6,05,957.00
125	500400/50/17/10000608	Caterpillar India Private Limted Thiruvallur	78,09,691.00	5,85,727.00	56,239.00	3,90,484.55	88,42,141.55	80,01,341.00	73,68,000.00	6,33,341.00
126	501800/50/17/10000122	Mobis India Limited	38,72,329.00	2,90,425.00	2,12,978.00	1,93,616.45	45,69,348.45	50,83,636.00	40,25,000.00	10,58,636.00
127	500400/50/17/10000330	The Madras Medical Mission	70,35,579.00	5,27,668.00	3,86,957.00	3,51,778.95	83,01,982.95	67,24,100.00	47,82,609.00	19,41,491.00
128	500400/50/15/10001403	Williams Lea India Private Limited	2,02,88,983.00	15,21,674.00	11,15,894.00	10,14,449.15	2,39,41,000.15	2,37,78,457.00	1,31,25,000.00	1,06,53,457.00
129	500600/46/14/8500000219	Valmet Technologies Company Private Limited	7,12,389.00	53,429.00	39,181.00	35,619.45	8,40,618.45	7,48,008.00	7,37,985.00	10,023.00
130	350200/46/14/850000376	IILM Institute of Higher Education	6,42,896.00	55,272.00	40,533.00	32,144.80	7,70,845.80	7,70,845.80	7,36,965.00	33,880.80
131	351200/46/14/8500000207	M/s Steel Authority of India Limited	29,81,52,196.00	0.00	60,45,719.00	1,49,07,609.80	31,91,05,524.80	31,91,05,524.80	18,60,22,120.00	13,30,83,404.80
132	351500/50/18/10000924	M/s Cargill India Associates	3,29,32,119.00	4,93,982.00	13,17,285.00	16,46,605.95	3,63,89,991.95	3,63,89,991.95	3,53,85,525.00	10,04,466.95
133	351500/46/15/8500000065	Aon Services India Private Limited	4,85,98,356.00	26,72,910.00	26,72,910.00	24,29,917.80	5,63,74,093.80	5,63,74,093.80	5,39,44,176.00	24,29,917.80
134	351500/46/16/8500000047	Aon Services India Private Limited	3,19,45,062.00	17,56,978.00	17,56,978.00	15,97,253.10	3,70,56,271.10	3,70,56,271.10	3,51,39,568.00	19,16,703.10
135	351500/46/15/8500000063	Aon Services India Private Limited	3,63,38,390.00	19,98,611.00	19,98,611.00	18,16,919.50	4,21,52,531.50	4,21,52,531.50	4,03,35,612.00	18,16,919.50
136	351500/46/16/8500000043	Aon Services India Private Limited	5,33,54,939.00	29,34,521.00	29,34,522.00	26,67,746.95	6,18,91,728.95	6,18,91,728.95	5,92,23,982.00	26,67,746.95
137	351500/46/16/8500000373	Jagruti Club Limited	2,91,85,747.00	14,59,287.00	16,05,215.00	14,59,287.35	3,37,09,536.35	3,37,09,536.35	3,22,50,251.00	14,59,285.35
138	351500/46/15/8500000352	M/s Glaxo Smithkline Consumer Healthcare Limited	5,98,25,328.00	39,70,708.00	29,11,852.00	29,91,266.40	6,96,99,154.40	6,96,99,154.40	5,98,25,328.00	98,73,826.40

139	351500/46/16/8500000345	M/s Glaxo Smithkline Consumer Healthcare Limited	7,01,26,572.00	20,75,746.00	38,56,961.00	35,06,328.60	7,95,65,607.60	7,95,65,607.60	7,60,59,280.00	35,06,327.60
140	351500/50/18/10002924	M/s Glaxo Smithkline Consumer Healthcare Limited	6,63,50,711.00	25,00,000.00	36,49,289.00	33,17,535.55	7,58,17,535.55	7,58,17,535.55	7,25,00,000.00	33,17,535.55
141	351600/50/17/10000061	Global Logic India Private Limited	3,54,95,988.00	25,57,500.00	18,76,000.00	17,74,799.40	4,17,04,287.40	4,17,04,287.40	3,41,00,000.00	76,04,287.40
142	351600/50/16/10000292	Tata Tele Services Limited, TTML, MMPL	19,13,51,815.70	0.00	80,80,000.00	95,67,590.79	20,89,99,406.49	20,89,99,406.49	14,69,00,000.00	6,20,99,406.49
143	351600/46/15/8500000038	KPMG	5,70,64,201.84	11,76,000.00	15,68,000.00	28,53,210.09	6,26,61,411.93	6,26,61,411.93	3,92,00,000.00	2,34,61,411.93
144	351600/50/18/10000058	Globallogic India Limited	4,57,71,496.36	33,80,000.00	23,40,000.00	22,88,574.82	5,37,80,071.18	5,37,80,071.18	5,20,00,000.00	17,80,071.18
145	351600/46/14/8500000256	M/s Max Healthcare Institute Limited	3,51,18,147.69	15,45,000.00	11,33,000.00	17,55,907.38	3,95,52,055.07	3,95,52,055.07	2,06,00,000.00	1,89,52,055.07
146	351600/46/14/8500000243	Jay Bhart Maruti Limited	69,69,531.40	4,28,000.00	3,14,000.00	3,48,476.57	80,60,007.96	80,60,007.96	57,00,000.00	23,60,007.96
147	351600/46/15/8500000039	KPMG Advisory Services Private Limited	1,88,79,000.87	2,95,000.00	3,94,000.00	9,43,950.04	2,05,11,950.91	2,05,11,950.91	98,44,000.00	1,06,67,950.91
148	351600/46/14/8500000122	Jagatjit Industries Limited	61,56,407.97	1,97,000.00	1,44,000.00	3,07,820.40	68,05,228.37	68,05,228.37	26,20,000.00	41,85,228.37
149	351600/46/14/8500000300	Neel Metal Products Limited	81,93,956.74	3,75,000.00	2,75,000.00	4,09,697.84	92,53,654.58	92,53,654.58	50,00,000.00	42,53,654.58
150	351600/50/16/10000323	Puma Sports India Private Limited	57,92,291.44	4,13,000.00	3,03,000.00	2,89,614.57	67,97,906.01	67,97,906.01	55,00,000.00	12,97,906.01
151	351600/50/17/10000506	M/s JMC Projects India Limited	1,53,10,422.00	6,05,000.00	6,66,000.00	7,65,521.10	1,73,46,943.10	1,73,46,943.10	1,21,00,000.00	52,46,943.10
152	351600/46/15/8500000039	KPMG Advisory Services Private Limited	1,88,79,000.87	1,16,000.00	1,55,000.00	9,43,950.04	2,00,93,950.91	2,00,93,950.91	38,77,000.00	1,62,16,950.91
153	351600/46/15/8500000171	Aidem Ventures Private Limited	19,71,525.36	1,24,000.00	91,000.00	98,576.27	22,85,101.63	22,85,101.63	16,50,000.00	6,35,101.63
154	351600/46/14/8500000128	IFS Solutions India Private Limited	11,09,915.53	77,000.00	57,000.00	55,495.78	12,99,411.30	12,99,411.30	10,30,000.00	2,69,411.30
155	351600/50/16/10000557	Neel Auto Private Limited	8,61,608.14	56,000.00	41,000.00	43,080.41	10,01,688.55	10,01,688.55	7,40,000.00	2,61,688.55
156	351600/46/15/8500000094	Puma Sports India Private Limited	47,73,133.64	2,66,000.00	1,95,000.00	2,38,656.68	54,72,790.32	54,72,790.32	35,50,000.00	19,22,790.32
157	351700/50/17/10000037	Fidelity Information Ser. India Private Limited	6,39,16,063.00	20,58,000.00	22,63,800.00	31,95,803.15	7,14,33,666.15	7,14,33,666.15	4,11,60,000.00	3,02,73,666.15
158	351700/50/17/10000765	FIS Solutions India Private Limited	2,76,93,723.00	14,21,580.00	15,63,738.00	13,84,686.15	3,20,63,727.15	3,20,63,727.15	2,84,31,600.00	36,32,127.15
159	351700/50/17/10000030	FIS Global Business Solution India Private Limited	6,11,67,280.00	31,09,225.00	34,20,148.00	30,58,364.00	7,07,55,017.00	7,07,55,017.00	6,21,84,500.00	85,70,517.00
160	351700/50/18/10000032	Fidelity Information Ser. India Private Limited	6,73,14,821.00	31,32,235.00	28,19,011.00	33,65,741.05	7,66,31,808.05	7,66,31,808.05	6,26,44,690.00	1,39,87,118.05

161	351700/46/14/8500000238	HCL Technologies Limited-Iomc Division	22,45,13,786.00	54,76,772.00	40,16,299.00	1,12,25,689.30	24,52,32,546.30	24,52,32,546.30	7,30,23,625.00	17,22,08,921.30
162	351700/50/18/10000031	FIS Global Business Solution India Private Limited	6,87,56,787.00	38,21,490.00	34,39,341.00	34,37,839.35	7,94,55,457.35	7,94,55,457.35	7,64,29,790.00	30,25,667.35
163	351700/50/18/10000684	FIS Solutions India Private Limited	3,65,94,796.00	18,53,380.00	15,31,053.00	18,29,739.80	4,18,08,968.80	4,18,08,968.80	4,02,90,864.00	15,18,104.80
164	351700/50/17/10000151	Hotel Leela Venture Limited	1,00,74,378.00	6,00,000.00	4,40,000.00	5,03,718.90	1,16,18,096.90	1,16,18,096.90	80,00,000.00	36,18,096.90
165	351700/50/16/10001613	Security and Intelligence Services India Limited	1,40,10,340.00	10,54,015.00	7,72,944.00	7,00,517.00	1,65,37,816.00	1,65,37,816.00	1,40,53,533.00	24,84,283.00
166	351700/50/17/10000038	FIS Payment Solutions and Services India Private Limited	1,49,59,439.00	9,26,363.00	6,79,333.00	7,47,971.95	1,73,13,106.95	1,73,13,106.95	1,23,51,500.00	49,61,606.95
167	351700/46/15/8500000281	M/s OCL Limited	1,10,00,000.00	6,00,000.00	4,40,000.00	5,50,000.00	1,25,90,000.00	1,25,90,000.00	80,00,000.00	45,90,000.00
168	351800/50/17/10002368	M/s Birlasoft (India) Limited	3,98,42,577.00	17,25,000.00	10,35,000.00	19,92,128.85	4,45,94,705.85	4,45,94,705.85	3,45,00,000.00	1,00,94,705.85
169	351800/50/18/10001965	M/s Birlasoft (India) Limited	3,06,94,946.00	13,12,000.00	9,84,000.00	15,34,747.30	3,45,25,693.30	3,45,25,693.30	3,28,00,000.00	17,25,693.30
170	351800/46/14/8500003612	M/s Tata Housing Development Co. Limited and its Subsidiaries	1,77,07,550.00	4,83,750.00	3,54,750.00	8,85,377.50	1,94,31,427.50	1,94,31,427.50	64,50,000.00	1,29,81,427.50
171	351800/50/15/10000215	Metso India Private Limited	1,46,39,090.00	9,80,687.00	7,19,170.00	7,31,954.50	1,70,70,901.50	1,70,70,901.50	1,30,75,824.00	39,95,077.50
172	351800/50/16/10001000	M/s Birlasoft (India) Limited	3,29,00,000.00	10,80,000.00	9,72,000.00	16,45,000.00	3,65,97,000.00	3,65,97,000.00	2,16,00,000.00	1,49,97,000.00
173	351800/46/15/8500001668	M/s Cushman Wakefield Property Management Services India Limited	2,07,54,486.00	1,98,351.00	1,09,092.78	10,37,724.30	2,20,99,654.08	2,20,99,654.08	19,83,505.00	2,01,16,149.08
174	351800/46/14/8500006593	Aarti Industries Limited	23,07,429.00	92,130.68	67,562.50	1,15,371.45	25,82,493.62	25,82,493.62	12,28,409.00	13,54,084.62
175	351800/46/14/8500005388	M/s Mastech Staffing Services Private Limited	15,63,431.00	1,17,731.63	86,336.53	78,171.55	18,45,670.70	18,45,670.70	15,69,755.00	2,75,915.70
176	351800/50/18/10000539	Ashok Kathuria	1,74,220.00	1,701.53	1,247.79	8,711.00	1,85,880.31	1,85,880.31	22,687.00	1,63,193.31
177	351800/50/16/10002597	Minda Automotives Solutions Limited	10,46,402.00	51,000.00	56,100.00	52,320.10	12,05,822.10	12,05,822.10	10,20,000.00	1,85,822.10
178	351800/50/17/10004202	Manjeet Singh	1,93,522.00	1,475.10	1,081.74	9,676.10	2,05,754.94	2,05,754.94	19,668.00	1,86,086.94
179	351800/50/16/10000842	Amit Khosla	9,48,594.00	4,217.15	1,325.39	47,429.70	10,01,566.24	10,01,566.24	24,098.00	9,77,468.24
180	354302/46/16/8500000057	Hilti India Private Limited	1,42,82,404.00	9,79,112.00	7,18,016.00	7,14,120.20	1,66,93,652.20	1,66,93,652.20	1,23,50,000.00	43,43,652.20

181	354501/46/15/8500000067	Eyme Technologies Private Limited	1,61,78,398.00	27,46,066.13	20,13,781.83	8,08,919.90	2,17,47,165.86	2,17,47,165.86	49,47,202.00	1,67,99,963.86
182	354501/46/15/8500000186	Altisource Business Solutions Private Limited	6,32,49,628.00	34,66,387.50	25,42,017.50	31,62,481.40	7,24,20,514.40	7,24,20,514.40	3,01,40,858.00	4,22,79,656.40
183	354501/46/15/8500000234	Ernst & Young LLP	9,78,70,331.00	4,80,000.00	3,52,000.00	48,93,516.55	10,35,95,847.55	10,35,95,847.55	7,44,01,710.00	2,91,94,137.55
184	354501/46/16/8500000159	Altisource Business Solutions Private Limited	6,16,46,989.00	3,75,000.00	2,75,000.00	30,82,349.45	6,53,79,338.45	6,53,79,338.45	4,86,62,250.00	1,67,17,088.45
185	354501/50/17/10001309	Altisource Business Solutions Private Limited	5,65,87,627.00	1,65,000.00	1,21,000.00	28,29,381.35	5,97,03,008.35	5,97,03,008.35	3,66,94,550.00	2,30,08,458.35
186	354501/46/16/8500000097	M/s GI Staffing Services Private Limited	4,59,459.00	2,03,752.35	1,49,418.39	22,972.95	8,35,602.69	8,35,602.69	4,60,000.00	3,75,602.69
187	354501/50/17/10000114	B L Kapur Memorial Hospital	79,64,198.00	2,56,164.08	1,87,853.66	3,98,209.90	88,06,425.63	88,06,425.63	80,10,000.00	7,96,425.63
188	354501/46/16/8500000084	Motilal Oswal Financial Services Limited and Subsidiaries Companies	63,41,231.00	33,750.00	24,750.00	3,17,061.55	67,16,792.55	67,16,792.55	50,00,000.00	17,16,792.55
189	354501/50/16/10000299	Ernst & Young LLP	13,25,34,271.00	1,42,500.00	1,04,500.00	66,26,713.55	13,94,07,984.55	13,94,07,984.55	5,06,42,578.00	8,87,65,406.55
190	354800/46/15/8500000041	Fortis Healthcare Limited	16,29,78,327.00	64,06,556.00	46,98,141.20	81,48,916.35	18,22,31,940.55	18,22,31,940.55	8,54,20,749.00	9,68,11,191.55
191	354800/46/16/8500000037	Fortis Healthcare Limited	16,33,80,938.00	33,46,365.00	24,54,001.00	81,69,046.90	17,73,50,350.90	17,73,50,350.90	4,46,18,200.00	13,27,32,150.90
192	354800/46/14/8500000122	M/s Fortis Healthcare Limited	5,03,12,368.00	31,20,115.00	22,88,084.00	25,15,618.40	5,82,36,185.40	5,82,36,185.40	4,16,01,528.00	1,66,34,657.40
193	354800/50/18/10000239	Fortis Healthcare Limited	10,87,38,267.00	14,75,624.00	19,67,498.00	54,36,913.35	11,76,18,302.35	11,76,18,302.35	4,91,87,462.00	6,84,30,840.35
194	354800/46/14/8500000094	Indorama Synthetics India Limited	87,40,876.00	2,09,506.00	1,53,638.00	4,37,043.80	95,41,063.80	95,41,063.80	27,93,417.00	67,47,646.80
195	354800/46/14/8500000065	Religare Health Insurance Company Limited	1,47,89,868.00	4,86,207.00	5,34,828.00	7,39,493.40	1,65,50,396.40	1,65,50,396.40	97,24,141.00	68,26,255.40
196	354800/46/14/8500000090	Omaxe Limited	1,69,54,832.00	3,72,932.00	4,10,225.00	8,47,741.60	1,85,85,730.60	1,85,85,730.60	74,58,640.00	1,11,27,090.60
197	354800/46/15/8500000083	Indorama Synthetics India Limited	85,39,485.00	1,32,331.00	97,043.00	4,26,974.25	91,95,833.25	91,95,833.25	17,64,418.00	74,31,415.25
198	354800/46/14/8500000064	Reycor India Services	21,200.00	843.00	618.00	1,060.00	23,721.00	23,721.00	11,242.00	12,479.00
199	355000/46/14/8500000286	Wipro Limited	6,90,00,000.00	0.00	0.00	34,50,000.00	7,24,50,000.00	7,24,50,000.00	5,06,50,222.00	2,17,99,778.00
200	355000/46/15/8500000173	LG Electronics India Limited	6,51,00,000.00	48,00,000.00	32,00,000.00	32,55,000.00	7,63,55,000.00	7,63,55,000.00	6,60,00,000.00	1,03,55,000.00
201	355000/46/15/8500000098	Genpact India	16,00,00,000.00	1,60,00,000.00	88,00,000.00	80,00,000.00	19,28,00,000.00	19,28,00,000.00	16,36,00,000.00	2,92,00,000.00

202	355000/46/17/8500000053	Genpact India Private Limited	18,48,71,366.00	1,38,65,352.00	1,01,67,925.00	92,43,568.30	21,81,48,211.30	21,81,48,211.30	20,82,58,564.00	98,89,647.30
203	354801/46/14/8500000040	Stmicroelectronics Private Limited	3,74,00,000.00	28,00,000.00	20,00,000.00	18,70,000.00	4,40,70,000.00	4,40,70,000.00	2,57,08,824.00	1,83,61,176.00
204	355000/50/18/10000033	Group C Honda Cars India Limited	2,36,00,000.00	9,44,000.00	37,760.00	11,80,000.00	2,57,61,760.00	2,57,61,760.00	1,09,47,434.00	1,48,14,326.00
205	251100/46/14/850000171	M/s Essar Group of Companies	8,14,04,680.00	56,16,923.00	37,44,615.00	40,70,234.00	9,48,36,452.00	9,48,36,452.00	5,99,24,604.00	3,49,11,848.00
206	251100/46/14/8500000605	IL&FS	6,40,80,501.00	14,73,852.00	12,17,530.00	32,04,025.05	6,99,75,908.05	7,89,01,063.86	6,57,67,546.00	1,31,33,517.86
207	251100/46/15/850000132	M/s Essar Group of Companies	9,52,16,022.00	49,07,970.00	32,71,980.00	47,60,801.10	10,81,56,773.10	10,81,56,773.10	7,36,19,553.00	3,45,37,220.10
208	251100/46/15/8500000548	IL&FS	9,26,40,291.00	13,83,365.00	11,66,366.00	46,32,014.55	9,98,22,036.55	10,77,14,897.85	9,54,58,154.00	1,22,56,743.85
209	251100/46/16/850000094	M/s Essar Group of Companies	8,16,13,496.00	49,97,484.00	33,31,656.00	40,80,674.80	9,40,23,310.80	9,29,18,907.86	6,71,02,656.00	2,58,16,251.86
210	251100/46/16/8500000081	ICICI Lombard General Insurance Co. Limited	9,84,94,002.00	38,56,818.00	19,28,409.00	49,24,700.10	10,92,03,929.10	10,92,03,929.10	8,15,00,000.00	2,77,03,929.10
211	251100/46/16/8500000650	ICICI Lombard General Insurance Co. Limited	11,86,51,348.00	40,91,426.00	1,02,28,564.00	59,32,567.40	13,89,03,905.40	13,89,03,905.40	9,75,00,000.00	4,14,03,905.40
212	251100/46/16/8500000380	Dr. Reddy Laboratories	20,71,32,203.00	0.00	62,00,000.00	1,03,56,610.15	22,36,88,813.15	22,36,88,813.15	13,00,00,000.00	9,36,88,813.15
213	251100/46/16/8500000636	JDA Software Limited	3,31,45,697.00	8,11,197.00	14,60,155.00	16,57,284.85	3,70,74,333.85	3,70,74,333.85	3,02,30,555.00	68,43,778.85
214	251100/46/17/850000059	M/s Essar Group of Companies	7,65,43,431.00	47,76,914.00	31,84,609.00	38,27,171.55	8,83,32,125.55	8,04,67,642.15	6,82,83,028.00	1,21,84,614.15
215	251100/46/17/8500000201	IL&FS	9,01,77,489.00	15,00,738.00	15,89,017.00	45,08,874.45	9,77,76,118.45	10,15,86,578.26	8,80,85,870.00	1,35,00,708.26
216	251100/46/17/8500000278	Dr. Reddy Laboratories	19,46,67,015.00	0.00	77,86,681.00	97,33,350.75	21,21,87,046.75	21,97,43,334.60	21,17,76,823.00	79,66,511.60
217	251100/50/17/10000002 & 3	JDA Software Limited	3,64,85,186.00	14,28,683.00	14,28,683.00	18,24,259.30	4,11,66,811.30	6,07,06,937.81	4,09,14,407.00	1,97,92,530.81
218	251100/50/18/10000094	Dr. Reddy Laboratories	24,82,34,953.00	0.00	50,66,019.00	1,24,11,747.65	26,57,12,719.65	25,61,48,489.09	25,30,00,000.00	31,48,489.09
219	251100/50/18/10000077	M/s Intelenet Global Services Private Limited, offshore	3,80,98,477.00	0.00	20,95,416.00	19,04,923.85	4,20,98,816.85	4,61,65,668.14	3,91,06,600.00	70,59,068.14
220	251100/50/18/10000076	M/s Intelenet Global Services Private Limited, Onshore	2,77,75,551.00	0.00	15,27,655.00	13,88,777.55	3,06,91,983.55	3,41,32,663.44	3,12,57,200.00	28,75,463.44
221	251100/50/18/10000078	M/s Intelenet Business Services Limited	56,20,715.00	0.00	3,09,139.00	2,81,035.75	62,10,889.75	62,10,889.75	39,75,400.00	22,35,489.75
222	260200/50/16/10000321 & 322	M/s Macleod Pharmaceuticals Limited	9,35,41,556.63	0.00	0.00	46,77,077.83	9,82,18,634.46	9,82,18,634.46	3,44,00,000.00	6,38,18,634.46
223	260200/50/17/10000283 & 284	M/s Macleod Pharmaceuticals Limited	10,06,85,928.72	0.00	0.00	50,34,296.44	10,57,20,225.16	10,57,20,225.16	8,16,00,000.00	2,41,20,225.16

224	260200/50/15/10000065, 192, 203 & 205	M/s Schindler India Private. Limited	2,61,19,120.93	0.00	0.00	13,05,956.05	2,74,25,076.98	2,74,25,076.98	1,66,90,472.00	1,07,34,604.98
225	260200/50/16/10000969, 970, 1015 & 1081	M/s Schindler India Private Limited	3,31,71,661.70	0.00	0.00	16,58,583.08	3,48,30,244.78	3,48,30,244.78	2,80,65,381.00	67,64,863.78
226	260200/50/17/10000811, 812, 813 & 814	M/s Schindler India Private Limited	3,56,41,626.00	11,94,691.00	29,86,728.00	17,82,081.30	4,16,05,126.30	4,16,05,126.30	3,50,00,000.00	66,05,126.30
227	260100/50/16/10000064	M/s Sanofi India Limited	4,41,01,637.10	0.00	0.00	22,05,081.85	4,63,06,718.95	4,63,06,718.95	3,52,06,540.00	1,11,00,178.95
228	260100/50/17/10000112	M/s Sanofi India Limited	4,53,82,901.32	0.00	0.00	22,69,145.07	4,76,52,046.38	4,76,52,046.38	27,52,400.00	4,48,99,646.38
229	260100/50/18/10000093	M/s Sanofi India Limited	2,90,36,725.53	0.00	0.00	14,51,836.28	3,04,88,561.81	3,04,88,561.81	2,83,64,132.00	21,24,429.81
230	260501/46/16/8500000004	M/s Toyo Engineering (India) Private. Limited	4,09,91,253.64	0.00	11,10,000.00	20,49,562.68	4,41,50,816.33	4,25,18,079.26	3,90,00,000.00	35,18,079.26
231	260501/46/17/850000016	M/s Toyo Engineering (India) Private Limited	3,88,20,183.35	0.00	18,42,528.00	19,41,009.17	4,26,03,720.52	4,01,02,746.68	3,80,00,000.00	21,02,746.68
232	260501/46/18/850000031	M/s Toyo Engineering (India) Private. Limited	3,77,47,787.44	0.00	18,38,405.00	18,87,389.37	4,14,73,581.81	3,89,35,656.56	3,70,00,000.00	19,35,656.56
233	260501/46/15/8500000169	M/s Mandke Foundation	3,01,09,253.80	0.00	0.00	15,05,462.69	3,16,14,716.49	3,16,14,716.49	1,51,59,889.00	1,64,54,827.49
234	260501/50/16/10000515	M/s Mandke Foundation	2,64,20,795.12	7,64,521.00	7,64,521.00	13,21,039.76	2,92,70,876.88	2,67,86,049.01	2,17,12,977.00	50,73,072.01
235	260201/50/16/10001511	M/s Indoco Remedies Limited	1,03,88,379.62	0.00	0.00	5,19,418.98	1,09,07,798.60	1,09,07,798.60	86,00,000.00	23,07,798.60
236	260201/50/17/10001750	M/s Indoco Remedies Limited	1,07,68,826.25	3,02,208.00	5,03,681.00	5,38,441.31	1,21,13,156.56	1,16,11,748.93	1,08,79,500.00	7,32,248.93
237	260201/50/1610002573	M/s Transocean Group of Companies	99,76,848.99	0.00	4,79,151.00	7,18,727.00	1,11,74,726.99	1,43,98,976.17	95,14,795.00	48,84,181.17
238	260201/50/17/10002856	M/s Transocean Group of Companies	99,76,848.99	0.00	0.00	4,98,842.45	1,04,75,691.44	1,34,98,247.57	95,00,000.00	39,98,247.57
Total Short charging of premium										**3,72,26,89,863.58**
										or say ₹372.27 crore

 # (Total Premium /No. of Lives covered in expiring policy) X No. of Lives to be covered at the time of renewal

Annexure-XII
(Referred to in para 5.4.3.2(v))

Statement Showing Avoidable Discount in respect of Group Mediclaim Policies of NICL during the from period 2014-15 to 2018-19

(Figure in ₹)

Sl. No.	Policy No.	Name of the Insured	Discount to be Allowed	Discount Actually Allowed	Avoidable Discount
(i)	(ii)	(iii)	(iv)	(v)	(vi) = (v) - (iv)
1	100600/46/15/8500000254	Bandhan Bank Limited	66,09,827.10	1,54,22,929.90	88,13,102.80
2	104400/50/17/10001570	Howden Insurance Brokers India Private Limited	0.00	4,23,122.17	4,23,122.17
3	104400/50/17/10001571		0.00	1,42,548.23	1,42,548.23
4	100100/50/17/10000368	India Medtronic Private Limited	0.00	15,37,822.00	15,37,822.00
5	100600/50/17/10002963	Aconex India Private Limited	0.00	3,81,796.87	3,81,796.87
6	355100/50/18/10000075	M/s Hero Motor Corp Limited	0.00	36,64,438.00	36,64,438.00
7	154400/50/17/10000168	Cadence Design System	0.00	23,76,305.00	23,76,305.00
8	154400/50/17/10000169		0.00	14,86,320.00	14,86,320.00
9	154400/50/17/10000170		0.00	2,25,884.00	2,25,884.00
10	361200/46/14/850000013	M/s OP Jindal Institute of Cancer and Research	0.00	50,304.00	50,304.00
11	361300/46/14/8500000259	M/s Xavient Software Solutions India Private. Limited	0.00	5,92,000.00	5,92,000.00
12	361500/50/17/10003917	M/s CBRE South Asia Private Limited	0.00	24,00,000.00	24,00,000.00
13	251100/46/15/850000132	M/s Essar Group of Companies	0.00	2,10,06,522.00	2,10,06,522.00
14	251100/46/16/850000094		0.00	1,17,58,787.00	1,17,58,787.00
15	251100/46/16/8500000081	ICICI Lombard General Insurance Co. Limited	0.00	2,12,12,498.00	2,12,12,498.00
Total Avoidable Discount			**66,09,827.10**	**826,81,277.17**	**7,60,71,450.07**
					or say ₹7.61 crore

Annexure-XIII

(Referred to in para 5.4.3.2(v))

Statement Showing Loss of Premium due to non-reconciliation of data submitted by TPA in respect of Group Mediclaim Policies of NICL during the period from 2014-15 to 2018-19

(Figure in ₹)

Sl. No.	Policy No.	Name of the Insured	Actual Claims Paid and Outstanding of Expiring Policy	Claims including IBNR considered at the time of Renewal	Difference of claim not considered for the computation of premium
(i)	(ii)	(iii)	(iv)	(v)	(vi) = (iv) - (v)
1	101101/50/17/10003595	RKM Provident Fund	2,05,52,506.00	1,79,38,478.00	26,14,028.00
2	100600/50/17/10013588	Jadavpur University	1,76,44,637.00	1,65,97,478.00	10,47,159.00
3	100600/50/17/10013587		2,59,37,516.00	2,46,26,179.00	13,11,337.00
4	100600/50/18/10012705		1,81,78,206.00	1,69,98,650.00	11,79,556.00
5	100600/50/18/10012702		2,53,49,281.00	2,23,29,215.00	30,20,066.00
6	100700/46/14/8500000077	Director General and Inspector General of Police West Bengal	24,19,51,212.00	19,80,43,384.87	4,39,07,827.13
7	100700/46/15/8500000072		32,73,45,885.00	28,19,23,344.71	4,54,22,540.29
8	100700/50/16/10003874		44,58,30,429.00	34,29,34,742.76	10,28,95,686.24
9	100700/50/17/10006715		41,92,53,726.00	40,57,60,994.00	1,34,92,732.00
10	100700/50/16/10005015	Director General and Inspector General of Police (Police Sahayak)	2,27,25,023.00	1,80,83,643.00	46,41,380.00
Total			**1564768421.00**	**1345236109.34**	**21,95,32,311.66**
					Or say ₹21.95 crore

Annexure-XIV

(Referred to in para 5.4.3.2(vi))

Statement Showing Avoidable Payment of Commission under Group Mediclaim Policy for the period from 01 April 2017 to 31 March 2019

(Figure in ₹)

Sl. No.	Policy No. & Year	Name of the Insured	Avoidable Commission Paid
(i)	(ii)	(iii)	(iv)
1	103000/50/17/10004257 (2017-18)	Kolkata Metropolitan Development Authority	12,35,360.70
2	103000/50/18/10003975 (2018-19)		6,31,731.17
3	100300/50/17/10003340 (2017-18)	West Bengal State Seed Corporation Limited	1,34,717.10
4	100300/50/19/10000972 (2018-19)		82,258.33
5	100300/50/17/10018034 (2017-18)	Haldia Development Authority	33,210.56
6	100300/50/19/10003529 (2018-19)		66,501.90
7	104400/50/17/10003019 (2017-18)	Indian Institute of Engineering Science & Technology	1,51,875.00
8	104400/50/18/10003055 (2018-19)		1,36,652.55
9	100300/50/17/10007165 (2017-18)	Indian Institute of Science Education & Research	1,03,499.93
10	100300/50/18/10009931 (2018-19)		1,12,347.38
Total Avoidable Commission Paid			**26,88,154.61**
			or say ₹0.27 crore

Annexure-XV

(Referred to in para 5.4.3.2(vi))

Statement Showing Excess Payment of Commission / Remuneration under Group Mediclaim Policy for the period from 01 April 2014 to 31 March 2019

(Figure in ₹)

Sl. No.	Policy No. & Year	Name of the Insured	Commission / Remuneration Approved by the Competent Authority	Commission / Remuneration Actually Paid	Excess Payment
(i)	(ii)	(iii)	(iv)	(v)	(vi)=(v)-(iv)
1	104400/50/18/10009370 (2018-19)	M/s Khadim India Limited	6,18,054.40	9,27,081.60	3,09,027.20
2	101800/50/17/10003536 (2017-18)	M/s SV Social Welfare Association	37,769.22	62,948.70	25,179.48
3	100900/50/17/10013697 (2017-18)	M/s Maheshtala Municipality	56,546.45	84,819.68	28,273.23
4	100900/50/17/10014217 (2017-18)	Diamond Beverages Private Limited	1,09,823.65	3,29,470.95	2,19,647.30
5	603900/50/15/10000996 (2015-16)	GS Engineering Construction Delhi Private Limited (DO-04)	9,70,088.00	16,16,812.00	6,46,724.00
6	604600/50/15/10000213 (2015-16)	Manhattan Associates India Dev. Centre Private Limited	0.00	14,25,046.00	14,25,046.00
7	351800/46/14/5000005371 (2014-15)	Ciena India	21,04,789.00	49,11,175.00	28,06,386.00
8	351800/50/16/100005590 (2016-17)		28,58,422.00	66,69,651.00	38,11,229.00
9	355000/46/15/8500000098 (2015-16)	Genpact India Private Limited	1,20,00,000.00	1,60,00,000.00	40,00,000.00
10	355000/46/16/8500000070 (2016-17)		1,24,24,943.00	1,65,66,591.00	41,41,648.00
11	355000/46/16/850000026 and 355000/46/16/8500000261 (2016-17)	Dell International	1,41,02,393.00	1,78,63,032.00	37,60,639.00
12	500400/50/15/10000444 (2015-16)	Saint Gobain India Private Limited	4,68,197.00	10,92,459.00	6,24,262.00
13	500400/50/16/10000422 (2016-17)		13,88,925.00	32,40,826.00	18,51,901.00
14	361300/50/18/10001584 (2018-19)	Genesis Colors Limited	79,900.24	1,49,812.95	69,912.71
Total			**47219850.96**	**70939725.88**	**2,37,19,874.92 Or say ₹2.37 crore**

Annexure-XVI
(Referred to in Para 5.9)

Statement showing calculation of ICR

Sl. No.	Insured	Policy No.	Incurred Claim Ratio (ICR) in *per cent*	Previous year claim (Figure in ₹)	Previous year Premium (Figure in ₹)
	Delhi Regional Office (DRO)-I				
	Year-2016-17				
1	DSIDS	0405002816P1056563473	127	22986249	18107064
2	Sunlife India Service Centre Pvt. Ltd.	0406002816P108510822	115	13100000	11400000
3	Pearson India Edu Service Pvt. Ltd.	0407002816P116603496	123	16407901	13319484
4	Jaquar & Company	0408002816P111490902	161	30904055	19135699
5	OTIS Elevator (Two Policies)	0411002816P104241423	276	61800000	22403781
6	Videocon Inds	412022816P102822921	152	19200000	12672062
7	Philips	426002816P100143739	127	29120870	23000000
8	BECHTEL	426002816P105595399	102	15623486	15324847
9	Omega Health Care Management	426002816P110864299	129	9624507	7468466
10	Compass India Support	042301286P105540076	135	14977785	11098636
	Year-2017-18				
11	GKN Driveline (India) Ltd.	0406002817P112179436	114	14584926	12800000
12	The Institute of Chartered Accountants of India	0406022817P103274737	134	6677469	4989825
13	Dr. Lal Path Labs Pvt. Ltd.	0407002817P107818684	227	23943649	10546777
14	Pearson India Education Services Pvt. Ltd.	0407002817P118897052	143	17106856	12000000
15	Steel Authority of India	0411002817P103305667	133	1251600000	943399810

16	Otis Elevator Company (India) Ltd.	0411002817P104956212	116	47000000	40367484
17	Videocon Industries Ltd.	0412022817P104012253	172	25816000	15050000
18	Clues Network Pvt. Ltd.	0412022817P109998919	129	4908000	3800000
19	Gujarat Fluorochemicals Ltd. (Dahej Complex)	0413002817P104936313	115	8000000	6932643
20	Compass India Support Services Pvt. Ltd.	0423012817P106227727	120	14221038	11899942
21	Home Credit India Finance Pvt. Ltd.	0426002817P104545081	180	11101502	6163802
22	Bechtel India Pvt. Ltd.	0426002817P105858492 & 0426002817P106075761	104	22042320	21240166
23	Philips Lighting India Ltd.	0426002817P101353611	137	30149068	22000000
24	Proptiger Realty Pvt. Ltd.	0426002817P110868273	195	17973416	9219515
	Year-2018-19				
25	Pyramid IT Consulting Pvt. Ltd.	0407032818P110823574	164	6221618	4000000
26	Steel Authority of India	0411002818P102461147	121	1603249252	1321393646
27	Apcer Pharma India	0425002818P109799691	121	4793169	3945285
	Delhi Regional Office (DRO)-II				
	Year-2016-17				
28	Pine Labs Pvt. Ltd.	2214002816P101660101	185	7198000	3900000
29	Everest Industries Ltd.	2220042816P109236923	114	5613000	4931000
30	Max Life Insurance Company Ltd.	2222002816P112742412 & 2222002816P112866598	124	(35400000+29100000) = 64500000	(34200000+17800000) = 52000000
31	Verint System India Pvt. Ltd.	2222002816P108363624	265	7034000	2656000
32	Munjal Showa Ltd.	2218002816P110202938	110	8263882	7500000

	Year-2017-18				
33	**Jade E-services Pvt. Ltd.**	2210002817P103590654	118	6428542	5449067
34	**CEB India Pvt. Ltd.**	2218002817P103488165	149	10742167	7198000
35	**Airplaza Retail Holdings Pvt. Ltd.**	2219032817P104118695	160	12200000	7623000
36	**Vishal Megamart Pvt. Ltd.**	2219032817P103559984	101	6086000	6050000
37	**IMT Ghaziabad**	2220002817P104958231	122	5000000	4100000
38	**R Systems International Ltd.**	2229002817P107551085	128	19845000	15447000
39	**Everest Industries Ltd.**	2229002817P112161753	106	6003000	5678000
	Year-2018-19				
40	**M/s Saxo Group India Pvt. Ltd.**	2220002818P109983923	120	9515089	7952508
41	**M/s Sentiss Pharma Pvt. Ltd.**	2222002818P109499654	124	6141105	4950000
42	**M/s R Systems International Ltd.**	2229002818P106549230	103	22200000	21500000
	Large Corporate Branch Office (LCBO)				
	Year-2016-17				
43	**Aviva Life Group**	5003002816P101374250 (total 2 policies)	127	25300000	20000000
44	**Here Solutions India Pvt.**	5003002816P103401691	129	32300000	25000000
45	**M/s Adobe Systems**	5003002816P116395317	141	16683095	11798529
46	**M/s ABP News**	5003002816P105741935	125	26200000	21000000
47	**M/s Luminous Power Ltd.**	5003002816P117771664	124	14674629	11813762
48	**M/s Ramboll India Pvt Ltd.**	5003002816P116162647	115	11600000	10100000
49	**Schneider Group**	Total 14 Policies	100	182500000	181700000
50	**M/s Konica Minolta Pvt. Ltd.**	5003002816P110641364 (total 2 policies)	110	8325000	7600000
51	**M/s Denso India Pvt. Ltd.**	5003002816P100545750	121	5256156	4354426
52	**Nokia Group**	Total 03 Policies	124	244100000	197300000
53	**M/s Class Agriculture**	5003002816P105543112 (2 Policies)	167	11700000	7000000
54	**Sebic Group**	Total 03 Policies	128	15052901	11797834

55	**Marathon Electric India Ltd.**	5003002816P106141987	125	9700000	7731000
56	**Yamaha Group**	(6 policies)	187	57198300	30506473
	Year-2017-18				
57	**Sebic Group**	Total 03 Policies	143	19964117	13988836
58	**M/s Shaweta Estates**	Total 03 Policies	112	5075000	4546273
	Year-2018-19				
59	**Schneider Group**	Total 13 Policies	118	216227926	183619027
60	**M/s Konica Minolta Pvt. Ltd.**	5003002818P109818239 (total 2 policies)	126	11674547	9287075
61	**Marathan Group**	Total 11 Policies	101	21995084	21826844

Annexure-XVII

(Referred to in Para 5.9)

Statement Showing short charging of premium in respect of Standalone Group Mediclaim Policies (GMPs) of the UIICL for the period from 2016-17 to 2018-19

Sr. No.	Insured	Policy No.	Incurred Claim Ratio (ICR) in Previous year (in *per cent*)	Annualized Claim outgo adjusted with Proposed No. of Lives	Brokerage	TPA Charges	Medical Inflation (MI) @ average monthly prevailing MI rate as declared by MOSPI	Sum of (E) to (H)	Minimum premium to be charged to maintain CR @95 %	Premium Actually Charged	Short Charging of Premium
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
	Delhi Regional Office (Dro)-I										
	Year-2016-17										
1	Dsids	0405002816P1056563473	127	2,30,00,000	9,20,000	12,65,000	10,51,100	2,58,43,080	2,72,03,242	2,06,34,505	65,68,737
2	Sunlife India Service Centre Pvt. Ltd.	0406002816P108510822	115	1,44,00,000	14,40,000	7,92,000	6,58,080	1,73,43,048	1,82,55,840	1,29,11,739	53,44,101
3	Pearson India Edu Service Pvt. Ltd.	0407002816P116603496	123	1,55,59,031	11,66,927	8,55,747	7,11,048	1,86,88,417	1,96,72,018	1,69,38,990	27,33,028
4	Jaquar & Company	0408002816P111490902	161	2,42,16,887	18,76,809	13,31,929	11,06,712	3,02,49,885	3,18,41,984	2,57,99,951	60,42,033
5	Otis Elevator (Two Policies)	0411002816P104241423	276	6,18,00,000	37,08,000	33,99,000	28,24,260	6,97,84,440	7,34,57,305	3,95,00,000	3,39,57,305
6	Videocon Inds	412022816P102822921	152	1,92,00,000	9,60,000	10,56,000	8,77,440	2,25,46,824	2,37,33,499	1,50,50,001	86,83,498
7	Philips	426002816P100143739	127	2,91,20,870	14,56,044	16,01,648	13,30,824	3,28,92,555	3,46,23,742	2,20,00,000	1,26,23,742
8	Bechtel	426002816P105595399	102	1,56,23,486	11,71,761	8,59,292	7,13,993	1,81,26,720	1,90,80,758	1,36,93,806	53,86,952
9	Omega Health Care Management	426002816P110864299	129	1,03,32,191	4,13,288	5,68,271	4,72,181	1,20,07,588	1,26,39,567	95,00,000	31,39,567
10	Compass India Support	042301286P105540076	135	1,51,82,478	11,38,686	8,35,036	6,93,839	1,71,56,200	1,80,59,158	53,69,208	1,26,89,950

	Year-2017-18										
11	GKN Driveline (India) Limited	0406002817P112179436	114	1,41,29,147	1,41,291	5,65,166	6,17,444	1,54,53,048	1,62,66,366	1,56,00,000	6,66,366
12	The Institute of Chartered Accountants of India	0406022817P103274737	134	65,17,079	0	3,58,439	2,84,796	71,60,315	75,37,173	61,57,412	13,79,761
13	Dr. Lal Path Labs Pvt. Ltd.	0407002817P107818684	227	2,04,08,290	15,30,622	11,22,456	8,91,842	2,39,53,210	2,52,13,905	2,48,69,000	3,44,905
14	Pearson India Education Services Private Limited	0407002817P118897052	143	1,71,06,856	12,83,014	9,40,877	7,47,570	2,00,78,317	2,11,35,070	1,62,30,301	49,04,769
15	Steel Authority of India	0411002817P103305667	133	1,25,16,00,000	0	4,38,06,000	5,46,94,920	1,35,01,00,920	1,42,11,58,863	1,26,50,00,000	15,61,58,863
16	Otis Elevator Company (India) Limited	0411002817P104956212	116	4,70,00,000	35,25,000	25,85,000	20,53,900	5,51,63,900	5,80,67,263	4,90,00,000	90,67,263
17	Videocon Industries Ltd.	0412022817P104012253	172	1,66,59,000	6,66,360	9,16,245	7,27,998	1,89,69,603	1,99,68,003	1,54,50,000	45,18,003
18	Clues Network Pvt. Ltd.	0412022817P109998919	129	47,09,000	94,180	2,58,995	2,05,783	52,67,958	55,45,219	51,00,000	4,45,219
19	Gujarat Fluorochemicals Ltd. (Dahej Complex)	0413002817P104936313	115	80,00,000	6,00,000	4,40,000	3,49,600	93,89,600	98,83,789	7,702,524	21,81,265
20	Compass India Support Services Pvt. Ltd.	0423012817P106227727	120	1,42,21,038	10,66,578	7,82,157	6,21,459	1,66,91,232	1,75,69,718	1,39,27,029	36,42,689
21	Home Credit India Finance Pvt. Ltd.	0426002817P104545081	180	1,11,01,502	8,32,613	6,10,583	4,85,136	1,30,29,833	1,37,15,614	79,51,823	57,63,791
22	Bechtel India Pvt. Ltd.	0426002817P105858492 & 0426002817P106075761	104	2,20,42,320	11,02,116	12,12,328	9,63,249	2,53,20,013	2,66,52,645	2,19,99,909	46,52,736
23	Philips Lighting India Limited	0426002817P101353611	137	2,98,78,942	22,40,921	16,43,342	13,05,710	35,068,914	3,69,14,647	2,65,43,585	1,03,71,062

24	Proptiger Realty Pvt. Ltd.	0426002817P110868273	195	1,79,73,416	8,98,671	9,88,538	7,85,438	2,06,46,063	2,17,32,698	1,68,00,000	49,32,698
	Year-2018-19										
25	Pyramid It Consulting Pvt. Ltd.	0407032818P110823574	156	58,04,878	4,35,366	3,19,268	4,14,468	69,73,980	73,41,032	71,30,004	2,11,028
26	Steel Authority of India	0411002818P102461147	121	1,60,32,49,252	0	5,61,13,724	11,44,71,997	1,77,38,34,972	1,86,71,94,708	1,31,09,18,592	55,62,76,116
27	Apcer Pharma India	0425002818P109799691	121	47,93,169	0	1,91,727	3,42,232	53,27,128	56,07,503	54,21,128	1,86,375
	Delhi Regional Office (Dro)-II										
	Year-2016-17										
28	Pine Labs Pvt. Ltd.	2214002816P101660101	185	77,27,000	3,86,350	4,24,985	3,53,124	88,91,459	93,59,430	50,00,000	43,59,430
29	Everest Industries Limited	2220042816P109236923	114	56,13,000	2,80,650	3,08,715	2,56,514	64,58,879	67,98,820	54,90,000	13,08,820
30	Max Life Insurance Company Ltd.	2222002816P112742412 & 2222002816P112866598	124	6,45,00,000	41,92,500	35,47,500	29,47,650	7,51,87,650	7,91,44,895	6,89,62,774	1,01,82,121
31	Verint System India Pvt. Ltd.	2222002816P108363624	265	72,24,000	72,240	3,97,320	3,30,137	80,23,697	84,45,997	60,00,000	24,45,997
32	Munjal Showa Ltd.	2218002816P110202938	110	82,63,000	4,13,150	4,54,465	3,77,619	95,08,234	1,00,08,667	93,00,000	7,08,667
	Year-2017-18										
33	Jade E-Services Pvt. Ltd.	2210002817P103590654	118	76,00,000	2,28,000	4,18,000	3,32,120	85,78,120	90,29,600	72,08,226	18,21,374
34	CEB India Pvt. Ltd.	2218002817P103488165	149	1,07,42,167	80,56,62.525	5,90,819	4,69,433	1,26,08,081	1,32,71,665	96,40,431	36,31,234
35	Airplaza Retail Holdings Pvt. Ltd.	2219032817P104118695	160	1,22,00,000	9,15,000	6,71,000	5,33,140	1,43,19,140	1,50,72,779	1,14,99,999	35,72,780
36	Vishal Megamart Pvt. Ltd.	2219032817P103559984	101	60,86,000	4,56,450	3,34,730	2,65,958	71,43,138	75,19,093	58,00,000	17,19,093
37	IMT Ghaziabad	2220002817P104958231	122	53,95,103	2,42,780	2,96,731	2,35,766	61,70,379	64,95,136	51,00,000	13,95,136
38	R Systems International Ltd.	2229002817P107551085	128	2,05,20,000	10,26,000	11,28,600	8,96,724	2,35,71,324	2,48,11,920	1,96,00,000	52,11,920

39	Everest Industries Limited	2229002817P112161753	106	62,78,000	3,13,900	3,45,290	2,74,349	72,11,539	75,91,093	62,00,000	13,91,093
	Year-2018-19										
40	M/s Saxo Group India Pvt. Ltd.	2220002818P109983923	120	88,92,224	6,66,917	4,89,072	47,618	1,00,95,831	1,06,27,191	93,22,034	13,05,157
41	M/s Sentiss Pharma Pvt. Ltd.	2222002818P109499654	124	61,41,105	4,16,981	2,95,387	29,772	68,83,246	72,45,522	72,54,602	-9,080
42	M/s R Systems International Ltd.	2229002818P106549230	103	2,22,00,000	14,43,000	7,57,020	1,03,030	2,45,03,050	2,57,92,684	2,44,00,000	13,92,684
	Large Corporate Branch Office (LCBO)										
	Year-2016-17										
43	Aviva Life Group	5003002816P101374250 (total 2 policies)	127	2,92,43,350	8,77,301	16,08,384	13,36,421	3,30,65,456	3,48,05,743	1,71,03,166	1,77,02,577
44	Here Solutions India Pvt.	5003002816P103401691	129	3,64,95,770	61,23,990	20,07,267	16,67,857	4,62,94,884	4,87,31,457	3,74,73,937	1,12,57,520
45	M/s Adobe Systems	5003002816P116395317	141	1,60,79,340	0	8,84,364	7,34,826	1,76,98,530	1,86,30,031	92,40,695	93,89,336
46	M/s ABP News	5003002816P105741935	125	2,89,92,920	16,23,604	15,94,611	13,24,976	3,35,36,111	3,53,01,169	2,38,40,000	1,14,61,169
47	M/s Luminous Power Ltd.	5003002816P117771664	124	1,46,73,162	10,27,121	8,07,024	6,70,564	1,71,77,871	1,80,81,969	1,45,00,000	35,81,969
48	M/s Ramboll India Pvt. Ltd.	5003002816P116162647	115	1,15,21,120	6,91,267	6,33,662	5,26,515	1,33,72,564	1,40,76,383	1,20,00,000	20,76,383
49	Schneider Group	Total 14 Policies	100	18,31,93,500	1,09,91,610	1,00,75,643	83,71,943	21,26,32,695	22,38,23,890	17,49,05,033	4,89,18,857
50	M/s Konica Minolta Pvt. Ltd.	5003002816P110641367 (total 2 policies)	110	92,15,594	3,01,988	5,06,858	4,21,153	1,04,45,592	1,09,95,360	91,27,942	18,67,418
51	M/s Denso India Pvt. Ltd.	5003002816P100545750	121	56,78,229	4,25,867	3,12,303	2,59,495	66,75,894	7,027,257	59,98,839	10,28,418
52	Nokia Group	Total 03 Policies	124	24,89,82,000	1,86,73,650	13,6,94,010	1,13,78,477	29,27,28,137	3,081,34,881	25,66,05,776	5,15,29,105
53	M/s Class Agriculture	5003002816P105543112 (2 Policies)	167	1,15,72,470	5,85,000	32,175	5,28,862	1,27,18,507	1,33,87,902	1,10,15,907	23,71,995

54	Sebic Group	Total 03 Policies	128	1,43,92,079	10,79,406	7,91,564	6,57,718	1,69,20,767	1,78,11,334	1,38,00,000	40,11,334
55	Marathon Electric India Ltd.	5003002816P106141987	125	96,44,710	5,01,525	5,30,459	4,40,763	1,11,17,457	1,17,02,587	94,94,000	22,08,587
56	Yamaha Group	(6 policies)	187	6,17,74,164	30,88,708	33,97,579	28,23,079	7,10,83,531	7,48,24,769	5,00,00,000	2,48,24,769
	Year-2017-18										
57	Sebic Group	Total 03 Policies	143	1,96,02,766	9,80,138	10,78,152	8,56,641	2,25,17,697	2,37,02,839	1,94,64,308	42,38,531
58	M/s Shaweta Estates	Total 03 Policies	112	55,85,038	4,18,878	3,07,177	2,44,066	65,55,159	69,00,167	59,75,000	9,25,167
	Year-2018-19										
59	Schneider Group	Total 13 Policies	118	21,68,33,364	1,08,41,668	86,73,335	1,54,81,902	25,18,30,269	26,50,84,494	24,56,34,472	1,94,50,022
60	M/s Konica Minolta Pvt. Ltd.	5003002818P109818239 (total 2 policies)	126	1,24,96,435	4,99,857	5,87,332	8,92,245	1,44,75,870	1,52,37,758	1,38,00,000	14,37,758
61	Marathan Group	Total 11 Policies	101	2,27,61,655	13,65,699	12,51,891	16,25,182	2,70,04,427	2,84,25,713	2,72,54,613	11,71,100
	Total								**5,27,79,71,525**	**4,15,52,11,261**	**1,12,27,60,264**

Annexure-XVIII

(Referred to in Para 5.10.6.1)

Statement Showing deviations in respect of sanction and disbursement of loans

Sl. No.	Name of the client	Type of facility sanctioned, date and amount (In ₹)	No of deviations	Require parameters	Deviation	Monitoring
1	M/s PAS Enterprises LLP	Corporate Loan (Sep-15) of ₹ 14.50 crore	7	(i) Minimum rating should be BBB/P^2 (ii) Should be in operation for three years and profit making for last two years (iii) Minimum Net worth Should be ₹25 crore (iv)Should be private/public limited company (v) Security cover at least 2 times of the loan amount (vi) Maximum TOL/TNW ratio should be 3.5:1 (vii) minimum Current Ration of 1.1:1	(i) Rating was not available (ii) New entity (iii) New Entity (iv) It was LLP (v) one time as Bank Guarantee (vi) New entity (vii) New entity	NA
2	DCS Limited	PBF (May-17) of ₹ 5.0 crore	5	(i) Minimum Net Worth(client)- ₹50 crore (ii)Minimum Turnover(client)- ₹100 crore (iii)client short term external credit rating should not be below A^2 (iv)The tenor of the various products offered by IFL will normally range from 45 days to 180 days except, exceptional cases in respect of parties of high credit rating, capital nature of goods, tenor of the facility can extend to 365 days (v)PBF facility is generally not extended on a standalone basis i.e. generally accompanied with DSBF facility.	(i) Actual Net Worth- ₹27.42 crore (ii) Actual Turnover- ₹90.47 crore (iii)Short term external credit rating of the client was not put on record. (iv)Credit period of 360 days though the credit rating was CARE BB$^+$ (v)Extended on standalone basis.	Monitoring using Field Audits, Unscheduled/ scheduled visits to clients and debtors, annual review of debtors etc. was not done
3	Trend Flooring Pvt. Ltd.	DSBF (Dec-17) of ₹ 1 Crore	4	(i) Minimum Net Worth (debtor)- ₹02 crore, (ii)Minimum Revenue of debtor- ₹25 crore (iii) Debtor should be rated minimum CRISIL BBB/ A^2 (iv) Tangible security/ any other expectable security for client whose external rating is below A^2	(i) Actual Net Worth- ₹1.82 crore (ii) Actual Revenue- ₹6 crore (iii) unrated debtor (iv) No tangible security given/other expectable security obtained.	Do

4	M/s Indure Pvt. Limited	PBF (Sep-17) of ₹6.5 crore	4	(i) PBF should be sanctioned normally with DSBF and not on standalone basis (ii)Short terms external rating should not be below A^2 (iii) Security coverage should be 2.00 times of the facility (iv) Disbursement would be made in respect of new clients pending receipt of satisfactory field audit report	(i) Standalone (ii) rating was A^4 (iii) security was one time only (iv) Disbursed made without field survey	Do
5	M/s Rithwik Projects Pvt. Ltd.	PBF (Apr-17) of ₹21.00 crore	4	(i) in exceptional cases in respect of parties of high credit rating, capital nature of goods, tenor of the facility can extend to 365 days. (ii)Normally should be sanctioned with DSBF and not on standalone basis (iii) PBF facility to be extended to those clients whose short-term external credit rating is not below "A^2" (should be rated within last one year) (iv) security coverage shall be 2.00 times	(i) External rating was BB despite lower rating 360 days tenor was approved (ii) Standalone (iii) Short term rating of the client was not considered. However, the long term external rating was BB (iv) Security coverage was less than 2.0 times (only ₹10 crore)	Do
6	M/s GJS Infratech Pvt. Ltd.	PBF (Nov-18) ₹6.50 crore	4	(i) normally should be with sales bill factoring and not on standalone basis (ii) Borrower minimum net worth should be ₹50 crore (iii) Short terms external rating should not be below A^2 (iv) Security coverage should be 2.00 times	(i) standalone facility (ii) Net worth was ₹30.11 crore (iii) BBB^- (iv) One times in form of BG	Do
7	M/s TC Healthcare Pvt. Ltd. (Enhancement)	DSBF (Nov-17) Enhancement of facility from 4 to 5 crore	3	(i) Networth more than ₹1crore (ii) Current Ratio should not be less than 1:1.1 (iii)TNW/TOL should not be more than 4:1	(i) (-₹1.60 crore) (ii) 0.87 (iii) (-)28.44 times	Do
8	M/s Nitya Electrocontrols Ltd.	DSBF (Oct-18) of ₹5.0 crore	3	(i) minimum Current Ratio 1.1: 1 (ii) TOL/TNW should not be more than 3.5:1. (iii) debtors (GE T&D India Ltd) should be profit making for last 2 years	(i) current ratio 1.08 (ii) TOL/TNW 3.67 (iii) not complied	Do

9	M/s Ganesh Housing Corp. Ltd.	Corporate Loan (Sept-15) of ₹14.50 crore	3	(i) CRISIL equivalent investment credit rating should be minimum BBB and CRISIL equivalent short term instrument rating should be minimum P^2 (ii) current ratio of the company should not be less than 1.1: 1 (iii) client rating was IFL5	(i) external rating of GHCL was BBB^- (ii) current ratio was 0.63:1 (iii) client rating was IFL7	NA
10	M/s Omaxe Buildwell Ltd.	Corporate Loan (Dec-17) of ₹10.00 crore	3	(i)CRISIL equivalent investment credit rating should be minimum BBB^+ and CRISIL equivalent short term instrument rating should be minimum A^2 (ii) Security in case of facility for Real estate industry should be minimum 2.50 times (in combination of tangible collateral and shares with the least 1.50 times as tangible collateral) (iii) Minimum net worth for real estate industry- ₹50 crore	(i) Rating of Omaxe Buildwell was not available and management considered rating of Omaxe Limited (promoter Company) which was BBB^-/ A^3 (ii) tangible collateral was only 1 time against the prescribed limit of 1.50 times (iii) ₹30.63 crore	NA
11	M/s Vatika Limited	Corporate Loan (Dec-17) of ₹15 crore	3	(i) Client's Minimum external credit rating - CRISIL BBB^+ (ii)Client's Maximum TOL/TNW ratio - 5:1 (iii)Client should be profit making for the past 2 years	(i) Actual credit rating was CARE BB (ii) Actual TOL/TNW ratio was 13.52 (iii)Client was not profit making for last 02 year	NA
12	M/s GTM Builders & Developers Pvt. Ltd.	Corporate Loan (Dec-16) of ₹5.0 crore	3	(i) Minimum credit rating of the borrowing Company should be CRISIL BBB and CRISIL A^2 (ii) Minimum Net Worth of the Client ₹50 crore (iii) Minimum Current Ratio 1.1	(ii) Actual credit rating was BWR B^+/ A^4 (iii) Net Worth -₹14.70 crore (iii) Current ratio was 1.02	NA
13	M/s Niraj Cement Structurals Limited	Corporate Loan (Dec-17) of ₹15 crore	2	(i) Tenor of AFR facility should be up to two years but in any case not to exceed 3 years. (ii) At any point of time, the outstanding to any client shall not exceed 15% of IFL's net worth (NOF)	(i) Tenor of AFR facility was 5 years in violation/deviation of the credit policy (ii) Company disbursed ₹15 crore when the NOF of IFL was ₹44.03 crore (31.03.2018) as against the exposure (₹6.6 crore, 15 % of NOF) that could be taken on one client	NA

14	M/s Ganesh Housing Corp. Ltd.	Corporate Loan (Sep-15) of ₹5.0 crore	2	(i) CRISIL equivalent investment credit rating should be minimum BBB+ and CRISIL equivalent short term instrument rating should be minimum A^2 (ii) IFL rating should be 5	(i) external rating of GHCL was BBB^- (ii) rating was IFL 7	NA
15	M/s Arfin Limited (Enhancement)	DSBF (Jun-16) of ₹10.0 crore	3	(i) Client TOL/TNW ratio should not be more than 3.5:1. (ii) Debtor should be profit making for last 02 years. (ii) Exposure norms: -at any point of time, the outstanding to any client shall not exceed 15% of IFL's net worth (NOF).	(i) TOL/TNW ratio was 4.07 (2014-15), 3.90 (2015-16) (ii) Debtor was not profit making for last 02 years. (iii) The outstanding from the client (FY 2018-19) exceeded the exposure limit of ₹6.6 crore (being 15% of the NOF)	Monitoring using Field Audits, Unscheduled/ scheduled visits to clients and debtors, annual review of debtors etc. was not done
16	M/s Navrang Roadlines Pvt. Ltd.	DSBF (Nov-17) ₹9 crore	1	Rating should be IFL 4	Rating was IFL7	Do
17	M/s GHV India Pvt. Ltd.	DSBF (Feb-17) of ₹21 Crore	1	Tenure of the product normally ranges from 45 to 180 days , in exceptional cases in respect of parties of high credit rating, capital nature of goods, tenor of the facility can extend to 365 days,	Neither a high rated company nor in the business of capital nature of goods and Company approved tenure of 270 days	Do
18	M/s BPTP Ltd.	Corporate Loan (Mar-19) of ₹5.0 crore	1	CRISIL A^2	CRISIL A^3	NA
19	M/s PAN India Infraproject Pvt. Ltd.	Corporate Loan (Oct-15) of ₹14.50 crore	1	Current Ratio should be more than 1.1 : 1	Current ratio was 0.25	NA
20	M/s VNR Infra Ltd.	Corporate Loan (Jan-15) of ₹18 crore	1	Client's minimum short term credit external rating of client- CRISIL P^2	Actual credit rating was CARE A^3	NA

Annexure-XIX

(Referred to in Para 5.10.6.2)

Corporate Loan to ineligible client by giving notch up in Internal Credit Rating

Sl. No.	Name of the client	Corporate Loan amount	Sanction date	Deviation
1.	M/s BPTP Ltd.	₹5.00 crore	Mar-19	Upgraded from IFL 7 to IFL 5
2.	M/s Ganesh Housing Corp. Ltd.	₹5.00 crore	Sep-15	Do
3.	M/s Ganesh Housing Corp. Ltd.	₹14.50 crore	Mar-18	Do
4.	M/s PAN India Infra Project Pvt. Ltd.	₹14.50 crore	Oct-15	Do
5.	M/s Patil Constructions & Infrastructures Ltd.	₹14.70 crore	Jul-15	Do
6.	M/s Vatika Limited	₹15.00 crore	Dec-17	Do
7.	M/s VNR Infra Ltd.	₹18.00 crore	Jan-15	Do
8.	M/s GTM Builders & Developers Pvt. Ltd.	₹5.00 crore	Dec-16	Upgraded from IFL 8 to IFL 6

Annexure-XX

(Referred to in Para 5.10.6.3)

Statement showing non compliance with credit policy with respect to sanctioning and lapses in monitoring of the facility

Sl. No.	Name of the client	Type of facility and amount sanctioned	Date of Sanction	No of deviations	Require parameters	Deviation	Monitoring
1	**M/s Perpetual Inter Trade**	DSBF ₹5 crore	Jun-16	4	(i) Net Worth- 1 crore (ii) Current ratio should not be less than 1.1 :1 (iii) Period of operation should be minimum 3 years (iv) Stipulated minimum combined rating - IFL 5	(i) Net worth- Rs 0.02 crore (FY 2015), (ii) Current Ratio- 1 (iii) Not in operation for minimum of 3 years (iv) Actual IFL6	Monitoring of the account using the Field Audits, Unscheduled/ scheduled visits to clients and debtors, annual review of debtors etc. was not done as per credit policy[1]
2	**M/s Leeway Logistics Ltd.**	DSBF of ₹18 crore	Jan-11	3	(i) Maximum TOL/TNW ratio should be 6:1 (ii) Existence for minimum three year (iii) Profit making for last 2 years	(i) TOL/TNW was 9.33:1 and (ii & iii) company was just one year old	Do
3	**M/s Ennore Coke**	DSBF of ₹4 crore	Mar-11	3	(i) Minimum Current Ratio - 1.1:1 (ii) Maximum TOL/TNW - 6:1. Debtor (M/s Butterfly Sales Pvt Ltd). (iii) Should be in existence for 3 years	(i) Actual current Ratio was - 0.87:1 (ii) Actual TOL/TNWwas-6.85:1 (iii) not complied	Do
4	**Accurate transformers Ltd.**	DSBF of ₹15 crore	Aug-11	3	Debtors are generally state government/central government entities, blue chip companies, listed companies and MNCs who (i) should be profit making in the last two years, (ii)should be in existence for minimum 3 years	(i)MSEDCL was loss making and had accumulated losses in its balance sheet (2009-10). South Bihar Power Distribution Company (debtor) was incorporated on 29 June 2012 and was not in existence for minimum three	Do

[1] ***Audit observation is based on the fact that during review of files no record relating to monitoring as per credit policy was made available to audit. Further, Audit requisitions and reminders were also issued to furnish the same but management did not furnish the same***

					(iii)should have no accumulated losses	years at the time of addition (13 June 2014). Further DVVNL was a loss making entity and had large accumulated losses in its balance sheet.	
5	**M/s Elder Pharmaceu-ticals Ltd.**	DSBF & DPBF of ₹15 crore	Aug-10	2	(i) PBF facility should be backed by tangible collaterals (ii) In silent factoring client should be well accredited where the debtors are generally listed company, Blue chip companies, PSU's, State/Central govt. entities and MNCs	(i) No such security was collected (ii) M/s Kash Medicare was unrated debtor	Do
6	**Ind- Swift Limited**	DSBF of ₹10 crore	Jul-11	2	(i) In silent factoring debtors would generally be listed Companies, blue chip Companies, PSUs, Central/State Government entities and MNCs (ii) field audit	(i) The 10 unrated debtors were mainly C&F agents/distributors of the client and were partnership/proprietorship concerns whose financials were not readily available. (ii) filed audit waived	Do
7	**M/s Arch Pharmalabs Limited**	DSBF and PBF of ₹15 crore	May-11	1	PBF to be backed by tangible collaterals	No security was collected	Do
8	**M/s Bharat Salt Refineries limited**	DSBF of ₹5 crore	Jun-09	1	Pre sanction field audit/examination	Not done	Do
9	**M/s Archon Engicon Pvt. Ltd.**	DSBF & AFR of ₹15 crore	Apr-11	1	Security coverage for AFR facility should be 1.50 times of the sanctioned facility in the form of immovable property or pledge of listed shares	Ssecurity of ₹69.20 lakh only against the AFR facility of ₹12.50 crore	Do
10	**M/s Kalyani Engineering Works**	DSBF of ₹5 crore	Aug-12	1	Maximum TOL/TNW ratio - 4:1	TOL/ TNW ratio was 4.59:1	Do

11	**Era Infra Engineering Ltd**	DSBF of ₹7.5 crore	Feb-10	1	Pre sanction field audit/ examination	Not done	Do
12	**M/s Concast Exim Ltd.**	DSBF of ₹10 crore	Jan-12	1	Existence at least for three years	Existence for 02 years and 10 months	Do
13	**M/s Jakhau Salt Co. Pvt. Ltd.**	DSBF of ₹5 crore	Oct-09	1	Pre sanction field audit/ examination	Not done	Do
14	**M/s Shivam Minerals Limited**	DSBF of ₹10 crore	Mar-11	Nil	Nil	Nil	Do
15	**M/s Apex Buildsys Ltd**	DSBF of ₹15 crore	Nov-09	Nil	Nil	Nil	Do
16	**M/s Concast Steel and Power Limited**	DSBF of ₹15 crore	Aug-11	Nil	NA	NA	Do
17	**Maxx Mobile Communica-tions Limited**	DSBF of ₹15 crore	May-11	Nil	NA	NA	Do
18	**M/s Core Projects & Technologies Ltd.**	DPBF of ₹15.00 crore	Jan-11	Nil	-	-	Do
19	**Empee Distilleries**	DSBF of ₹10 crore	Oct-10	NA	NA	NA	Do
20	**Critical Mass Multilink Ltd.**	AFR of ₹7.5 crore	Sep-15	5	(i) Client's stipulated minimum networth of ₹25 crore, (ii) Clients stipulated minimum turnover of ₹50 crore (iii) Requirement of client having past track record of minimum 2 years with the debtors or should have provided such service to other customers with regular track record of payments,	(i)Company considered net worth of the client as ₹356.95 crore though the adjusted tangible net worth was negative (₹–31.95 crore). (ii) The actual turnover was ₹0.48 crore	NA

					(iv) Debtor should be profit making for last two years, (v) Minimum internal rating of IFL5	(iii) New relationship, no track record of payments received by client on providing such service to other customers. (iv) Both the debtors were loss making (v) Client rating was IFL 6	
21	**M/s MVL Limited**	Corporate Loan of ₹16 crore	May-14	2	(i) Credit rating of the borrower company for STL was to be CRISIL equivalent investment credit rating of minimum BBB and CRISIL equivalent short term instrument rating of minimum P2 (ii) Security cover should be at least 2.0 times	(i) Rating was not considered (ii) One time only	NA

Annexure-XXI

{Referred to in Para 5.10.6.3 (i)}

Details of debit note funding

Sl. No.	Name of the client	Debit note funding period	NPA declared
1.	M/s Bharat Salt Limited (BSL)	August 2014 to March 2017	Sep-17
2.	M/s Concast Exim Limited (CEL)	June 2015 to March 2017	Dec-17
3.	M/s Concast Steel and Power Limited (CSPL)	February 2015 to September 2017	Dec-17
4.	M/s Arch Pharma labs Limited (APL)	December 2012 to January 2013	Sep-15
5.	M/s Elder Pharmaceuticals Ltd. (EPL)	July 2013 to August 2016	Sep-16
6.	M/s Maxx Mobile Communications Limited (MMCL)	August 2012 to June 2013	Sep-15
7.	M/s Ind- Swift Limited (ISL)	December 2012 to May 2016	June-16
8.	M/s Ennore Coke Ltd. (ECL)	August 2012 to March 2016	June-17
9.	M/s Jakhau Salt Co. Pvt. Ltd. (JSCPL)	December 2013 to August 2017	Sep-17
10.	M/s Core Projects & Technologies Ltd. (CPTL)	November 2012 to March 2014	Dec-14
11.	M/s Accurate Transformers Limited (ATL)	February 2013 to December 2015	Mar-16
12.	M/s Shivom Minerals Limited (SML)	June and July 2016	Sep-17
13.	M/s Era Infra Engineering Ltd. (EIEL)	December 2012 to January 2016	Mar-16

Annexure-XXII

{Referred to in Para 5.10.6.3 (ii)}

Non-compliance cases of RBI Guidelines

Sl. No.	Name of the client	Delay in declaration of NPA	Date of NPA as per realisation date	Date of declaration of NPA
1	M/s Rithwik Projects Pvt. Ltd. (RPPL)	Yes	28.01.2019	Not declared NPA
2	M/s Navrang Roadlines Pvt. Ltd. (NRPL)	Yes	02.07.2019	31.07. 2019
3	M/s GHV India Pvt. Ltd. (GHVIPL)	Yes	03.08. 2019	31.08.2019
4	M/s DCS Ltd. (DCSL)	Yes	07.08. 2018	Not declared NPA
5	M/s Shivam Minerals Ltd. (SML)	Yes	27.03. 2017	30.09. 2017
6	M/s Apex Buildsys Ltd. (ABL)	Yes	20.03.2014	31.03. 2016
7	M/s Arch Pharmalabs Limited (APL)	Yes	05.07. 2013	30.09.2015
8	M/s Archon EngiconPvt. Ltd. (AEPL)	Yes	28.09.2015	31.03. 2016
9	M/s Concast Exim Limited(CEL)	Yes	09.12. 2017	31.12. 2017
10	M/s Ennore Coke Ltd. (ECL)	Yes	03.03. 2016	30.06. 2017
11	M/s Jakhau Salt Co. Pvt. Ltd. (JSCPL)	Yes	07.10. 2014	30.09. 2017
12	M/s Core Projects & Technologies Ltd. (CPTL)	Yes	02.09. 2013	31.12. 2014
13	M/s Ind- Swift Ltd. (ISL)	Yes	12.03. 2014	30.06. 2016
14	M/s Accurate Transformers Ltd. (ATL)	Yes	23.04.2015	31.03.2016
15	M/s Empee Distilleries (ED)	Yes	16.04.2014	31.12. 2017
16	M/s Trend Flooring Pvt. Ltd. (TFPL)	Yes	03.12.2018	30.06.2019

Annexure-XXIII

(Referred to in Para 5.10.6.4)

Shortcoming noticed where the client committed fraud

Name of Client	Date & Amount of Sanction	Total Dues as on 31.03. 2019	Audit Observation	Management Reply and Rebuttal
M/s Accurate Trans-formers Limited	August 2011, ₹15 crore (silent basis)	₹19.85 crore	Ineligible debtors were initially approved (Maharashtra State Electricity Distribution Company Ltd) and subsequently added by the Company in violation of the credit policy which stipulated that in silent factoring the debtors are generally state/central government entities, blue chip companies MNCs which should be profit making in last two years and should have no accumulated losses. MSEDCL was approved as debtor despite it being loss making and having accumulated losses in its balance sheet (2009-10). The Company added (December 2013 to February 2015) 4 other debtors (state government electricity entities) on silent basis. Audit observed that South Bihar Power Distribution Company (debtor) was incorporated on 1 November 2012 and was thus not in existence for minimum three years at the time of addition (13 June 2014). Further Dakshin Vidyut Vittaran Nigam Ltd (DVVNL) was a loss-making entity and had large accumulated losses in its balance sheet. The Company resorted to debit note funding between 6 February 2013 to 29 December 2015 despite the invoices being overdue/ recourse and lack of timely payment by the client. The company reassigned (24 December 2015) two factored invoices due for payment on 25 July 2015 with two new invoices due for payment on 28 January 2016 (raised on	Management stated that the debtors were mostly State Government electricity boards, which had similar profile, risk & credit wise and on the basis of the creditworthiness of client and the debtor profile the proposal was approved with or without deviations. Reassignment of invoice/s is carried out with an endeavor to salvage the account conduct and looking at a possibility of arresting the overdues position. This practice is used across the factoring industry, and it's a subjective call depending upon multiple factors. The account was regular till July 2014 and debit note funding started from August 2014 till December 2015. The rating was suspended owing to non-furnishing of information by the client, which is not necessarily due to some nosedive in client's creditworthiness. But, it is correct that the account was in stress. The prepayment percentage and limit is decided upon the repayment track record of the debtors being proposed, business cycles being witnessed in similar industries etc. In line with the efforts to regularize the account, it was capped at 13.50 crore, which was done to assess one or two repayment cycles before uncapping the same. The same got uncapped in Feb 2015 with the inclusion of DVVNL which was at that point of time having significant

			DVVNL) thereby shifting the due date of payment. This reassignment was not justified as the only reason given for this reassignment was that payment against the invoices will not be coming to the client account without giving any reason for the same. Company had capped (13 June 2014) the prepayment limit at ₹13.5 crore against sanction limit of ₹15 crore. This capping on limit was removed (February 2015) despite invoices being overdue/recourse and issue (Dec 2014 & June 2015) of notice of demand to clear outstanding dues. Company disbursed (May to Sept 2015) an amount of ₹14.73 crore against invoices raised by client on DVVNL. Complaint u/s 138 to 141 of NI Act was filed (December 2015). The account was reported (July 2016) as fraud to Reserve Bank of India (RBI) on the grounds of cheating and forgery as the invoices raised by the client on DVVNL were never received by the debtor. CBI complaint was also lodged (November 2016). The Company entered (February 2017) into OTS with the Client wherein the latter was to pay (22 February 2017 to 25 March 2018) an amount of ₹14.73 crore as against outstanding amount of ₹17.48 crore (principal ₹14.73 crore and unrealised interest ₹2.75 crore). The terms of OTS were not honored as client paid only ₹4.6 crore while the entire OTS amount was to be paid by 25 March 2018. Thus, an amount of ₹12.88 crore was doubtful of recovery. Client Company was wound up and Official Liquidator was appointed (April 2018).	business with client. The reply of the management is not tenable as the credit policy clearly stipulates non commencement of business with loss making debtor. The reassignment of invoices after almost 6 months from due date of payment was improper as the same was done without giving specific reasons. The practice of debit note funding is not in line with the spirit of financing by way of factoring as the funds remain in rotation between the client and factor transit and in essence is used to evergreen the sales ledger thereby delaying the initiation of legal action and recognition of account as NPA. As per client statement the debit note funding took place from 6 Feb 2013 to 29 Dec 2013. The criteria quoted by management for setting the prepayment limit should be clearly defined in the credit policy to strengthen the internal control mechanism. The uncapping of prepayment limit was not in the best interest as the account was already in stress as stated by management.

Annexure-XXIV

(Referred to in Para 5.10.6.5)

Deviations and relaxation in monitoring and operation (NPA/write off cases)

Sl. no.	Name of the client	Date and amount of sanction	Total dues/loss as on 31.03.2019	Audit observation	Management reply and rebuttal
1.	M/s Apex Buildsys Ltd.	November 2009 DSBF facility of ₹10 crore	₹27.25 crore	• Client was not a blue chip/ listed company even then the waiver of field audit was approved on the basis of financials and sales ledger of the client in deviation to credit policy (2009-2010). • On 25 March 2014 out of total over dues invoices of ₹19.08 crore, ₹14.30 crore were overdue for more than 180 days. However, the client facility was not declared NPA in contravention of RBI guidelines. • Company approved one more debtor M/s West Haryana Highway Projects Pvt. Ltd (WHHPPL) who submitted (on 23 December 2014) the NoA of Debts wherein M/s WHHPPL agreed to make all payments against all sales invoices only to the Company. Subsequently M/s WHHPPL remained the only debtor since November 2014 against which company factored numerous sale bill invoices. However, it was observed that not a single payment was received from the debtor rather all payments of the factored invoices were paid by the client even before the due date.	Management stated (7 January 2020) that despite the company was not blue chip/listed company the debtor companies which were approved were listed companies of ERA group. Being a silent factoring proposal, the possibility of debtor visits & verification was not possible. So was the case with field survey as there was no need to engage a third party and the prime activity of field audit in the form of debtor ledger analysis was done in-house. The client communication/ correspondence is what is done in the case of silent factoring and that was being maintained on a regular basis by the RM and the same is evident while looking at the credit file as well. Management reply is not tenable because The debtors (WHHPPL) whose invoices were unpaid till last was not a silent debtor rather it furnished NOA.

				All the receivable invoices pertaining to M/s WHHPPL was unpaid till last. Receipt of payment were from the client (instead of debtor) was a red flag indication to the Company that the fair practice was not being followed by the client. Even then the company did not verify the debtor cautiously with due care as required by the credit policy which led to loss of ₹27.25 crore.	
2.	M/s MVL Limited	May 2014 STL of ₹16 crore	₹21.91 crore	• As per the credit policy of the Company, the credit rating of the borrower company for STL was to be CRISIL equivalent investment credit rating of minimum BBB and CRISIL equivalent short term instrument rating of minimum P2 and the security cover should be at least 2.0 times of the loan amount. However, in the said case the rating of client was not considered and the value of security cover was only 1.00 times. Further the major part of security was in the form of second charge which was around 0.63 times of total security. It was further observed that neither the second charge was created nor any other top up was given by the client. Thus the actual security cover was only 0.37 times of the total loan. • The tenor of the loan was 3 years. The payment schedule was October 2014 to September 2017. MVL Limited after availing the STL facility paid only one installment of ₹10 lakh (Nov. 2014) and thereafter defaulted and accordingly the	Management stated (07 January 2020) that the decision of the competent authorities is justified in light of the options available to IFL at that point of time. And the most plausible defence in favour of the decision remains the fact that IFL's exposure went on to become partially secured (corporate loan to MVL Ltd) It may be submitted that litigation matters by way of recovery suits are extremely lengthy affair and uncertain in nature by way of outcome, and entails a substantial cost to IFL. The OTS proposal along-with the upfront payment of ₹2 crore is largely due to the criminal proceedings that IFL initiated with the assistance of EOW, Delhi Police. There were payments to the tune of ₹2.5 crores which happened in the account of Noesis Industries Ltd at the time of sanction of corporate loan to MVL Ltd . It is evident from the above explanation, that the grant of corporate loan to MVL instead of continuing with factoring facility of Noesis, was a prudent move under the circumstances prevailing, improving IFL's chances of recovery of its dues. Management reply (7 January 2020) is not tenable because MVL was already defaulter against the factoring facility extended therefore extension of

				account was declared NPA in June 2015. Complaint u/s 138 to 141 of NI Act was filed (April 2015). Police complaint with EOW was also filed (May 2017). • Hon'ble Delhi High Court (December 2018) decreed for ₹24.91 crore and also permitted Company to file the actual cost within four weeks. However, Company did not file the same due to OTS proposal (March 2019) of ₹8 crores along with upfront payment of ₹2 crore. Company (August 2019) accept the OTS proposal against the total outstanding as on March 2019 which was ₹29.91 crore which is yet to be materialized. Had the company secured/collected two times security, the outstanding amount could have been recovered. Further the Company could have avoided the OTS of ₹ eight crore against total amount of ₹29.91 crore (₹15.86 crore principal and ₹14.05 crore interest thereon), if it had security.	corporate loan without adequate security was not justified.
3.	Maxx Mobile Commu-nications Limited	May 2011) DSBF facility of ₹15 crore Converted to STL of ₹14 crore (April 2014)	₹13.54 crore (Loss)	• The Company sanctioned DSBF to Maxx Mobile Communications Limited (MMCL). The facility was for factoring of invoices drawn on its dealer M/s Balaji Mobitech Pvt. Ltd.(debtor) which was an unrated debtor and as per the field audit report there were two way (purchase) trade transactions between the debtor and the client in the previous years. • The facility was renewed in September 2012, despite the adverse observations on revenue and profit in the statutory	The management stated that it was well captured in the approval note that the proposed debtor is an exclusive distributor of MMCL, having satisfactory business relationships for more than 5 years. The two way trade transactions were accounted as purchases from the debtor and payment for the same was separately made by MMCL. Also, the contents of NOA guarded against the instances of trade-offs, should there be two way trade. The process of debit note funding is generally followed to keep the account regular with a hope to salvage the account. The exposure was fully utilized and

				Auditors report (17.08.2012) on MMCL. Further, the account was stressed on the renewal date. Company resorted to debit note funding between August 2012 to June 2013 despite the invoices being overdue and delayed payment. The monitoring of the account using the Field Audits, Unscheduled/ scheduled visits to clients and debtors, annual review of debtors etc. was not done by the company in contravention of the credit policy of the company. • In April 2014 the CoD sanctioned STL of ₹14.00 crore to Maxx Moblink Private Limited (MMPL) (subsidiary of MMCL) by converting the DSBF of ₹15.00 crore sanctioned to MMCL, into a STL of ₹14.00 crore to MMPL. The proceeds of this loan were to be used to close the DSBF account of MMCL. • The facility of Loan to MMPL was backed by collateral security (immovable property) with distress value of ₹8.00 crore. MMPL defaulted in the payment of installments and therefore loan account was declared NPA in September 2015. In March 2018 Company sold the property mortgaged at ₹5.13 crore. In August 2018 BoD approved the OTS proposal of ₹2.25 crore with waiver of ₹13.54 crore. The OTS scheme is yet to be fully honoured by the client.	there was hardly any incremental funding which happened. The whole process was done to reduce the exposure in the particular stressed (at that point of time) account and maximize the recovery without any malafide intention. The management stated that with a view to strengthen the monitoring process on the existing clients, IFL has started reviewing / renewing all the accounts since the last FY 2012-13 and the same has been incorporated in the Credit Policy 2014-15. The reply is not tenable as the fact that client is having a satisfactory relationship with the debtor does not mitigate the risk associated with factoring the facility on a debtor who is an exclusive distributor of the client and with whom there was a two way trade transaction. Further, if the transaction structure and financials of the client and debtor would have been strong the facility would have not gone into stress just on first renewal. The reply of the management that the facility was renewed looking at the overall satisfactory conduct of the account as payments were coming on time is not correct as there were adverse observations on revenue and profit by the Auditors of MMCL and account was stressed on the renewal date. Further, IFL could not reduce the maximum prepayment limit on the facility to achieve a limit of ₹10.00 crore as per the condition of renewal of facility. Debit note was also used as a tool for evergreen its account by the company.

4.	M/s Ennore Coke Ltd.	March 2011 DSBF facility of ₹4 crore	₹4.09 crore	• The factorable debtor for the facility was M/s Butterfly Sales Pvt Ltd. The company included (August 2012) M/s Wellman Coke India Ltd. (WCIL) as debtor with credit line of ₹4.50 crore. WCIL and client were the subsidiary companies of M/s Haldia Coke and Chemicals Pvt. Ltd. The addition of WCIL as debtor (in place of M/s Butterfly Sales Pvt Ltd.) was done in spite of overdue in the account. The account became stressed and irregular in the first cycle itself with payment overdue up to 114 days from the invoice due date. The facility was reviewed in August 2012, December 2012 and December 2013 and significant delays were noticed in receipt of payments. However, in spite of overdue in the account the funding was allowed by use of debit note funding (August 2012 to March 2016) which resulted in delay in declaration of account as NPA (June 2017) and initiation of legal action. The NCLT, Chennai vide its order dated 23 March 2018 ordered for initiation of liquidation proceedings of Ennore Coke Ltd and appointed the official liquidator. • It was observed that client and debtor did not meet the 3 eligibility criteria for sanction as stipulated by the credit policy. • WCIL was included as debtor which was not justified as both the client and debtors were the subsidiary companies of the same holding company (M/s Haldia Coke	Management's reply that the detailed financials and deviations (financial ratios) were approved by the competent authority and Butterfly sales was considered as approved debtor at that point of time since no other debtor of Ennore coke was under open account sales, is not acceptable as the deviation approved by the competent authority should have been approved as an exception and non-availability of eligible debtor under open account sales cannot be the ground for addition of ineligible debtor. The management has further stated that Wellman Coke was added at the request of the client on the hope of better recovery prospect and since there were delays in payment from Butterfly sales in spite of repeated follow ups, Wellman coke was added as another debtor. The reply is not tenable as all the outstanding in the account amounting to ₹ 4.09 crore was against the invoices raised on M/s WCIL and the payments were received from M/s Wellman Coke with delays. Further, non receipt of payment from one debtor cannot be the ground for addition of another debtor. It is also stated by the management that time was allowed to the client by way of debit note funding since the client had made capital investment in restructuring the coke manufacturing process. The reply of the management is not acceptable as the conditions of sanction stipulates that in the event of default by the client on the payment of the outstanding dues or payment of interest on the due dates, the company shall have an unqualified right to disclose the name of the client and its directors as defaulters to the RBI/ CIBIL and take necessary action to recover the outstanding dues. However, the company did not

				and Chemicals Pvt. Ltd.) because of the inherent risk (manipulation in sales) in such transactions. The outstanding in the account amounting to ₹4.09 crore was against the invoices raised on WCIL • The monitoring of the account using the Field Audits, Unscheduled/ scheduled visits to clients and debtors, annual review of debtors etc. was not done by the company in contravention of the credit policy of the company.	comply with the conditions of sanction but renewed the facility despite irregular conduct & stress in the account and funded through operation of Debit Note. Although, the company, by operation of debit note could earn some interest but had to suffer a doubtful recovery and delayed the declaration of account as NPA and favored the client.
5.	M/s Bharat Salt Refineries Limited	June 2009 ₹5.00 crore (DSBF)	₹2.31 crore (Loss)	• Company waived off field audit on the ground of the existing relationship in another group company with IFCI Limited and the strength of debtor. As the client was new for factoring facility, therefore, the field audit should have been carried out. • Though the conduct of Account was not satisfactory since 2012-13 and was in stress since November 2012 yet the company renewed the facility of the client time to time. The funding was continued through debit note during August 2014 to March 2017 which delayed the initiation of legal action and declaration of the account as NPA. • Payments against the invoices were being received from BSRL directly instead of debtor. Had the company carried out Aggressive Field Audits, random verification of Invoice and/or Debtor	Management stated that field survey was waived off by the Competent Authority on the basis of satisfactory conduct of account with IFCI Limited. The conduct of account was satisfactory till the year 2012. The company had a long satisfactory relationship with IFCI Limited, this is the reason IFL supported the company in its tough times. Funding the fresh invoices submitted were allowed since the company was paying interest and management saw the possibilities of reduction in exposure. In fact the company paid ₹3.5 Cr (approx.) as interest payment starting year 2012 till the time the account became NPA with IFL. Frequent client visits and follow up was done with the client and as a result of that an OTS was entered with the client. Management reply is not tenable as both the companies are separate and the business of both the entities is also different and credit policy specifically also stipulates that Field audits are required as part of the analysis package for new clients. As per sanction letter, in the event of default on the payment of the outstanding dues or payment of interest on the dues,

				Account Balance through periodic interactions with Debtor/s the reasons for not receiving payment from debtor would have been noticed and suitable action could have been taken to secure the facility. • Company just wrote a letter to debtors (M/s Jakhau Salt Company Private limited) for clearing the outstanding dues in September 2017 but thereafter not initiated any further action against the debtors for clearance of outstanding dues. • Company approved (July 2018) a settlement of outstanding dues at ₹3.50 crore against total dues of ₹5.81 crore and waived off ₹2.31 crore (₹1.46 crore principal and ₹0.85 crore interest).	the IFCI Factors, shall have an unqualified right to disclose the name of the company/client and its directors as defaulters to the RBI/CIBIL and take necessary action to recover the dues. However, company continued funding to the client even after account became stress/ irregular in November 2012, thereafter continued funding through debit note and avoided the facility to be declared as NPA. Management itself stated (12 December 2019) that due to heavy rain in the year 2012-13 company renewed the facility and no export activity was carried out by debtor supports the audit contention that the aggressive monitoring was not done and invoices were factored even after that. As most of the payments were outstanding from M/s Jakhau Salt but only one letter was written to the debtor in Sept. 2017 thereafter no efforts were made to recover the dues and later on OTS offer accepted by the Company. Thus due to lack of due diligence in sanctioning/ monitoring and non-adhering to credit policy Company had to suffer loss of ₹2.31 crore.
6.	M/s Shivom Minerals Limited	March 2011 ₹10 crore (DSBF)	₹1.83 crore (Loss)	• The conduct of Account was in stress and not satisfactory since March 2016 despite that the company continued the facility to the client. • Payments against the invoices were being received directly frosm client since June 2016 instead of debtor. Had the company carried out random verification of Invoice and / or Debtor Account Balance through periodic interactions with Debtor/s the reasons for receiving payment from client instead of debtors would have been noticed by the company and suitable	Management stated that scheduled visits were done during tenor of facility. Company used to take mail confirmation from debtor for invoice verification. On 12 May, 2016 Company's team visited the client's office and came to know that there was a delay of payment from its buyer due to industry stress for which client offered to repay its due and in action Company stopped discounting of invoices of this debtor further. However other debtors have made payment of their own. Monitoring of account was in force as Company officials used to visit the office and factory of the client at least once in a year along. As soon as the account went into stress Company official

				action would have been taken to secure the facility. • Company on the request of the client agreed for OTS offered by the client without assessing the best possible recovery from client and debtors through legal process. Moreover, Company failed to assess the net worth of the promoters before approving the OTS. • No OTS policy in the company.	followed up with the client and also met their debtors. However, the client after the meeting cleared their due charges and their debtors cleared the overdue invoices hence the operations of facility continued. Other Banks and another factoring company settled the dues at 75% we being an unsecured lender settled the final dues at 86%. At the time of OTS of the facility, there was no OTS Policy. Management reply is not acceptable, though the client visit was done and the invoices were also verified by the Company but the field audit, client visit (every year) and verification of the debtors account through periodical interaction with debtors was not done as envisaged in the credit policy. Supporting document (for the period 2011 to 2016) regarding half yearly client visit, debtor verification etc. was not made available. Further before any settlement Company should explore all other means to recover full amount as Company had to pay interest on credit line to the banks.

Annexure-XXV

(Referred to in Para No. 9.2.8.7)

Statement showing Issues still persisting despite assurance by Management in last Audit

Para of 2008 Report	Status during the Follow-up Audit
Deficiencies in customization	
'Logistics costs' were not allocated to maintenance cost centre in forward base at Cachar though it also received logistics services.	Such cases not noticed in current audit.
There was lack of uniformity in the basis of allocation of similar costs. For example, while drilling, rig hours were used in allocation of drilling costs in Assam asset, rig operations hours were used for allocating the cost in Assam & Assam Arakan basin.	Issue still persisting and commented vide Para 9.2.8.3(i) Inconsistency in SKF usage. Ministry/Management has assured that corrective action would be taken.
Ratio for bifurcation of civil engineering and C&M engineering costs between capital and revenue costs fixed during initial implementation of ERP system in October 2004 continued to be adopted in Assam asset and Assam & Assam Arakan basin without being updated.	Such cases not noticed in current audit.
Statistical key figures for allocating captive power plant cost in Assam to various installations fixed during initial implementation of ERP system in October 2004 were not updated resulting in unreasonable allocation ratio. The Management needs to review Allocations Maintenance Programs across the Company for taking necessary corrective action and also put in place procedures for their periodical review and updating.	As mentioned above, SKF issues were commented vide Para 9.2.8.3(i)
Input controls and validation checks	
Eight financial accounting documents involving ₹11.74 lakh were mapped to incorrect cost centres.	Such cases not observed in the current audit.
Information on asset class entered in the master records, which determines the General Ledger account to be automatically updated by the system when transactions were carried out in Asset Accounting module, was incorrect resulting in wrong classification and accounting of fixed assets in respect of 43 assets valuing ₹13.69 crore.	Deficiencies in the Asset classes persisted and discussed in Para 9.2.8.1(iii) (Incorrect classification of Assets) of the current Audit report.

Information on location and custodian of assets necessary to keep track of physical location and the person responsible for the custody of the assets was not properly populated in master records as these fields were not being updated by the users. Data on location and the custodian of assets was not available in the system in 19,655 asset records valued at ₹276.54 crore. Due to non availability of this information, location-wise and custodian-wise tracking of inventory and proper compliance of handing over and taking over of assets in cases of custody transfers could not be ensured in the system.	Location and Custodian of assets deficiencies persist and included in Para 9.2.8.1(i) (Non-capturing of Asset location in Asset Master Table), Para 9.2.8.1(ii) and in Para 9.2.8.2 (i) (ex-employees continue as Custodian of Asset)
Master record of one helicopter was created in the system without following the system requirement viz. creation of a Goods Receipt document before creation of a master record and financial posting therein. Further, the helicopter which was in operation at New Delhi remained capitalised in the books of Mumbai asset. It was evident that validation checks built into the system that translated business procedures of the Company were bypassed by manual intervention.	Such cases not observed in the current audit.
Migration of data from legacy system	
Migration of master records with wrong asset class description resulted in incorrect asset classification in respect of 123 assets valuing ₹7.45 crore.	Such cases not observed in Current audit. However, difference between posting date and document date were noticed and commented vide Para 9.2.8.4(i). Ministry stated that system check has been put in place to avoid its recurrence.
While one unique master record was required to be maintained for each vendor, multiple master records in respect of vendors for material and services existed. It was noticed that 476 vendor records existed in the system in respect of 235 external vendors and transactions in respect of 40 such vendors were posted in 81 vendor records during 2005-07. Multiple vendor records made the system complex and created risk for manipulation and errors.	Multiple vendor accounts were observed for same vendor and discussed in the draft report vide Para 9.2.8.2(ii) (Non/incorrect capture of Bank details of vendor master).
For proper vendor management, master records of vendors are classified in distinct vendor account groups in the system; it was found that eight foreign vendors were wrongly grouped in indigenous vendor account group and 17 indigenous vendors were included in foreign vendor account groups.	This issue was not observed during current audit.

Details of city and address of vendors in master records were not properly uploaded. It was observed that details of city of the vendor was entered as 'unknown' in 2246 vendor records, in 463 vendor records the address field was found blank	Blank or incorrect details of vendor name, address, account number, bank details were included in Para 9.2.8.2(ii) Management stated with introduction of Centralised Vendor cell such issues were now taken care of in new vendor creations.
Balances in respect of 259 transactions involving ₹14.55 crore pertaining to 2004-05 and 34 transactions for ₹2.5 lakh pertaining to 2005-06, respectively against 43 vendors were found uploaded from the legacy UFSO system and remained un-reconciled as of May 2007 for want of complete details.	Such cases not found in the current audit. However, cases where payments were pending without payment block have been included in the Draft report (para 9.2.8.3(iii)).
134 vendor records existed in master with superfluous vendor names such as '**', 'unknown' and 'aaa'.	Incorrect details of Vendor name, account number, bank details were included in Para 9.2.8.2(ii).

Annexure--XXVI

(Referred to in Para No.10.1)

Statement showing loss due to under recovery of capacity charges

(₹ in lakh)

Period	Declared capacity (MWH)	Scheduled Energy (MWH)	Percentage of actual schedule	total capacity charges for RTPS for the said month	Capacity charge claimed from KSEBL	Capacity Charge recoverable at 12.5% scheduling as per PPA	Loss of capacity charges due to low recovery of fixed charges	Total loss of capacity charge after rebate of @2 %
A	B	C	D	E	F	G	H (G-F)	I
May-16	2,12,870	19,748.82	9.28	3,906.015	362.478	488.252	125.774	123.258
Jun-16	2,57,410	29,772.75	11.57	4,770.725	551.795	596.341	44.546	43.655
Jul-16	1,27,413	14,504.63	11.38	(-)322.625	-36.727	(-)40.328	(-)3.601	(-)3.529
Aug-16	1,72,040	19,523.73	11.35	2,369.47	268.935	296.184	27.249	26.704
Sep-16	2,35,410	27,012.74	11.47	3,325.73	381.461	415.716	34.255	33.570
Oct-16	2,20,750	26,892.19	12.18	3,045.95	370.997	380.744	9.747	9.552
Nov-16	2,61,736	30,773.24	11.76	3,698.58	434.953	462.323	27.370	26.822
Dec-16	57,056	6,459.81	11.32	757.56	85.756	94.695	8.939	8.760
Jan-17	1,43,130	15,738.05	11.00	1,963.01	215.931	245.376	29.445	28.856
Feb-17	2,42,025	20,398.06	8.43	3,581.198	301.895	447.650	145.755	142.840
Mar-17	2,49,685	20,713.22	8.30	3,452.999	286.599	431.625	145.026	142.125
Apr-17	73,392	6,104.94	8.32	1,021.88	85.021	127.735	42.714	41.860
May-17	3,82,756	34,175.19	8.93	5,225.23	466.56	653.154	186.594	182.862
Jun-17	1,71,872	14,576	8.48	2,401.34	203.66	300.168	96.508	94.577
Jul-17	2,81,437	11,774.38	4.167	3,807.02	158.64	475.878	317.238	310.893
Aug-17	2,44,813	10,283.48	4.167	3,301.376	137.568	412.672	275.104	269.602
Sep-17	2,14,337	8,960.13	4.167	2,987.23	124.478	373.404	248.926	243.947
Oct-17	41,590	1,733.26	4.167	4,430.935	184.637	553.867	369.230	361.845
Nov-17	2,31,400	9,676.94	4.167	3,865.679	161.083	483.210	322.127	315.684
Dec-17	2,51,220	10,479.47	4.167	4,080.918	170.015	510.115	340.100	333.298
Jan-18	1,97,160	8,228.75	4.167	3,191.992	133.010	398.999	265.989	260.669
Feb-18	2,06,195	8,591.46	4.167	3,678.680	153.290	459.835	306.545	300.414
Mar-18	2,10,352	8,765.43	4.167	3,409.425	142.071	426.178	284.107	278.425
Apr-18	3,73,250	15,568.76	4.167	6,238.100	259.941	779.763	519.822	509.425
May-18	2,75,397	11,463.91	4.167	4,424.982	184.389	553.123	368.734	361.359
Jun-18	1,41,631	5,901.935	4.167	2,399.658	99.993	299.957	199.964	195.965
Jul-18	2,57,180	10,716.08	4.167	4,156.134	173.186	519.517	346.331	339.404
Aug-18	1,70,463.75	7,104.38	4.167	2,736.779	114.041	342.097	228.056	223.495
Sep-18	186,615	7,775.63	4.167	3,133.279	130.563	391.660	261.097	255.875
Oct-18	165,191	6,882.97	4.167	2,655.782	110.666	331.973	221.307	216.881

Nov-18	1,86,285	7,765.31	4.167	3,121.786	130.084	390.223	260.139	254.936
Dec-18	2,46,255	10,260.62	4..167	3,988.805	166.213	498.601	332.388	325.740
Jan-19	2,69,050	11,148.19	4.167	4,360.677	181.709	545.085	363.376	356.108
Feb-19	3,83,983	15,992.315	4.167	6,630.769	276.304	828.846	552.542	541.491
Mar-19	4,93,042	20,546.21	4.137	8,051.218	335.494	1,006.402	670.908	657.490
Total				1,23,848.286	7,506.689	15,481.036	7,974.347	7,814.860
Total Loss due to under-recovery of capacity charges = ₹7814.86 Lakh say ₹78.15 crore								
Average recurring loss per month due to non-ecovery capacity charges = total of capacity charges during 2018-19 after rebate/12 = ₹3.53 crore (approx.)								

Annexure-XXVII

{Referred to in Para No.13.2.7.1 (ii)}

Statement showing loss of generation due to low PLF

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Total
1.	Total captive power generated (MWh)	17,82,716	18,76,396	17,50,120	18,34,687	19,45,763	**91,89,682**
2.	Total captive power capacity (MW per hour)[2]	297.50	297.50	297.50	297.50	297.50	
3.	Total calendar hours during the year	8760	8784	8760	8760	8760	
4.	Average hourly generation (MW per hour) (1/3)	203.51	213.62	199.79	209.44	222.12	
5.	Combined PLF percentage ((4/2)x100)	68.41	71.80	67.16	70.40	74.66	
6.	Total captive power generation considering 85% of PLF (MWh) (2 x 8760 x 85%)	22,15,185	22,21,254	22,15,185	22,15,185	22,15,185	
7.	Total captive power generation considering 80% of PLF (MWh) (1/5 x 80)	20,84,880	20,90,592	20,84,880	20,84,880	20,84,880	
8.	Shortfall in total captive generation with reference to PLF at 85% MWh (6-1)	4,32,469	3,44,858	4,65,065	3,80,498	2,69,422	**18,92,312**
9.	Shortfall in total captive generation with reference to PLF at 80% MWh (7-1)	3,02,164	2,14,196	3,34,760	2,50,193	1,39,117	**12,40,430**
10.	Annual average variable operating cost of captive power generation as per TPP (per MWh)	4,562	4,535	5,557	5,577	5,744	
11.	Energy charges and electricity duty charged by APEPDCL (per MWh)	5,511	5,789	5,900	6,111	6,111	
12.	Excess of APEPDCL charges over variable operating cost of captive generation (11-10)	949	1,254	343	534	367	

[2] ***Installed Capacity of TG-5 is taken as 50 MW only instead of 67.50 MW based on Management reply***

13.	Value of shortfall in captive power generation with reference to PLF at 85% (₹ in crore) (8 x 12)	41.04	43.25	15.95	20.31	9.89	**130.44**
14.	Value of shortfall in captive power generation with reference to PLF at 80% (₹ in crore) (9 x 12)	28.68	26.86	11.48	13.36	5.10	**85.48**
15.	Total power purchased from APEPDCL (MWH)	4,41,954	5,70,162	6,84,729	5,10,860	4,33,500	-
16.	Unavoidable purchase or Minimum billing energy units MWh (50 x CMD i.e., 135 x 50 = 6750 pm upto July 2014 and from August 2014 to March 2018 = 185 x 50 = 9250 pm and from April 2018 = 235 x 50 = 11750 pm)	1,01,000	1,11,000	1,11,000	1,11,000	1,41,000	-
17.	Avoidable purchase MWh (15-16) subject to shortfall of power generation mentioned in item 9	3,02,164	2,14,196	3,34,760	2,50,193	1,39,117	**12,40,430**
18.	Avoidable purchase (₹ in crore) (17 x 12)	28.68	26.86	11.48	13.36	5.10	**85.48**

Annexure-XXVIII

{Referred to in Para No.13.2.7.3 (i)(a)}

Statement showing average hourly generation of power during 2014-15 to 2018-19

Year	TG-1 - 60 MW			TG-2 - 60 MW			TG-3 - 60 MW			TG-4 - 67.5 MW			TG-5 - 67.5 MW		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C
2014-15	8049	368,255	45.8	8448	415,276	49.2	8574	416,378	48.6	7268	355,484	48.9	3848	227,323	**59.1**
2015-16	8636	392,308	45.4	8729	384,992	44.1	7755	296,071	38.2	8149	362,451	44.5	8626	440,574	51.1
2016-17	7954	388,855	48.9	8700	317,494	**36.5**	6247	259,956	41.6	7801	342,406	**43.9**	8608	441,409	51.3
2017-18	8736	415,567	47.6	7157	264,036	36.9	8725	400,173	45.9	7853	348,617	44.4	7580	406,294	53.6
2018-19	3772	182,892	48.5	6880	349,706	**50.8**	8678	420,979	48.5	8751	487,216	55.7	8611	504,970	58.6

A – Utilized Hours (Hrs); B – Total Power Generated (MW); C – Average Hourly Generation (MWh) (B/A)

Statement showing percentage of Utilized Hours to Calendar Hours during 2014-15 to 2018-19

Year	Boiler 1	Boiler 2	Boiler 3	Boiler 4	Boiler 5	Boiler 6	TG 1	TG 2	TG 3	TG 4	TG 5
2014-15	80	75	75	87	83	50	92	96	98	83	44
2015-16	82	79	85	79	82	88	98	99	88	93	98
2016-17	79	71	75	77	98	80	91	99	71	89	98
2017-18	82	80	90	88	77	87	100	82	100	90	87
2018-19	37	94	96	86	93	94	43	79	99	100	98

Annexure-XXIX

(Referred to in Para No.13.2.7.3(i)(b))

Statement showing time taken for planned outages/ shutdown of Boilers and TGs for the years 2014-15 to 2018-19

Item	2014-15			2015-16			2016-17			2017-18			2018-19			Total No. of excess days
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	
Boiler 1	35	64	29	35	57	22	35	53	18	35	56	21	35	281	**246**	336
Boiler 2	35	53	18	35	69	34	35	62	27	35	64	29	-	-	-	108
Boiler 3	35	86	51	35	60	25	35	43	8	35	42	7	-	-	-	91
Boiler 4	35	78	43	35	73	38	35	61	26	-	-	-	35	72	37	144
Boiler 5	35	46	11	35	66	31	-	-	-	35	60	25	35	23	-	67
Boiler 6	-	-	-	35	65	30	35	42	7	35	39	**4**	-	-	-	41
Total																**787**
TG-1	-	-	-	-	-	-	-	-	-	-	-	-	40	179	139	**139**
TG-2	-	-	-	-	-	-	-	-	-	-	-	-	40	65	25	**25**
TG-3	-	-	-	-	-	-	40	83	43	-	-	-	-	-	-	**43**
TG-4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
TG-5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Total																**207**

A – Planned no. of days; B – Actual no. of days taken; C – Excess no. of days taken

Annexure-XXX

(Referred to in Para No.13.3.2)

Details of Captive mines, mining lease, type of mineral, area, reserve, date of lease granted, lease validity, Grant of FC&EC and Status of operations

Serial No.	Name of the Mine	Name/No. of the mining lease	Type of Mineral	Area (in ha.)	Reserve (MT)	Date of Lease granted	Lease Valid up to	Latest FC Stage-II granted	Latest EC granted	Status (Working/Not working)
1	2	3	4	5	6	7	8	9	10	11
Iron Ore										
1	Barsu and Talidih mines	ML-130	Iron Ore	2486.38	359.58	01.06.1960	05.01.1930	06.03.2013	30.03.2016	Working
2		ML - 162	Non-mineralised	77.94	Infrastructure	29.04.1960	28.04.2030	23.10.2017	30.03.2016	Working
3	Kalta Iron Mines	ML-139	Iron ore	25.98	0.219	17.01.1975	16.01.2025	N.A.	N.A.	Not Working
4		ML-227	Iron ore	3.34		18.01.1984	17.01.2004 (Expired)	N.A.	N.A.	Not Working
5	Gua Ore Mines	Duarguiburu	Iron Ore	1443.76	183.12	21.02.1949	21.02.2039	22.08.2014	25.03.2013	Working
6		Jhillingburu-I	Fe & Mn Ore	210.56	1.74	25.03.1953	24/04/2033	Awaited	Awaited	Not Working
7		Jhillingburu-II	Fe & Mn Ore	30.54	0.95	12.05.1950	05.05.2029	Awaited	10.12.2018	Not Working
8		Topailore	Iron Ore	14.16	6.58	09.03.1970	05.05.2029	Awaited	17.08.2015	Not Working
9	Manoharpur	Ajitaburu	Iron Ore	323.89	381.54	07.12.1947	04.12.2026	NA	31.03.2011	Not Working
10		1Dhobil	Iron Ore	513.04	217.03	08.03.1948	07.03.2038	21.10.98	24.01.2012	Working
11		SukriLuturburu	Iron Ore	609.55	54.02	25.03.1949	11.03.2028	NA	10.06.2013	Not Working

12		McLellan-Budhaburu	Iron Ore	823.62	930.07	08.12.1945	08.11.2024	NA	23.03.2011	Not Working
13		Ankua	Iron Ore	67.18	NA	14.06.1982	08.06.2031	NA	NA	Not Working
14		Tati Buru	Iron Ore	38.85	NA	01.09.1949	23.08.2028	NA	NA	Not Working
15	KIOM/ MIOM	Lease-1	Iron Ore	1936.04	39.34	28.03.1960	27.03.2030	26.11.2014	23.09.2014	Working
16		Lease-2	Iron Ore	879.44	Infrastructure	06.02.1973	27.03.2030	11.04.2005	23.09.2014	Working
17		Lease-3	Iron Ore	82.00	Infrastructure	01.10.1973	27.03.2030	11.04.2005	23.09.2014	Working
18		Horomotto	Iron Ore	1052.00		01.01.1970	10.02.1988 (Expired)	No Fc	No EC	Not Working
19	BOM	5.10 Sq. Mile	Iron	1321.45	241.35	11.04.1960	09.04.2030	12.11.2014	21.12.2012	Working
20		6.60 Sq. Mile	Fe & Mn Ore	1786.74	1.352	14.11.1962	13.11.2022	NA	21.12.2012	Working
21	Dalli Manual	Dalli Forest Range	Iron ore	100.00	1.26	27.08.1963	26.08.2023	06.04.2004	Pending	Working
22	Rowghat	Rowghat	Iron ore	2028.78	511	15.09.2009	22.09.2029	03.08.2009	04.06.2009	Not Working
23	Kalwar	KalwarNagur	Iron Ore	938.06	7.22	01.04.1975	31.03.2025	07.01.2008	Pending	Not Working
24	Rajhara	Pandridalli	Iron ore	220.42	39.11	01.06.1958	27.04.2023	06.04.2004	Pending	Working
25	DalliMech	Rajhara	Iron ore	29.25	719.6	01.06.1958	31.05.2023	06.04.2004	30.09.2013	Working
26	Mahamaya	Mahamaya	Iron ore	1522.67	16.46	04.11.1971	03.11.2021	07.08.2015	26.03.2015	Not Working
Flux										
27	BIM	ML - 232	Bauxite	117.44	0.43	18.08.1969	07.04.2016 (Expired w.e.f. 1985)	NA	NA	Not Working

28	PL DQ	PLDQ	Limestone & Dolomite	230.53	24.62	06.01.1960	05.01.2020	No forest land involved	NA	Not Working
29	Bhadigund	ML No:2660	Limestone	40.12	10.167	01/04/1963	31.03.2023	Not granted	13.04.2011	Not Working
30	Kenchapura	ML No:2307	Dunite	4.45	0.12	19.05.2001	18/05/2021	No forest land involved	01.08.2011	Not Working
31	Kuteshwar	Right Bank	Limestone Dolomite	944.89	88.161	10.06.1971	11.03.2033	No forest land involved	02.09.2015	Working
32		Left Bank		91.14	0.488	15.05.1982	17.01.2033	No forest land involved	17.08.2015	Working
33	Tulsidamar	Tulsidamar	Dolomite	118.72	118.72	30.10.1969	31.03.2020	Not granted	24.03.2015	Working
34	Bhawanathpur	Ghagra	Limestone	675.46	3.74	23.10.1972	31.03.2020	Not granted	NA	Not Working
35		Gorgaon	Limestone	228.46	2.16	23.10.1972	31.03.2020	Not granted	NA	Not Working
36		Saraiya	Limestone	275.00	1.51	31.03.1966	31.03.2020	Not granted	NA	Not Working
37	Baraduar	Baraduar	Dolomite	407.41	121.27	26.12.1970	Deemed	Not granted	02.09.2015	Not Working
38	Nandini	Nandini	Limestone	526.34	101.43	01.01.1959	31.12.2028	Not required	Pending	Working
39	Hirri	Pendidih	Dolomite	128.77	12.7	06.05.1959	05.05.2019	Not required	05.02.2009	Working
Coal										
40	Chasnala	Chasnala 165	Coal	348.18	10.2	27.04.1938	27.04.2688	NA	NA	Working
41		Het Kandra 167	Coal	81.38						

42	Jitpur	Jitpur (108)	Coal	163.69	19.33	28.05.1902	28.05.2893	NA	NA	Working
43		Noonudih (109)				22.05.1901	22.05.2892	NA	NA	Working
44	Tasra	Tasra	Coal	450.00	251.9	10.06.2002	Expired	NA	13/10/2009	Not Working
45	Ramnagore	ML-1035	Coal	212.87	27.998	17.03.2008	16.03.2907	NA	NA	Working
46		ML-2586	Coal	731.27		17.04.1890	16.04.2889	NA	NA	Working
47		ML-9094	Coal	204.38		12.04.1984	11.04.2024	NA	NA	Working

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