



**Report of the
Comptroller and Auditor General of India
on
Credit Risk Management in IFCI Limited**



**Union Government
Ministry of Finance
Report No. 16 of 2017
(Performance Audit)**

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For the period ended 31 March 2016

**Union Government
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PREFACE

This Audit Report has been prepared under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971, as amended in 1984. The audit has been carried out in line with the Regulations on Audit and Accounts, 2007 and Performance Audit Guidelines, 2014 of the Comptroller and Auditor General of India.

The Report contains the results of Performance Audit on "Credit Risk Management" in IFCI Limited (formerly known as Industrial Finance Corporation of India). Sharp deterioration of Asset quality of IFCI in comparison to the Industry (Non-Deposit taking - Systematically Important Non-Banking Financial Companies) warranted a study of the existing system of credit appraisal, recovery mechanism in IFCI Limited and compliance with the General Lending Policy of IFCI as well as with the Guidelines of Reserve Bank of India. Audit examination covered credit appraisal during sanction of loans, security coverage, monitoring of the recovery of loans, write off of loans, classification of loan assets, investment in equity etc. Report highlights deficiencies in credit appraisal, sanction and disbursement of loan, non-compliance with General Lending policy of IFCI, Guidelines of RBI leading to increase of Non-performing assets as on 31 March 2016.

Audit wishes to acknowledge the co-operation received from the Ministry of Finance and IFCI Limited at each stage of audit process.

EXECUTIVE SUMMARY

Executive Summary

IFCI Limited (formerly known as Industrial Finance Corporation of India) is a Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) regulated by Reserve Bank of India (RBI) and administratively controlled by the Department of Financial Services, Ministry of Finance. It was established in 1948 as a Statutory Corporation but was later incorporated as a Company by virtue of IFCI (transfer of undertaking and Repeal) Act, 1993. IFCI became a deemed Government Company in December 2012 and it became a Government Company w.e.f. 7 April 2015. The primary business of IFCI is to provide financial assistance to the manufacturing, services and infrastructure sectors.

The Performance Audit on Credit Risk Management in IFCI Limited was taken up primarily due to its predominantly higher Non-Performing Assets (NPA) ratio of 13.05 *per cent* as compared to the industry's NPA ratio of 3 *per cent* and also in view of increase in unrealized interest to the tune of ₹ 40638.98 crore from 2012-13 to 2015-16. Audit covered a period of four years i.e. from 2012-13 to 2015-16 in respect of loans sanctioned and disbursed. However, for examination of the NPAs, loans sanctioned from 2008-09 onwards were covered.

The major findings of Performance Audit are summarized hereunder:

Credit Appraisal and Sanction

- Audit reviewed 128 sanctioned loans and observed that in respect of 69 cases (54 *per cent*), the loans were sanctioned in deviation from the eligibility criteria stipulated in the extant General Lending Policy (GLP). The eligibility criteria relaxed pertained to adherence to the stipulated financial ratios/analysis of financial statements, profitability/net worth/credit rating of the borrower company and minimum security cover/ nature of security. Deviations from other stipulated conditions as per terms of sanction/loan agreement as well as in the relevant GLP were also observed in 17 cases.

(Para 3.2)

- In respect of 8 illustrated cases, major relaxation of criteria/deviations from the eligibility criteria in sanction of loans resulted in loss of ₹ 25.57 crore apart from doubtful recovery of ₹ 1094.65 crore.

(Para 3.3)

Compliance with Guidelines of RBI

- Audit observed non-compliance with Guidelines of RBI on asset classification. There were instances of incorrect classification of loans resulting in overstatement of profit by ₹ 297.60 crore during the years 2013-14 to 2015-16.

(Para 4.1)

- There were cases of non-provisioning/short-provisioning against long-term investments amounting to ₹ 734.31 crore and ₹ 706.17 crore during 2014-15 and 2015-16 respectively despite erosion of net-worth, continuous cash losses etc.

(Para 4.3)

- The Company had also violated restructuring norms of RBI by sanctioning reschedulement package without analyzing the viability of repayment thereby attempting to evergreen a weak credit facility despite the borrower incurring losses.

(Para 4.4)

Non Performing Assets

Review of 54 NPA cases (including 11 cases of loans written-off) revealed that:

- In 11 cases (20 *per cent*), the Company had to write-off the loans leading to a loss of ₹ 1235.65 crore (including unrealized interest of ₹ 674.51 crore). Audit also observed that there was deficient credit appraisal, acceptance of unenforceable/inadequate security and delay in enforcement of security.

(Chapter 5)

- In respect of 5 cases (9 *per cent*) the Company had to make 100 *per cent* provision for outstanding principal amounting to ₹ 296.20 crore. The unrealized interest from these cases was ₹ 119.09 crore thereby leading to a loss of ₹ 415.29 crore. The loss was mainly attributable to deficient credit appraisal, relaxation of stipulations of General Lending Policy as regards eligibility, security etc. and acceptance of unenforceable/inadequate security etc.

(Para 6.3.1)

- In respect of 18 cases (33 *per cent*), Audit observed that recovery of ₹ 3799.33 crore is doubtful due to deficient credit appraisal, absence of tangible/enforceable security and ineffective monitoring.

(Para 6.3.2)

Equity Investments

- Audit examination of 9 cases of investment in unquoted equity, revealed that due to defaults in buyback/returns, investment of ₹ 1136.28 crore was rendered non-performing. The returns from these investments amounting to ₹ 651.69 crore (31 March 2016) remained unrealized.

(Chapter 7)

Recommendations

The following recommendations have been made:

- The Credit appraisal mechanism requires to be strengthened;
- The Company should strictly comply with the RBI guidelines applicable to Systemically Important Non-Deposit taking Non-Banking Financial Companies;

- The Company should strictly adhere to its General Lending Policy and should not take recourse to deviations as a matter of routine;
- The Company should assess the financial position of the borrower company along with that of the pledgor Company/buyback entity while sanctioning financial assistance;
- The action for recovery needs to be initiated immediately on default by enforcing the available security.

(Para 8.2)

Chapter 1: Introduction

1.1 Introduction

IFCI Limited is a Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) under the regulatory control of Reserve Bank of India (RBI) and administrative control of the Department of Financial Services (DFS), Ministry of Finance (MoF), Government of India (GoI). IFCI was initially established as a statutory corporation in 1948 under the Industrial Finance Corporation of India (IFCI) Act, 1948 as the first development finance institution in the country to cater to the needs of the industrial sector for long-term finance. It was registered later as a company under the Companies Act, 1956 by virtue of IFCI (Transfer of Undertaking and Repeal) Act, 1993. The effect of enactment of the Repeal Act, 1993 was that provisions¹ of IFCI Act, 1948, pertaining to control by the Union Government over the affairs of IFCI Limited, its accounts and audit, continued to apply even after the repeal for the purposes of exercising Government Control.

1.2 Conversion of IFCI into Government Company

The Union Cabinet approved (10 August 1992) the conversion of IFCI Limited (erstwhile Statutory Corporation) into a new Government Company under the Companies Act, 1956. The Union Government decided that 51 *per cent* shares of IFCI Limited would be retained by the RBI/Government owned or controlled institutions like Public Sector Banks (PSBs) / Financial Institutions (FIs) / Insurance Companies which held the shares of IFCI.

Subsequently, in the context of the deteriorating financial status of IFCI and likely systemic impact of IFCI defaulting on its liabilities, the Government decided (2001) to infuse ₹ 400 crore in the form of 20-years Convertible Debentures. Thereafter, a special financial assistance package of ₹ 5220 crore was recommended by Ministry of Finance for IFCI in the form of Optionally Convertible Debentures (OCDs) with duration of 20 years. As part of this package, the first tranche of ₹ 523 crore was released (28 March 2003) in the form of Optionally Convertible Debentures. However, subsequent releases (2003-04 onwards) under this package were converted to Grants-in-Aid. This package received *ex-post facto* approval of the Cabinet in February 2005. An amount of ₹ 2409.31 crore was released as Grant-in-Aid² from 2003-04 to 2006-07³. However, releases under this financial package were stopped in the year 2007-08, since IFCI started generating profits.

The equity holding of Government Controlled Institutions in IFCI remained above the threshold limit of 51 *per cent* till 2003-04. Thereafter, IDBI and State Bank of India and some of its subsidiaries, nationalized banks and financial institutions like Life Insurance Corporation of India, General Insurance Corporation etc. diluted their equity holdings as a result of which the shareholding of Government Controlled Institutions fell below 51 *per cent* (by March 2005). Resultantly, IFCI lost its status of a deemed Government Company.

¹ Sections 33, 34, 34A, 35 and 43.

² Assistance to IFCI was subsequently converted into Grant-in-aid (2003-04) in the supplementary budget.

³ ₹ 1573 crore (2003-04), ₹ 316 crore (2004-05), ₹ 300 crore (2005-06) and ₹ 220.31 crore (2006-07).

However, the Ministry of Finance with the approval (August 2012) of Union Cabinet restored the status of IFCI as a Government Company by converting Optionally Convertible Debentures valued at ₹ 923 crore into equity. With this conversion, IFCI became (2012-13) a deemed Government Company. Subsequently, IFCI became a Government Company w.e.f. 7 April 2015 when the Government acquired six crore preference shares from the existing preference shareholders (Scheduled Commercial Banks) of IFCI.

1.3 Non-banking Financial Companies in India

Non-Banking Financial Companies (NBFCs) have emerged as an integral part of the financial system in India by providing a valuable alternative to conventional banking. However, NBFCs continued to face a challenging economic environment in the last few years on account of slow economic growth and relatively high credit costs arising from increased risk perception.

NBFCs witnessed stress in asset quality during the last few years due to the economic downturn and weak operating environment, as the payback capacity of the companies continued to be affected resulting in increase in non-performing assets (NPAs) despite higher restructuring of accounts. The growing asset size of NBFCs has increased the need for risk management in the sector especially in the context of their increasing NPAs. In this context, non-deposit taking NBFCs having an asset size of ₹ 100 crore were classified as systemically important NBFCs by RBI. However, from November 2014, this threshold criterion was raised upwards to ₹ 500 crore.

1.4 Functions and objectives of IFCI Limited

IFCI Limited, as an NBFC-ND-SI regulated by RBI, had been providing financial assistance in the form of short, medium or long-term loans or equity participation primarily to agro-based industries, service sector, infrastructure and capital & intermediate goods industry. IFCI also promoted subsidiaries⁴ in the financial / consultancy sector.

1.5 Organizational set-up

The Company is managed by a Board of Directors assisted by the Chief Executive Officer & Managing Director (CEO&MD) and Deputy Managing Director (DMD). Further, Executive Directors (EDs) govern the operations of the Company with the assistance of Chief General Managers and General Managers heading respective departments.

The Company operates through various departments mainly Credit Appraisal, Monitoring & Industry Research, NPA Acquisition, Resolution and Legal.

1.6 Rationale for selection of subject for audit

Performance Audit of 'Credit Risk Management' in IFCI Limited was taken up in view of the following:

⁴ IFCI Factors Limited, IFCI Financial Services Limited, IFCI Infrastructure Limited, IFCI Venture Capital Fund Limited, MPCON Limited and Stock Holding Corporation of India Limited.

- Existence of high level of NPAs of ₹ 3544.54 crore as on 31 March 2016 corresponding to 13.05 *per cent* of total outstanding loans;
- Principal amounting to ₹ 1637.87 crore written-off from the books of accounts during the Audit period viz. from 2012-13 to 2015-16;
- Increase of ₹ 40,638.98 crore in unrealized interest during the period from 2012-13 to 2015-16;
- Substantial financing by Government of India to the tune of ₹ 3332.31 crore;
- Deficient credit appraisal procedures, improper sanctions / disbursements observed during previous CAG audits.

1.7 Audit Objectives

The objectives of this Performance Audit were:

- To examine compliance with General Lending Policy of the Company.
- To check the existence of sound credit appraisal mechanism including due diligence in sanction and disbursement of loans.
- To examine the effectiveness of recovery mechanism.
- To examine the efficiency of credit monitoring mechanism.

1.8 Audit Criteria and Methodology

The criteria for reviewing the performance of the Company were drawn from the following sources:

- RBI Guidelines for NBFCs-ND-SI
- Guidelines / circulars of the administrative Ministry
- Industry practices
- Lending Policy of the Company
- Business Plan of the Company
- Credit Appraisal System
- Sanction / disbursement conditions
- Loan agreements
- Recovery policy
- Legal documents relating to cases

Audit Methodology:

Entry conference was held on 7 April 2016 with the Management of IFCI and representative of DFS, MoF to discuss the audit scope, objectives, criteria etc. Field audit was carried out during April 2016 to July 2016. The draft Report was issued to IFCI on 19 September 2016 and replies thereto were received on 4 November 2016. After incorporating the response of the Management, the draft performance audit report was issued to the Ministry on 10 January 2017. The Ministry's replies (16 February 2017) as well as response received during the exit conference (17 February 2017) have been duly considered while finalizing this performance audit report.

1.9 Scope of Audit and Sample Selection

Audit reviewed the Company's performance in credit appraisal, sanction process, post-sanction monitoring and credit recovery procedures. Compliance with the guidelines issued by RBI and effectiveness of monitoring by administrative ministry was also reviewed.

The period covered in audit for review of loans sanctioned, was four years from 2012-13 to 2015-16. The review included examination of compliance with financing guidelines, loan agreements and RBI Guidelines relating to sanction and disbursement of financial assistance. However, as regards review of NPAs, the period prior to 2012-13 was also covered to examine the sanction, monitoring and recovery etc. This was due to the fact that as per guidelines issued by RBI, the assets in respect of which the interest or principal remains due for more than five months, are classified as NPA. Further, the assets which remained NPA for a period not exceeding 16 months⁵ were to be classified as sub-standard assets while the assets which remained sub-standard for a period exceeding 16 months were to be classified as doubtful asset.

Sampling:

Audit reviewed the sanctions and disbursements of loans during the period of Performance Audit, Non Performing Assets and Loans Written Off. The sample selection was as follows:

A. Sanctions and Disbursements: Audit segregated the loans sanctioned by the Company on the basis of amount sanctioned for selection of sample, as depicted below:

Amount sanctioned	Less than ₹100 crore	Between ₹100 crore and ₹200 crore	More than ₹200 crore
Sample (<i>per cent</i>)	20	40	100
No. of cases selected	36	45	47

The year-wise sample selected for each stratum through Stratified Random Sampling method are as shown below:

Table-1: Sampling of Sanctions and Disbursements

Year	Total Sanctioned Cases (Population)		Sample Size	
	No.	Amount (₹ in crore)	No.	Amount (₹ in crore)
2012-13	20	1,911.53	8	1,008.04
2013-14	53	8,915.18	32	7,056.50
2014-15	127	11,144.17	45	6,038.54
2015-16	130	10,854.69	43	5,252.69
Total	330	32,825.57	128	19,355.77

B. Non-Performing Assets and loans written-off:

There were 413 cases of NPA (including cases written off) as on 31 March 2016. Out of these, Audit reviewed 43 NPA cases which were sanctioned from 2008-09 onwards as well as 11 cases of principal written-off during the audit period.

⁵ Revised to 16 months w.e.f. 2015-16 from the earlier norm of 18 months.

Chapter 2: Planning

2.1 Business planning

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.

2.2 Targets and Achievements

The targets and achievements thereof by the Company during the last four years are as given below:

Table-2: Targets and Achievements

Amount (₹in crore)

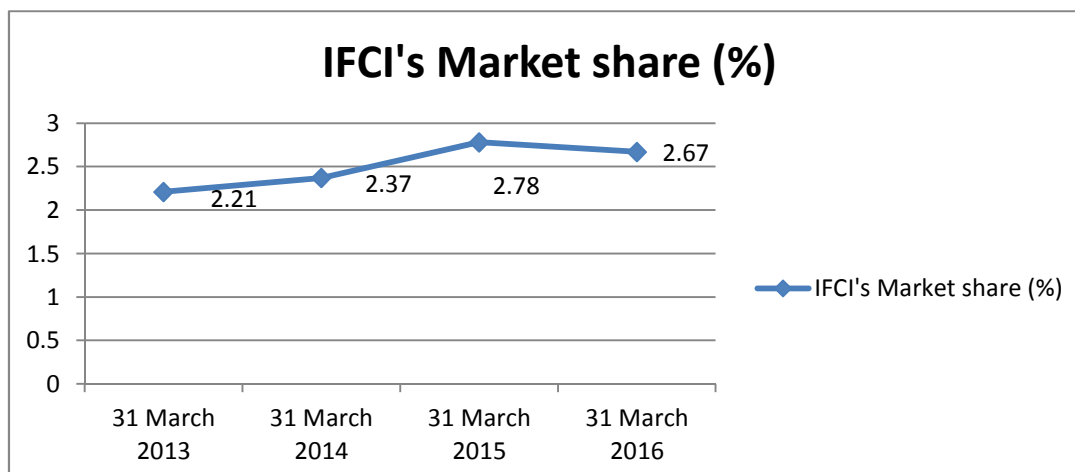
Year / Particulars		Sanctioned amount	Disbursed amount	Recovery	
				Standard Assets	NPAs
2012-13	Target	5000.00	4000.00	4500.00	170.00
	Actual	1911.53	1504.00	5482.00	126.00
	Variance	(-) 3088.47	(-) 2496.00	(+) 982.00	(-) 44.00
2013-14	Target	10000.00	8000.00	5227.00	741.00
	Actual	10098.00	8683.00	5724.63	884.43
	Variance	(+) 98.00	(+) 683.00	(+) 497.63	(+) 143.43
2014-15	Target	13600.00	11220.00	4642.41	807.57
	Actual	12230.00	8687.03	4863.78	827.59
	Variance	(-) 1370.00	(-) 2532.97	(+) 221.37	(+) 20.02
2015-16	Target	14000.00	11500.00	NA	618.11
	Actual	10894.69	7488.30	7802.33	421.40
	Variance	(-) 3105.31	(-) 4011.70	NA	(-) 196.71

The Company made recoveries from standard assets as well as from NPAs beyond the targets except for the year 2012-13 and 2015-16 in respect of NPAs. However, it could not achieve the target in respect of sanctions and disbursements except in the year 2013-14.

2.3 Performance of IFCI vis-à-vis performance of Industry (NBFC-ND-SI)

Review of market share data revealed that IFCI's market share increased from 2.21 per cent in 2013 to 2.67 per cent in 2016 as shown in Chart-1:

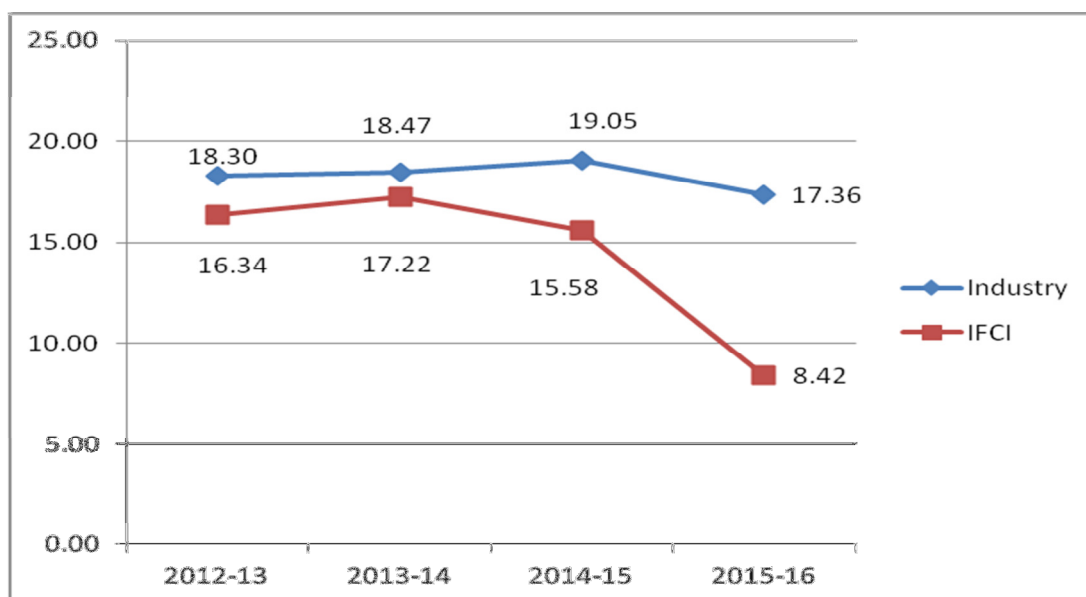
Chart-1: Market share of IFCI (based on total assets)



Source: RBI Reports on Trend and Progress of Banking in India and IFCI's Annual Reports (industry data for 31 March 2016 was provisional)

Review of IFCI's performance vis-à-vis that of the industry (NBFC-ND-SI) revealed that profitability of the industry declined marginally whereas that of IFCI declined sharply as shown in Chart-2:

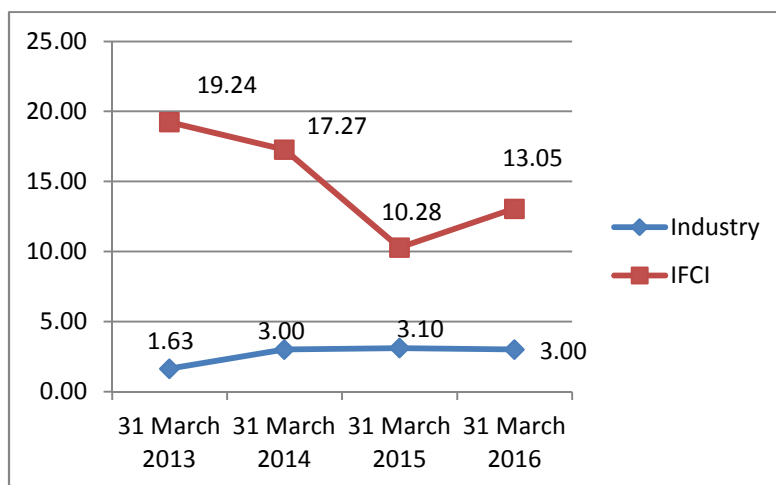
Chart-2: Comparison of profitability (Net Profit to Total income in percentage terms)



Source: RBI Reports on Trend and Progress of Banking in India and IFCI's Annual Reports (industry data for 31 March 2016 was provisional)

The asset quality of IFCI also deteriorated in comparison to that of the Industry as shown in Chart-3:

Chart-3: Comparison of Asset Quality (Gross NPA to total loans outstanding ratio)



Source: RBI Reports on Trend and Progress of Banking in India and IFCI's Annual Reports

As evident from the above, though the Company increased its lending operations and thereby its market share, it failed to control its asset quality since its Gross NPA ratio exceeded that of the Industry indicating poor quality of loans extended. This was also evident from the sharp decline in its profitability as against the profitability of the industry which dropped only marginally.

The Ministry stated (February 2017) that the NBFCs like IFCI Limited should be compared with other NBFCs engaged in the same business of corporate lending. It further stated that L&T Infra, Srei Infra Finance Limited and India Infrastructure Finance Company Limited were comparable entities to IFCI Limited in view of similar balance sheet size and advances and Gross NPA of these NBFCs was 3.77 per cent for 2015-16.

Chapter 3: Credit Appraisal and Sanction

3.1 Procedure for credit appraisal and sanction of credit facilities

The procedure followed by IFCI for credit appraisal and sanction of credit facilities is described below:

- Regional Offices (RO) submit loan proposals after preliminary discussions with promoters / borrowers regarding business model, requirement of funds. Further, RO carries out due diligence and 'Know Your Customer' formalities apart from reviewing eligibility criteria, financials, security etc.
- The proposal is put up to the Screening Committee (SC) headed by ED (Credit) and consisting of Chief Finance Officer (CFO)/Chief Credit Officer (CCO)/GM (Recovery), DGM (Risk), GM from field. Screening Committee is the competent authority for *prima-facie* clearance of proposals for detailed appraisal.
- After clearance of the proposal by the Screening Committee, Regional Office carries out the credit appraisal detailing the corporate / project / promoter profile, financials, cash-flow, credit rating, Debt Service Coverage Ratio (DSCR), Fixed Assets Coverage Ratio (FACR) etc. apart from information on security, due diligence, industry scenario, projected financials etc.
- After initial credit appraisal, Credit Risk Management Department (CRMD) finalizes internal credit rating of the borrower/facility representing an evaluation of the credit customer's intrinsic strengths and weaknesses.
- After the detailed credit appraisal, the proposal is put up to Credit and Investment Committee (CIC) which is headed by CEO&MD with DMD, EDs, CFO, CCO and GM (Credit) as members. CIC is the competent authority to sanction financial assistance upto ₹100 crore and recommending authority for financial assistance above ₹100 crore.
- The proposal recommended by CIC for approval are put up to the Executive Committee (EC) of Directors which is empowered to sanction financial assistance in excess of ₹ 100 crore and upto ₹ 300 crore. Financial assistance in excess of ₹ 300 crore is sanctioned by the Board of Directors.
- After sanction of a proposal, it is communicated to the respective RO for onward communication to the borrower together with all the terms and conditions for acceptance by means of a Letter of Intent (LoI).
- On acceptance of LoI by the borrower, the process of documentation is taken up including the creation of security after which disbursement is approved by the CEO&MD in line with the recommendation by the Regional Office.
- Relaxation / variation in the proposals regarding eligibility criteria, Security Cover, Loan Tenure or any other terms are to be approved by the Board of Directors. However, from 2014-15 onwards, such relaxation / variation is to be approved as per the Delegation of Powers.
- Modification and relaxation of the terms of sanction regarding interest rate, security cover and loan tenure are to be approved by the sanctioning authority. Any other terms of sanction can be modified by CEO&MD under report to the sanctioning authority.

However, from 2014-15 onwards such modification / relaxation is to be approved as per the Delegation of Power /Committee headed by CEO&MD.

3.2 General Lending Policy

For sanction of loans, IFCI is guided by its General Lending Policy (GLP) which is formulated annually and approved by the Board of Directors. The policy stipulates the eligibility criteria for various categories of borrowers in manufacturing sector, services sector, infrastructure sector etc. as well as the type of funding to Holding/Investment Companies/SPVs. The GLP also details the policy for creation of security, valuation of security, credit administration and monitoring. The GLP aims to aid sanctioning financial assistance to corporates in consonance with the main business objectives of the Company, along with compliance with the other statutory guidelines to optimize the risk return trade-off with diversified portfolio.

Audit selected and reviewed 128 cases of loans sanctioned during the four years ending 31 March 2016 with a view to examine whether the loans were sanctioned as per the extant GLP and the terms of the agreement. Out of these 128 cases reviewed, Audit observed that in respect of 69 cases (54 per cent), the loans were sanctioned in deviation from the eligibility conditions prescribed in the relevant GLP. Further, it was observed that in respect of 20 cases (16 per cent of the sample cases), the borrowers had defaulted in interest payments of ₹ 184.58 crore.

An analysis of the nature of deviations (Annexure-1) revealed that the eligibility criteria relaxed related mainly to adherence to the stipulated financial ratios, requirement of minimum security cover, nature of security and profitability of the borrower company during the previous three years etc. as shown below:

Table-3: Deviation from the norms prescribed in General Lending Policy while sanctioning loans

Sl. No.	Nature of deviations from stipulated criteria	Number of cases where deviation was noticed*	Percentage
1.	Deviation from criteria relating to financial ratios (Profitability ratios, liquidity ratios, leverage ratios and coverage ratios)	67	52
2.	Deviation from criteria as relating to credit rating, minimum net worth and previous years profitability	31	24
3.	Relaxation to the minimum security cover and nature of security and its valuations.	38	30
4.	Deviation from other stipulated conditions as per sanctioned terms	17	13
5.	Sanction to wilful defaulters	3	2

* Details of the cases where deviations were observed are given in Annexure-1. One case may fall under multiple categories of deviations.

A. Non-adherence to Financial Ratios

Assessment of the overall financial strength of an entity includes analysis of its performance and its financial indicators, as derived from the financial statements. The key parameters for this assessment are profitability ratios, liquidity ratios, leverage ratios and coverage ratios. While liquidity ratios like Current Ratio measure a firm's ability to meet its current obligations, profitability / operating ratios like margin of Gross Profit, Net Profit and Operating Profit measure management's ability to control expenses and earn a return on the resources committed. Leverage ratios like Debt Equity Ratio, Total Outstanding Liabilities to Tangible Net-worth Ratio etc. measure the degree of company's leverage i.e. its debt load. Coverage ratios like Debt Service Coverage Ratio, Fixed Assets Coverage Ratio and Interest Coverage Ratios are a measure of the degree of protection to lenders of long-term funds i.e. the Company's ability to meet its financial obligations. Thus, financial ratios provide a tool to evaluate the creditworthiness of the borrowers and measure their financial health. IFCI stipulated various minimum and maximum ratios that were to be considered, while sanctioning loans with the above objectives in mind.

Financial ratio stipulations as per financing guidelines were found to have been deviated from / relaxed in respect of 67 cases (52 *per cent*) out of the sample reviewed.

B. Deviations from credit rating, minimum net worth and borrower's profitability criteria

GLP of IFCI specified a minimum credit rating of the borrower, which reflected the credit risk involved. Credit rating from external agencies like CRISIL, ICRA, and CARE etc. were used as benchmarks. Similarly, a minimum net-worth of the borrower which reflected the credit worthiness of the entity was specified and was an important determinant of the value of the entity. In addition, profits of three years prior to date of sanction were also prescribed as criteria.

A review of the sample cases revealed that these criteria were deviated from/ relaxed in respect of 31 cases (24 *per cent* of sample cases).

C. Deviations from the Security Cover

Security management as per extant provisions of the GLP involved creation of enforceable charge over the borrower's /third party assets in favour of IFCI before the disbursement of advances / loans. Its proper valuation /storage /maintenance and insurance is required at regular intervals so that advances given by IFCI remained secured adequately. Further, the charged securities were to be periodically valued and stipulated margin as per sanctioned terms needed to be maintained throughout the credit period. The General Lending Policy also prescribed the nature of the security charged and the security classification as given below:

- (i) Primary securities were to be taken to cover the full core facilities and a charge / lien created in favour of IFCI. Acceptable kinds of securities were:

- a. For long-term loans and guarantees: Primary security was to be a charge over specific fixed assets financed.
 - b. For project loans: A mortgage of fixed assets and hypothecation of movable assets of the project was required.
- (ii) Additional security like corporate guarantee, personal guarantee of promoters, subservient⁶ charge on assets etc. could also be obtained as additional security.

Review of the loans sanctioned over the four years ending March 2016 revealed deviations from the above eligibility conditions in 38 cases (30 *per cent* of the sample cases) which defeated the objectives of the security norms of covering risks in case of default.

D. Deviation from other conditions stipulated in the GLP/terms of sanction

Certain conditions were stipulated as per the terms of sanction of the agreements as well as in the relevant GLP like restrictions on lending against shares, receipt of upfront fees / legal fees prior to disbursement, increase in loan tenure and recovery of other charges like liquidated damages etc. from the borrowers.

A review of the sampled cases brought out these deficiencies in 17 cases (13 *per cent* of the sample cases) defeating the purpose of reducing the risks involved in sanctioning the facilities.

E. Sanction to wilful defaulters

The General Lending Policy of the Company specifically prohibits the sanction of loan to the borrower whose promoter or whole-time directors are appearing in the 'Wilful defaulters' list of Credit Information Bureau (India) Limited (CIBIL). However, it was noticed that in three cases (two *per cent* of the sample cases), the Company had sanctioned the loans to the borrowers whose promoters/directors were appearing in the wilful defaulters list.

3.3 Audit findings

Few illustrative cases of major relaxations/deviations from eligibility criteria in sanction of loans resulting in loss of ₹ 25.57 crore apart from doubtful recovery of ₹1094.65⁷crore including outstanding interest of ₹ 97.03 crore are detailed below:

3.3.1 Cases of deviation from the General Lending Policy with regard to creation of security

Audit observed that IFCI had sanctioned credit facilities to borrowers by deviating from the provisions of its General Lending Policy relating to proper creation and valuation of the securities. Further, acceptance of unmarketable securities was also observed. The securities were found to be overvalued as these were not in line with the valuation method prescribed in

⁶ Subordinate charge over the assets i.e. residual charge after satisfying the lenders holding primary charge.

⁷ In cases of Monnet Ispat and Energy Limited, Bhushan Steel Limited, VBC Industries Limited and Pipavav Marine and Offshore Limited/Pipavav Defence and Offshore Company Limited.

the extant General Lending Policy. A few cases of deviations regarding security creation are detailed below:

a. *Mandava Holdings Private Limited*

The Company sanctioned (August 2014) a loan of ₹ 250 crore to Mandava Holdings Private Limited (MHPL) to be secured by an exclusive charge on tangible security (1.75 times) and pledge of unlisted shares (0.5 times) of Nuziveedu Seeds Limited (NSL, a group company) along with personal guarantee of the promoter. Total amount of ₹ 245.74 crore was disbursed (September 2014/December 2014/January 2015) in three tranches of ₹ 80 crore, ₹ 105 crore and ₹ 60.74 crore respectively while the balance was cancelled. The borrower requested (September 2014) first disbursement on the basis of mortgage of agricultural land and pledge of unlisted NSL shares. However, this land was not accepted as agricultural land was not enforceable under the provisions of Securitization and Asset Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (SARFAESI Act, 2002) and disbursement was made against pledge of NSL shares only.

Audit observed that pledge of unlisted shares was taken on the basis of a valuation done by a private party, which was considered as the market value in violation of the extant provisions of the General Lending Policy which stipulated creation of pledge at lower of book value or the price assessed by an IFCI appointed valuer. The Company neither assessed the book value of shares nor got the valuation conducted by an independent valuer. During the second disbursement (31 December 2014), IFCI accepted security of a land in a notified Special Economic Zone (SEZ) for Information Technology (IT) and IT enabled Services (ITeS) at Hyderabad despite clear stipulation (23 June 2014) by the Screening Committee of IFCI that the mortgaged property should be non-SEZ property. Reasons for deviating from the Screening Committee stipulation were not found on record. As per Rule 11(9) of SEZ Rules, 2006, the developer cannot sell the land. This put IFCI at risk in case the land was to be sold in case of default by the borrower. The outstanding amount as on March 2016 was ₹ 245.74 crore.

Management stated (November 2016) that the pledge of shares of NSL was done on the basis of valuation conducted by Axis Capital in line with the other lenders. It also stated that the SEZ Act does not restrict the developer from mortgaging the leasehold rights in favour of the lender. The legal opinion sought by the Company stated that SEZ land could be enforced under SARFAESI; however, in case of sale the transferee should use the land for industrial purpose only.

Reply is not tenable as IFCI deviated from its General Lending Policy by accepting pledge of shares of NSL without carrying out valuation by an independent valuer. Further, mortgage of SEZ land was in deviation from the Screening Committee's observation and provisions of rule 11(9) of SEZ Rules, 2006 which stipulated that the developer cannot sell the SEZ land.

b. Reliance Infrastructure Limited

IFCI sanctioned (January 2015) a corporate loan of ₹ 500 crore to Reliance Infrastructure Limited (RIL). The loan was disbursed (February 2015) by providing interim security of two times of the loan amount by way of pledge of shares of Reliance Power Limited (RPL). The primary security of first *pari passu* charge on land of Dahanu Thermal Power Station was to be created in eight months. The loan was to be repaid in 11 equal quarterly instalments after a moratorium of 27 months. The outstanding amount as on March 2016 was ₹ 500 crore.

Audit observed that IFCI sanctioned loan to RIL with a security cover of 1.25 times only as against the stipulated security cover of 1.75 times (out of which security cover of at least 1 time i.e. equal to the amount of loan was required to be in the form of tangible assets). Loan was disbursed on the basis of interim security of pledged shares of Reliance Power Limited as IFCI granted eight months' time for creation of primary security being mortgage of Government land which was originally allotted (August 2003) to Bombay Suburban Electricity Supply (BSES) and yet to be transferred to RIL⁸. However, it was observed that IFCI accepted the same security in respect of which RIL had previously failed to obtain no objection certificate from the Government of Maharashtra for creation of mortgage in February 2014 in respect of another loan. Due diligence was not exercised in accepting an unenforceable security resulting in non-creation of mortgage till date. Further, the External credit Rating of RPL, whose shares were being pledged, was 'A-' as against required minimum rating of 'A'.

The Management (April/November 2016) accepted that it waived/modified the terms of sanction in view of the borrower's reputed promoters and the mortgage of land had not been created due to the pending process of changing the name in the land register. Further, the process of obtaining necessary approval for creating the security in favour of IFCI has made substantial progress and the cover of pledged shares is 2.18 times at present (based on the closing market price on 07/10/2016) as against the stipulated cover of 2.00 times.

The reply is not tenable as the borrower's failure to obtain no objection certificate from the Government for creation of mortgage of the same land in 2014 (even after six years of transfer) did not deter IFCI from accepting the same again. Moreover, even though the security cover of shares is 2.18 times, the General Lending Policy stipulation requiring the tangible security cover not to be less than the loan amount has not yet been complied with.

c. Vishvaraj Infrastructure Limited

IFCI sanctioned (July 2015) a corporate loan of (₹ 100 crore) to Vishvaraj Infrastructure Limited (VIL) and disbursed (September 2015) ₹ 98 crore. The loan was to be repaid in 14 quarterly instalments after a moratorium of 18 months from the date of disbursement. The primary security was mortgage of a commercial complex and pledge of unlisted shares of VIL and its Special Purpose Vehicle, (SPV). This commercial complex was to be built on the land owned by Nagpur Municipal Corporation (NMC) which was transferred (8 May 2014)

⁸ The name of BSES Limited was changed to Reliance Energy Limited with effect from 24 February 2004 and the name of Reliance Energy Limited was changed to RIL with effect from 28 April 2008.

to Orange City Mall Private Limited (OCMPL), an SPV of VIL and Kakde Infrastructure Limited (KIL), for development of the above land on the basis of a Build, Operate and Transfer (BOT) Agreement. There was an outstanding principal of ₹ 98 crore (as on 31 March 2016).

Audit observed that the loan was sanctioned on a security cover of 2.41 times and current ratio of 1.1 as against the General Lending Policy stipulated minimum security cover of 2.5 times and current ratio of 1.2. IFCI also ignored warning signals of poor financial health of the borrower which were evident from the declining trend of revenue, profits, cash accruals, interest coverage etc. in 2013-14 and 2014-15. The consolidated result showed a loss of ₹ 3.45 crore in 2013-14 from a profit of ₹ 7.76 crore in 2012-13. The revenue from operations was also declining for the last two years and cash flows from operating and investing activities were negative during 2012-13 and 2013-14.

As per BOT Agreement, OCMPL was entitled to raise finance from the lending institutions and secure the same by way of hypothecation / mortgage of the project or project site with prior intimation to NMC. However, as against the requests of IFCI and OCMPL to NMC (16 and 21 September 2015) to issue no-dues certificate for creation of mortgage of the project site and project⁹ respectively, NMC permitted (28 September 2015) hypothecation/mortgage of 'project' only. It was observed that though IFCI created mortgage on the land and the structure thereon, the same would be difficult to enforce in case the borrower defaults on its loan, as it was created without NMC's permission to mortgage the project site.

As per the BOT agreement (with OCMPL), no financial encumbrance¹⁰ over the project or the project site could be created beyond the stipulated date of the contract period or its earlier termination. It also stated that the construction should be completed in all respects by 6 August 2016. In view of the above, it is observed that as the construction on the said land has not yet started, it would be difficult to enforce the mortgage in case of termination of the contract by NMC.

The Management replied (August/November 2016) that the deviations were approved by the competent authority. It also accepted the fact that OCMPL did not have ownership over the project site and stated that NMC had acknowledged that the Mortgage created in favour of IFCI on land and buildings on 29 September 2015 was legal and valid.

The reply is not tenable as the deviations were approved after ignoring warning signals on the poor financial health of the borrower and enforcement of the security would be difficult in case of default by the borrower as the permission by NMC was specifically for the project only which did not include the permission to mortgage land.

⁹ The Project under BOT Agreement includes the construction, development and operation of the facility including shopping malls, markets, hotels, commercial areas, restaurants, entertainment areas, parking area or any other development in accordance with the terms of BOT Agreement.

¹⁰ As per BOT Agreement encumbrance include mortgaged charge, pledge, lien, hypothecation or security interest or any other fetter.

3.3.2 Sanction to wilful defaulter

Audit observed that in respect of three cases, the loans were sanctioned to the borrowers whose promoters/ independent directors were appearing in wilful defaulters list. This was in deviation from the General Lending Policy. While one case is detailed hereunder, the second case relating to Sew Infrastructure Limited has been discussed in para 6.3.1 and the third case relating to Jubilant Life Sciences Limited has been mentioned in Annexure 1.

Mantri Developers Private Limited

IFCI sanctioned (June 2014, September 2014) two corporate loans of ₹100 crore each to Mantri Developers Private Limited (MDPL) to finance its real estate projects. MDPL created (June 2014, October 2014) security by way of mortgage of two plots of land located at Bangalore valuing ₹ 258.74 crore and ₹ 251.18 crore (DSV). As on 31 March 2016, the total outstanding loan was ₹ 177.39 crore.

RBI guidelines specifically prohibited the sanction of loan to listed wilful defaulters. Further, the extant General Lending Policy stipulated that no deviation shall be allowed by any sanctioning authority in extending credit facilities to the companies whose promoters were in CIBIL's wilful defaulters list. However, Audit observed that the first loan was sanctioned to MDPL by the Credit & Investment Committee of IFCI (10 June 2014) in deviation from its lending policy as the promoter of MDPL was in the CIBIL's wilful defaulter list since 2007. This deviation was approved by the Executive Committee and the Board of Directors (12 June 2014) although the General Lending Policy did not permit approval of this deviation at all. The loan was disbursed on 16 June 2014. The loan was sanctioned by IFCI without analyzing the risks highlighted by the Credit Risk Management Department regarding the poor health of MDPL with respect to its exposure of ₹ 1200 crore in its group concerns as well as the large contingent liability of around ₹ 1800 crore as on 31 March 2013. Even the projected Debt Service Coverage Ratio considered was 1.5 for the loan tenure (2014-15 to 2018-19) despite the ratios of previous two years being 0.32 and 0.36 (2012 and 2013). IFCI failed to take cognizance of the fact that the estimated growth of turnover was projected at high rates for the next three years (65 per cent, 15 per cent and 25 per cent respectively) even though the actual trend of turnover for the previous three years prior to sanction had shown only marginal growth (around 3 per cent) as pointed out in the Credit Audit Report (July 2014).

The second loan was sanctioned three months after sanctioning of the earlier loan to MDPL despite its promoter's name still appearing in CIBIL's wilful defaulters list. The financial triggers of lower income/profits in 2013-14¹¹ than those projected while sanctioning the first loan were also not taken note of before sanctioning the second loan.

Management stated (April/November 2016) that the deviation regarding promoter's name being in wilful defaulters' list was approved by the Board in June 2016. Moreover, the rich

¹¹ Actual income and PAT of ₹ 522 crore and ₹ 70 crore as against projections of ₹ 670 crore and ₹ 118 crore respectively.

experience of MDPL in the real estate sector and satisfactory conduct of the account were the factors considered at the time of sanction of the credit facility to MDPL.

Reply is not tenable as the General Lending Policy as well as RBI guidelines specifically prohibited the sanction of loan to wilful defaulters. Further, the extant GLP specifically stated that this deviation shall not be allowed by any sanctioning authority. Moreover, Debt Service Coverage Ratio should have been calculated conservatively especially in view of the opinion of its Credit Risk Management Department to calculate it under stressed scenarios to assess the adequacy of cash flows for meeting financial commitments with several projects being under execution/planning stages.

3.3.3 Sanction of loan in deviation from financial ratios

Audit observed that in respect of the cases detailed below, the loans were sanctioned in deviation from the eligibility conditions which required that the borrower's financial ratios be in line with those stipulated in the General Lending Policy. Due diligence was not exercised during credit appraisal resulting in the loans being sanctioned to the borrowers with poor debt servicing capabilities. Specific cases are discussed below:

a. Monnet Ispat & Energy Limited

The Company subscribed (February 2014/March 2014) to Non-Convertible Debentures (NCDs) issued by Monnet Ispat & Energy Limited (MIEL) amounting to ₹ 250 crore, secured by first *pari passu* charge on all fixed assets with a Fixed Assets Coverage Ratio (FACR) of minimum 1.25 times over NCD's tenure. MIEL defaulted in interest payment (November 2014 onwards) and also failed to clear the first principal repayment of ₹ 31.25 crore due on 1 April 2015. Meanwhile, its credit rating was downgraded twice from CARE A+ (at the time of sanction) to CARE A- (October 2014) and subsequently to CARE BBB- (November 2014) which gave IFCI a right to reset the coupon rate as per the terms of debenture subscription. The Joint Lenders Forum invoked (August 2015) Strategic Debt Restructuring (SDR) in pursuance of which a portion of the outstanding interest (₹ 11.69 crore) of IFCI was converted into equity¹². The outstanding principal amounted to ₹ 250 crore and outstanding interest was ₹ 22.76 crore (March 2016).

Audit observed that subscription to NCDs was made even though the security cover by way of FACR was 1.25 only as against the General Lending Policy stipulated FACR of 1.75. The observations of Credit Risk Management Department (CRMD) on low FACR were mitigated by stating that the liquidity position based on future cash flows was more relevant to service debt obligations than coverage ratios. Further, despite low FACR and suggestion of Credit and Investment Committee (CIC)/CRMD, additional security was not obtained. MIEL's average projected Debt Service Coverage Ratio (DSCR) during the tenure of NCDs was 1.29 though the General Lending Policy stipulated an average DSCR of 1.4. The DSCR projections made during the sanction turned out to be unrealistic as actual DSCR during the years 2013-14 and 2014-15 remained below one. The Company did not reset the coupon rate

¹² 34.18 lakh shares @ ₹ 34.20 (₹ 10 each at a premium of ₹ 24.20 per share).

as per the terms of debenture subscription despite the downgrading of credit rating of the borrower.

Management (November 2016) replied that MIEL was rated 'CARE A+' at the time of sanction and the banking system had a total exposure of ₹ 5540 crore in it. Profitability of MIEL suffered in Financial Year 2014-15 as the Hon'ble Supreme Court de-allocated all the coal mines including five mines allotted to the Monnet group and it also had to bear a royalty payment of ₹ 252 crore. It also stated that in a consortium arrangement, IFCI shall be guided by the terms of the consortium and hence the security cover was stipulated at 1.25 times in line with the terms of sanction of the other NCD subscribers.

Reply is not tenable as documents to establish the fact that the present facility was under a consortium arrangement were not made available. Even in consortium arrangement, Company should have adequately safeguarded its financial interest and should have obtained additional security as suggested by CIC/CRMD.

Since Strategic Debt Restructuring has been invoked whereby IFCI's share in MIEL's equity is to the extent of ₹ 11.69 crore only, the recovery of remaining outstanding amount of ₹ 272.76 crore is doubtful.

b. Bhushan Steel Limited

Bhushan Steel Limited (BSL) was sanctioned/dispensed a corporate loan of ₹ 300 crore (August/September 2013) for capital expenditure and repayment of corporate loans. This loan was to be repaid in 4.5 years after a moratorium of two years. The security of first *pari passu* charge on present/future movable and immovable fixed assets of the company was to be created within six months. It was further secured by the personal guarantee of the Directors. As BSL was facing problems in repayment of dues to its lenders on account of liquidity crunch, a Joint Lenders' Forum (JLF) was formed and Corrective Action Plan (CAP) was implemented (April 2014) by JLF. IFCI sanctioned (July 2015) an additional loan of ₹ 100 crore to it under the CAP. It had a principal outstanding of ₹ 389.58 crore and interest default of ₹ 12.96 crore (31 March 2016).

Audit observed that the loan was sanctioned in violation of the extant General Lending Policy of IFCI as the Debt Equity Ratio was 2.24:1 as against the maximum Debt Equity Ratio of 1.5:1 and the current ratio was 1.06 as against the stipulated minimum of 1.33. The average Debt Service Coverage Ratio projected for the loan period was 1.42 times as against the stipulated minimum of 1.5. It was further observed that the operating profit margins and the net profit margins declined continuously in the last three years prior to sanction and the margins were expected to further decline as per the projections for FY 2014¹³. It was pointed out by the CRMD in its risk note that reduction in profit margins might have an impact on BSL's liquidity and ability to service its debt obligations and securing the loan by way of charge on exclusive immovable fixed assets may be explored. Even then the loan was

¹³ The operating profit margins (19% in 2011, 13% in 2012, 11% in 2013) and the net profit margins (14% in 2011, 10% in 2012, 8% in 2013). The expected operating profit margin and net profit margin were 8% and 6% respectively.

sanctioned only on *pari passu* basis and disbursement was made only on the security of personal guarantee of the Directors. Even the Debt Equity Ratio had increased continuously in the last three years prior to sanction of the loan ranging from 1.83 times to 2.24 times.

Management replied (April, November 2016) that the facility was sanctioned wherein all the deviations were duly approved by the Competent Authority and the profitability was expected to improve significantly with sales going up.

The reply is not tenable as there was decline in profit margins at the time of sanction with further decline as per the projections and increase in the level of indebtedness which would impact BSL's liquidity and the ability to service its debt obligations. Further, the proposal submitted by BSL for restructuring its debts under the Scheme for Sustainable Structuring of Stressed Assets of RBI was under consideration (February 2017). Also, in view of substantial increase in its debt burden¹⁴ as well as huge losses¹⁵ during 2014-15 and 2015-16, the chances of recovery of ₹ 402.54 crore are doubtful.

3.3.4 Swapping of the credit facilities due to defaults in repayment

Audit observed that IFCI sanctioned new credit facilities to other group companies of the borrower for swapping its existing exposure in the borrower company when the borrower defaulted in the repayment of loan / buyback of equity investment. The Company, thus, closed the old facilities and swapped the same with new facilities thereby evergreening its earlier exposure which could not be recovered due to defaults. A few cases of swapping of facilities due to defaults are illustrated as under:

a. VBC Industries Limited

IFCI sanctioned (March 2013) subscription of ₹ 56.74 crore in non-convertible debentures (NCDs) of VBC Industries Limited (VBCIL) for the purpose of swapping the Company's existing exposure valuing ₹ 45 crore in the equity holdings in Konaseema Gas Power (KGPL) which was a group Company of VBCIL. The reason for the swap was KGPL's failure to honour its buyback¹⁶ commitment (July 2012) along with the failure to pay the outstanding return of ₹ 11.74 crore (@ 16 per cent) thereon till the date of buyback. The disbursement took place on 2 April 2013 with first coupon @ 5 per cent per annum being payable on 15 April 2014 and the balance return at 7 per cent per annum being payable as premium on redemption of NCDs. The security was only in the form of pledged shares of KGPL and VBCIL and no other tangible security was asked for. The borrower defaulted in payment of the first coupon (April 2014) itself and no payments were received since then. The Company re-scheduled (October 2014) the outstanding NCD assistance by funding unpaid interest of ₹ 25.83 crore from 2 April 2013 to 30 September 2016 and deferring the commencement of principal repayments to September 2018.

¹⁴ Long-term borrowings increased from ₹ 25,566.10 crore in 2013-14 to ₹ 30,927.72 crore in 2014-15 and ₹ 32,326.02 crore in 2015-16.

¹⁵ From a profit of ₹ 95.33 crore in 2013-14 to a loss of ₹ 1254.95 crore in 2014-15 and ₹ 3573.85 crore in 2015-16.

¹⁶ to repurchase the shares.

Audit observed that sanctioning of this facility was to facilitate buyback of investment of IFCI in equity shares of KGPL as it had defaulted in buying back these shares due to liquidity issues. This resulted in booking of unearned income of ₹ 11.74 crore (payable by KGPL) as it constituted the defaulted return on the equity facility sanctioned to KGPL, which was not actually received from the borrower, but was now extended as NCDs to VBCIL.

Further, the new swap facility was sanctioned without analyzing the repayment capability of the borrower. At the time of sanction, the borrower's plant was non-operational (March 2013) which IFCI did not verify as no site visits were carried out. The facility was sanctioned with insufficient and unmarketable securities, as at that time KGPL shares were unlisted and VBCIL shares were under lock-in period and thinly traded, thereby limiting the exit options for enforcement of the security in case of default by the borrower. The Company did not take any action even when the borrower expressed his inability (2 April 2014) to service the NCDs. Despite these defaults, the facility was treated as a standard asset. The Credit Risk Audit Report (July 2014) wherein this facility was ranked at High Risk, was closed with the justification that there was no deficiency in the process.

The Management accepted that the promoters had no liquidity to buyback IFCI's equity holding in KGPL or to service the assured return in view of dismal cash flow position. It admitted that the main aim of swap was to recover its dues through legal means. They accepted the fact that the borrower's operations were shut down at the time of sanction. It was further stated that VBCIL had an Earnings before interest, tax, depreciation and amortization (EBITDA) of Rupees seven crore at the time of sanction which was expected to improve with future growth in demand.

Management's acceptance revealed that the purpose of sanctioning this facility was for evergreening its equity exposure in KGPL due to buyback default. This resulted in doubtful recovery of ₹ 71.76 crore¹⁷ as on 31 March 2016 apart from future liability of the borrower as regards repayment of funded interest of ₹ 10.81 crore¹⁸ increasing the risk of IFCI.

b. Pipavav Defence & Offshore Engineering Company Limited and Pipavav Marine and Offshore Limited

IFCI sanctioned (March 2014/March 2013) loans of ₹ 150 crore and ₹ 202.22 crore to Pipavav Defence & Offshore Engineering Company Limited (PDOECL) and Pipavav Marine and Offshore Limited (PMOL) respectively for the purpose of swapping IFCI's existing exposures in respect of two facilities sanctioned earlier (May 2010 and April 2011) to SKIL Infrastructure Limited (SKIL, group company) viz. a short-term loan (STL) of ₹150 crore and Optionally Convertible Debentures (OCDs) of ₹ 200 crore.

The short-term loan to SKIL, which was swapped with loan to PDOECL, was itself sanctioned though its profits were not commensurate with its repayment capacity. Further, SKIL was already indebted to other entities to the tune of ₹ 615 crore and the group companies whose listed shares were accepted as security, were either new or were earning meager profits, which was against General Lending Policy which required that the company

¹⁷ Including the funded interest of ₹ 15.02 crore (upto 31 March 2016).

¹⁸ ₹ 25.83 crore-15.02 crore.

whose shares are pledged should be profit making and preferably dividend paying for the last three years.

Audit observed that the loan to PDOECL was sanctioned with the condition to utilize the same for part repayment of SKIL's loan despite being aware of its poor financial health. The Debt Equity Ratio was 2.33 which was higher than the GLP stipulated maximum of 1.6 and security cover was only 1.78 times as against a GLP stipulated minimum security cover of two times. Further, at the time of sanction it was unable to service its debt regularly to other consortium lenders. While swapping of this facility, IFCI adjusted (June 2014) ₹ 9.50 crore and ₹ 27.78 crore towards principal and interest respectively towards the loan taken by SKIL and waived-off ₹ 12.65 crore towards penal interest and liquidated damages which were levied due to default in the repayment by SKIL. The outstanding dues of PDOECL were ₹ 181.09 crore inclusive of interest of ₹ 31.09 crore as on March 2016.

As regards swapping of OCDs with the loan to PMOL, it was observed that PMOL was a newly incorporated company (June 2012) with a paid up capital of just ₹ 5 lakh. The security cover at the time of sanction was also inadequate being only 1.32 times as against the GLP stipulation of two times cover. While swapping of this facility, IFCI waived the return of ₹ 12.92 crore on OCDs of SKIL. The outstanding dues against PMOL were ₹ 166.50 crore inclusive of interest of ₹ 15.20 crore.

Audit also observed that IFCI has still classified both the facilities as standard assets despite the fact that the original facilities to SKIL was rescheduled and were further swapped with the loans extended to PDOECL and PMOL.

Thus, swapping of old facility with the new one within group companies resulted in circumventing it from becoming NPA and evergreening the same. IFCI's exposure as on 31 March 2016 of ₹ 347.59 crore (including interest ₹ 46.29 crore) for both the facilities remains doubtful. In addition, there was loss of revenue of ₹ 25.57 crore¹⁹ due to waiver of penal interest, liquidated damages and the return on OCDs.

The Management replied (July/December 2014²⁰ and November 2016) that sanction of loan to SKIL was a conscious business decision, based on its financial position and future plans which could not materialize due to unexpected slowdown in the economy. The account stands closed as regards SKIL. The loan to PDOECL has been restructured under the aegis of CDR. Pursuant to takeover of PDOECL / PMOL by the Reliance Group, they have made a proposal for refinancing the existing facilities on fresh terms. The new loan to PMOL was given just to improve the asset quality for investment in SKIL. The present security cover in respect thereto was 1.22 times.

Replies are not tenable as the swapping has resulted in evergreening of a doubtful facility despite repeated defaults. Sanction of STL/OCDs on the expectation of improvement in the security cover was imprudent in view of the weak financial health of the borrowers. The refinance terms of the Reliance Group were still only at the proposal stage (November 2016). The security cover of 1.22 times in respect of PMOL facility is still below the General Lending Policy stipulation of two times.

¹⁹ ₹ 12.65 crore in PDOECL and ₹ 12.92 crore in PMOL.

²⁰ Reply relates to the draft para issued to the Ministry (November 2014) now included in the Performance Audit.

Chapter 4: Compliance with Guidelines issued by Reserve Bank of India

Reserve Bank of India (RBI) issued directions to NBFCs-ND-SI which are known as Prudential Norms of RBI. As per these directions, every NBFC should, after taking into account the degree of well defined credit weaknesses and the extent of dependence on collateral security for realization, classify its loans and advances and any other forms of credit into Standard, Sub-standard, Doubtful and Loss assets. Provisioning norms have also been specified for each category of these assets. RBI also issued guidelines regarding conversion of debt into equity, restructuring and security valuation. Review of compliance with these guidelines by IFCI revealed the following:

4.1 Norms of RBI for asset classification and provisioning.

RBI stipulates that the assets in respect of which the interest or principal remains due for more than five months are classified as NPAs. Further, NPAs have to be classified into Sub-standard, Doubtful and Loss assets and provision is required to be made there against after taking into account the time lag between an account becoming non-performing, its recognition as such, the realization of the security and the erosion over time in the value of security charged as per the norms prescribed below:

Table-4: Classification and provisioning norms of RBI

Nature of assets	Classification norms	Provisioning norms
1.Loss Assets	<p>a) An asset which has been identified as such by NBFC / internal / external auditor / RBI to the extent it is not written-off.</p> <p>b) An asset which is adversely affected by a potential threat of non-recoverability due to erosion / non-availability of security or due to fraud by the borrower.</p>	The entire asset shall be written off. If the assets were permitted to remain in the books for any reason, 100 <i>per cent</i> of the outstanding should be provided for.
2.Doubtful Assets	An asset which remains a sub-standard asset for a period exceeding 16 ²¹ months.	<p>(a) 100 <i>per cent</i> provision to the extent to which the advance was not covered by the realizable value of the security.</p> <p>(b) In addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realizable</p>

²¹ Revised to 16 months w.e.f. 2015-16 from earlier norm of 18 months.

		value of the outstanding) should be made on the following basis:
<i>Period for which the asset had been considered as doubtful:</i>		<i>Provision (as per cent)</i>
<i>Up to one year</i>		20
<i>One to three year</i>		30
<i>More than three year</i>		50
3.Sub-standard assets	An asset which has been classified as NPA for a period not exceeding 16 ²² months.	A general provision of 10 per cent of total outstanding shall be made.

Compliance with the above provisioning norms was reviewed in Audit and the following deficiencies were observed:

- Loans given to Lavasa Corporation Limited was incorrectly shown as Sub-Standard instead of loss assets in terms of above RBI guidelines in view of inadequate security available and filing of a winding up petition by the Company which led to over statement of profit by ₹ 54.18 crore in 2015-16.

Management replied (November 2016) that the outstanding loan was additionally secured to the extent of 40 per cent by way of tangible security and 10 per cent provision was made on 31 March 2016 based on the period of default. The replies are not tenable in view of available security being inadequate.

- Credit facility extended to Pipavav Marine and Offshore Limited (PMOL) for the years 2013-14 and 2014-15 was shown as standard asset despite inadequate security cover, poor past track record of the group, instead of being treated as doubtful asset as per RBI guidelines. This led to over statement of profit by ₹ 79.36 crore and ₹ 151.96 crore respectively.

Management replied (November 2016) that adequate security cover was available.

The reply is not tenable as the security cover of 1.22 is still below the GLP stipulated cover of minimum 2 times.

- The security provided against outstanding loan of ₹ 38.02 crore given to Wisdom Global Enterprises Limited (WGEL) was under dispute and accordingly 100 per cent provision was required against which the Company had made partial provision. This resulted in over statement of profit by ₹ 12.10 crore in 2015-16.

Management accepted (November 2016) the fact that agricultural land which was security for this loan was under the possession of a third party, besides the fact that there was a dispute on the title of the land.

4.2 Prudential norms for conversion of outstanding principal into Debt or Equity

1. As per RBI Guidelines (March / July 2015) if debt or equity investment was created by conversion of outstanding principal it would be classified in the same asset classification

²² Revised to 16 months w.e.f. 2015-16 from earlier norm of 18 months.

category as the restructured advance. Further, such converted instruments were to be treated as 'Current Investment' and valued as under:

- (i) Equity classified as standard asset will be valued either at market value if quoted or break-up value if not quoted
- (ii) Equity investments classified as NPA should be valued at market value if quoted and at ₹ 1 if equity is not quoted.

2. Further, as per RBI Guidelines, any conversion of debt into equity should be done only in case of listed companies.

However, a review of compliance with the above guidelines revealed that:

- Unquoted equity shares of Essar Steel Limited, Neelachal Ispat Nigam Limited and Polygenta Technologies Limited acquired by conversion of debt into equity as part of restructuring, were treated as fresh investments under non-current investment instead of current investment as stipulated vide RBI Guidelines (March / July 2015). This resulted in overstatement of profit by ₹ 2.96 crore in 2014-15 and ₹ 2.05 crore in 2015-16.

Management replied (November 2016) that since the investments in these companies were not intended to be held for less than one year, these were categorized as Long Term investments as per RBI guidelines.

Replies are not tenable as these investments were converted securities for which the stated RBI guidelines were violated.

4.3 Accounting for long-term non-current investment

RBI Guidelines (March / July 2015) stipulate that long-term investment are to be valued in accordance with Accounting Standards issued by the Institute of Chartered Accountants of India i.e. Accounting Standard-13 which required that a decline, other than temporary, had to be charged to profit and loss account.

However, during 2014-15 the Company adopted a policy for provision against diminution in value of equity shares as per which no diminution was required to be provided till there was default in buyback arrangement and the decline in book value of unquoted equity was more than 75 per cent. This was in violation of the above RBI Guidelines.

Further, a test check revealed that as a result of this policy, the Company has made no / inadequate provision against long-term investment of ₹ 734.31 crore in respect of six equity investments²³ in 2014-15 despite erosion of net-worth, continuous cash losses, negative earnings per share, accumulated losses and having no / defaulted buyback commitment by investee companies.

Adoption of the same practice in 2015-16 also resulted in inadequate provision against long-term investment of ₹ 706.17 crore in respect of five of the above six companies during the previous year.

²³ ABG Cement Limited, Gayatri Hi-Tech Hotels Limited, HPCL Mittal Energy, Gujarat State Energy Generation Limited, MCX Stock Exchange and Chennai Network Infrastructure Limited.

Valuation of unquoted equity on the basis of book value alone did not reflect a true value of the investment. The diminution in the value of such unquoted shares needed to be appropriately provided for in order to reflect the true value of the investments. Valuations of investments also gain importance from the fact that assistance under financing is usually in the form of unquoted equity and buyback defaults do not get reflected in the NPA position of the Company, though these are basically bad investments.

Management replied (November 2016) that there was no short provision. However, these investments would be re-assessed by undertaking fresh valuation in 2016-17.

Replies have to be viewed against the fact that the companies in which these investments were made, were financially stressed besides having no buyback commitments/defaults in buyback.

4.4 Restructuring norms of RBI

RBI's Prudential Norms (March / July 2015) on restructuring of the advances by NBFCs stipulate that no account shall be taken up for restructuring unless financial viability and a reasonable certainty of repayment from the borrower are established. The deviations from the above norms were observed in the following cases:

- The Company sanctioned a rescheduling package (June 2015) to Gayatri Energy Ventures Private Limited (GEVPL) by excluding there from the buyback liability of ₹150 crore from the viability projection on the ground that the same was to be borne by GPL (the parent company) and not GEVPL (the borrower) whose account was being restructured. Further, restructuring was approved without analyzing the viability of repayments to be done by GPL and without taking into cognizance the deterioration in its financial health and the fact that GPL was facing liquidity crunch and all its debts were restructured under the Joint Lenders Forum (JLF²⁴) in January 2015. This action of the Company was an attempt to evergreen a weak credit facility of GEVPL.

Management's reply (November 2016) that projections of both GEVPL and GPL have been considered, is not tenable as financial viability could not have been established especially since GPL's debt was restructured under JLF in January 2015 while restructuring of GEVPL took place in June 2015.

- In respect of Ind Swift Laboratories Limited (ISLL) and Ind Swift Limited (ISL), restructuring was done (June 2013) despite losses incurred by the borrowers in 2012-13 (₹120.94crore and ₹ 119.91 crore in ISL and ISLL respectively), huge finance cost and negative cash earning per shares and the fact that the borrowers had defaulted in honouring the Corporate Debt Restructuring package of July 2012. Thus, financial viability remained to be established.

Management stated (November 2016) that the debt in respect of both the companies were assigned in March 2016. The reply has not addressed the issue of restructuring of debts without establishing financial viability as pointed out by Audit.

²⁴ A committee of lenders to formulate a joint Corrective Action Plan for early resolution of stressed account under RBI's JLF Guidelines.

- In respect of IVRCL Indore Gujarat Toll Limited (IIGTL) Indore and IVRCL Chengapalli Toll Limited (ICTL), Audit observed that the Company's assessment of the financial viability in both the cases presumed the availability of outside funds, which were to come from divestment²⁵ of the borrowers' investments in several other projects including the present one itself (ICTL) and not from internal accruals i.e. from cash flows of the projects themselves for which the facility was sanctioned. As the deeds of sale for investment were not yet concluded, the reasonability of their accruals in the projected future three years could not be assumed. Hence, financial viability remained to be established as per RBI's norms. The impact on profitability due to restructuring (due to interest reversal and additional provisioning) amounted to ₹ 13.91 crore and ₹ 13.26 crore in respect of IIGTL and ICTL respectively.

Management replied (November 2016) that the Company is in the process of selling stake in three SPVs and has also obtained consent from all the lenders for the sale process.

The replies are not tenable due to the fact that the financial viability for restructuring remained to be established as the sale of SPVs was not completed.

4.5 Norms for retrospective restructuring issued by RBI

As per RBI norms (March /July 2015), NBFCs cannot reschedule /restructure/renege borrowers' accounts with retrospective effect. Audit, however, observed violations of these norms in the following cases:

- As against the borrower's requests for restructuring in respect of IVRCL Gujarat and IVRCL Chengapalli, it was observed that IFCI granted restructuring for both w.e.f. 30 June 2014 i.e. prior to receipt of application for restructuring (October 2014 and November 2014 with respect to IVRCL, Gujarat and IVRCL, Chengapalli respectively). The reason for doing the same was to avoid the loan from turning into a NPA which would have resulted in higher NPA provisioning at 10 *per cent* instead of the present five *per cent* provided.

Management stated (November 2016) that in their understanding the interest prior to date of receipt of application can also be funded.

The replies are not tenable as restructuring of the loans with retrospective effect is not allowed as per RBI's guidelines.

- In respect of Binani Cement Limited (BCL) the restructuring proposal was approved (9 December 2014) by restructuring debts with effect from 15 February 2014 i.e. from a date prior to receipt of BCL's restructuring request (2 August 2014) which was in violation of the above stated RBI Guidelines as the account was restructured with retrospective effect.

Management stated (November 2016) that the restructuring proposal was approved by the Board on 12 August 2014 and the Master Restructuring Agreement was signed on 13 December 2014. The reply has, however, not addressed the issue of retrospective restructuring of debts as pointed out by Audit.

²⁵ It is the process of selling assets of the company for generating cash flows to pay back its debts.

Chapter 5: Loans written-off

During the period under Audit (2012-13 to 2015-16), a principal amount of ₹ 1637.87 crore was written-off by the Company as the recovery chances were grim due to inadequate / unenforceable security cover. Audit scrutiny of 11 loans written off revealed that the Company had incurred a loss of ₹ 1235.65 crore²⁶ by writing off these loans during 2012-13 to 2015-16.

A few illustrative cases highlighting various deficiencies in sanction and recovery of the loans leading to the same being written-off are given hereunder:

a. *Murli Industries Limited*

The Company sanctioned (July 2010 and August 2010) two loans of ₹ 50 crore each and disbursed (July 2010 and September 2010) ₹ 50 crore and ₹ 46.5 crore respectively to Murli Industries Limited (MIL), secured by pledge of 2.08 crore equity shares of MIL. The borrower started defaulting (December 2010) and requested for Corporate Debt Restructuring (December 2010) within four months of sanction of the second loan. The entire principal of ₹ 96.50 crore was written-off and unrealized interest amounted to ₹178.14 crore.

Audit observed that though provisions of the extant General Lending Policy stipulated credit rating of 'A' for the company whose shares were being pledged, the loans were sanctioned on lower credit ratings of 'BBB+' and 'BB-' of the borrower respectively. The General Lending Policy had also stipulated a maximum Debt Equity Ratio (DER) of 1.5:1. It was observed in Audit that the DER of the borrower was computed by considering Foreign Currency Convertible Bonds (FCCBs) and sales tax/central sales tax payable as quasi equity resulting in lower Debt Equity Ratio ranging from 0.93 to 2.06 during 2007-08 to 2009-10 whereas the actual DER ranged from 1.94 to 2.90. Despite highly volatile²⁷ movement in share prices of MIL no other tangible security was obtained. Audit also observed that out of 2.08 crore pledged shares, 7.89 lakh shares were returned (23 March 2011) to the pledgor, instead of transferring the same to IFCI's investment portfolio thereby extending undue benefit to the extent of ₹ 2.70 crore to the borrower. There was laxity in sale of the remaining pledged shares as only 47.15 lakh shares could be sold till April 2016. The share prices ranged from ₹ 93 to ₹ 95 per share when pledged and have since fallen to a range of ₹ 1.8 to ₹ 2 per share (March 2016).

Management replied (November 2016) that the rating deviation was approved by the Executive Committee. Since the market price was higher than the conversion price there was fair chance of conversion into equity shares, so FCCBs were considered as equity. The share price movement and trading volume was examined as per the prevalent General Lending Policy. The shares were inadvertently transferred to the pledgor instead of transferring the same to IFCI's demat account.

²⁶ Principal written-off ₹ 561.14 crore + unrealized interest ₹ 674.51 crore.

²⁷ ₹ 200-250 (January 2006), ₹ 1200 by July 2007, ₹ 250 (September 2008), ₹ 70 (March 2009) and ₹ 368 (17 March 2010 split to Face Value of ₹ 2 from ₹ 10).

Reply is not tenable as deviation from credit rating was imprudent as this deviation compromised the quality of security. Even after considering that the market price was higher than the conversion price, conversion of FCCBs into equity was only a probability. As a conservative measure, FCCBs should not have been considered as equity for calculating DER as conversion was to take place at a later date. The fact remains that despite volatility in the share prices no additional security was obtained.

b. *Sree Metaliks Limited*

IFCI sanctioned (May 2011) a financial assistance of ₹ 75 crore to Sree Metaliks Limited (SML) by way of Optionally Fully Convertible Debentures. The first tranche of ₹ 56 crore was disbursed in May 2011 and balance ₹ 19 crore in September 2011. The facility was secured by pledge of 49 *per cent* unlisted equity shares of SML and personal guarantee of two promoters. As SML was making delayed payments and was in default from May 2012, the account became NPA (December 2012). Personal Guarantee of the promoters was invoked in January 2013 and SML made reference to BIFR (August 2014) on erosion of net worth. The entire principal of ₹ 75.34 crore was written-off and the unrealized interest was ₹ 87.72 crore.

Audit observed that IFCI accepted unlisted equity shares of SML as security for the loan without ascertaining availability of exit options in case of default by the borrower. Later these shares could not be sold despite repeated attempts (September 2012 and February 2014). IFCI did not take cognizance of the fact that Orissa steel units were facing closure due to raw material crunch. Hence, IFCI failed to mitigate the raw material risk which was also highlighted by CRMD that the volatility in the prices of raw material / non-availability of supply of iron ore etc. could have negative impact on financial performance of SML. Moreover, the profitability parameters of the borrower had also declined in the year prior to sanction.

The Management replied (November 2016) that it was aware of the probable increase in raw material prices due to short supply; however, since SML was allotted iron ore mine singly as well as jointly so it expected that it would overcome these constraints.

The reply is not tenable as the vital factor of non-availability / volatility in the prices of raw material, which would negatively impact the financial performance of SML, was overlooked at the appraisal stage. The Company also ignored the fact that SML could not obtain mining rights pending necessary permissions/clearances before sanction even after the expiry of three to five years from the allocation of iron ore mines in February 2008 (singly held by SML) and in January 2006 (jointly held).

c. *Glodyne Ventures and Holding Private Limited*

IFCI sanctioned three term loans to Glodyne Ventures and Holding Private Limited (GVHL) of ₹ 50 crore (June 2010 (TL-1)), ₹ 25 crore (September 2010 (TL-2)) and ₹ 25 crore (May 2011 (TL-3)). The loans were disbursed in July 2010, October 2010 and May 2011 respectively on the security of pledge of 2.5 times (for the first two loans)/2.25 times (third loan) equity shares of Glodyne Technoserve Limited (GTSL), a group company, and personal

guarantee of the promoters. The borrower defaulted in repayment of all the three loans (January/March/April 2012) and personal Guarantee was invoked in February 2013. GVHL is presently under liquidation. The outstanding principal of ₹71.59 crore was written-off and the unrealized interest was ₹ 67.43 crore.

Audit observed that the pledgor Company (GTSL) had no credit rating as against the stipulated General Lending Policy requirement that the company whose shares were being pledged should have a credit rating of 'A'. Further, all the loans were sanctioned only against pledge of shares without obtaining any other tangible security despite share prices being highly volatile in the year prior to sanctions²⁸. IFCI also waived the term of sanction which stipulated that the initial security would not be released/returned under any circumstances until the final settlement of the loan and released 37.81 lakh²⁹ pledged shares on three occasions. As the borrower failed to clear the principal/interest instalments, Event of Default (EOD) was declared (January/March/April 2012) by IFCI. IFCI sold (May 2012) 2.39 lakh pledged shares and recovered ₹ 9.90 crore. Subsequently, it did not sell any of the remaining pledged shares from June 2012 to October 2012 even though the terms of sanction clearly stated that security would become enforceable on the occurrence of EOD. When IFCI decided (22 October 2012) to resume the sale of shares, the share price had already fallen to ₹ 63.45 (19 October 2012) from ₹ 425.85/share (25 June 2012).

The Management replied (August/November 2016) that the facility was sanctioned and modified keeping in view the General Lending Policy, the extant market practice against the pledge of shares and as a part of the normal business operations. It also stated that the release and pledge of shares was a common practice and keeping in view the satisfactory track record of the company, cancelling the facility and recalling the loan would have been difficult and time consuming.

The replies are to be viewed against the fact that no tangible security was obtained during sanction of the loan and therefore, release of excess shares in violation of the terms of the agreement was not in the best interest of the Company. Despite occurrence of EOD and availability of adequate security cover, IFCI did not sell the remaining pledged shares³⁰ (from June 2012 to October 2012).

d. Jupiter Biosciences Limited

The Company sanctioned/disbursed (December 2009/February 2010) a loan of ₹ 60 crore to Jupiter Biosciences Limited (JBL) which was to be secured by first *pari passu* charge on movable and immovable assets of the borrower (three manufacturing units), hypothecation of stock on second charge basis, mortgage of collateral security having minimum Distress Sale

²⁸ For the loans sanctioned on 14 June 10 and 27 September 10, the price of GTSL (per share) on 30/7/09 was ₹ 643.75, on 18/9/09 was ₹ 389.1, on 15/4/10 was ₹ 756.8, on 8/6/10 was ₹ 592 and ₹ 1041.95 on 21/9/10.

For the loan sanctioned on 6 May 2011 GTSL's price (per share) was ₹ 592 on 8/6/10 and ₹ 1041.95 on 21/9/10, ₹ 643.75 on 9/12/10, ₹ 744.1 on 3/2/11, ₹ 389 on 18/2/11 and ₹ 413.7 on 29/4/11.

²⁹ 5 lakh, 17.81 lakh and 15 lakh in March 2011, September 2011 and June 2012 respectively.

³⁰ Average closing price for the last three months was ₹ 356.20/share and security cover was more than 2.5/2.25 times in June 2012.

Value (DSV) of ₹ 12 crore, pledge of five lakh unlisted shares of JBL held by its promoters with a condition to get listed by 9 June 2010, corporate guarantee of the subsidiary company and personal guarantee of the promoter. The borrower repaid only the first three quarterly principal instalments of ₹ 4.25 crore each (September, December 2010 & March 2011) out of total 14 quarterly instalments commencing from September 2010. Due to subsequent defaults in payment of interest and principal repayment (April/June 2011 onwards) the loan was recalled, personal guarantee was invoked and the account was classified as NPA by IFCI (December 2011). The Company took possession (February 2012) of two collateral properties, three manufacturing units (May/August 2012) as per decision in the joint meeting of lenders (April 2012). In March 2014, the borrower and its directors were declared wilful defaulters by the Company. The principal outstanding of ₹ 45.73 crore was written-off and unrealized interest amounted to ₹ 87.57 crore.

Audit observed that IFCI disbursed the loan amount without creation of primary security (*pari passu* first charge on assets) and allowed three months from the date of disbursement for the same though General Lending Policy stipulated creation of security before disbursement. The *pari passu* charge in favor of the Company could be created on only one manufacturing unit out of three due to non-receipt of NOCs from the other lenders for Unit-II and attachment of Unit-I by the Income Tax Department for recovery of its dues. As the terms of sanction stipulated mortgage of properties (collateral security) with minimum Distress Sale Value of ₹ 12 crore, the Company accepted (February 2010) mortgage of two properties (Hyderabad and Karnataka) with valuation of ₹ 13.37 crore (₹ 8.45 crore and ₹ 4.92 crore). However, these properties were finally sold (October 2012 and November 2013) for ₹ 1.79 crore (Hyderabad- ₹ 1.39 crore and Karnataka- ₹ 0.40 crore) only which was only 14.9 *per cent* of the stipulated minimum DSV of ₹12 crore. Moreover, the pledged shares of JBL held by the promoters could not be listed. Conditional acceptance of unlisted shares without any viable exit mode in case of default resulted in it remaining a security in name only. There was no credit rating of the borrower's debt, despite the fact that it had exposure (31 March 2009) in the form of term loans (₹ 244.12 crore) and working capital loans (₹ 44.26 crore).

Management in its reply (November 2016) accepted the audit observations and mentioned that the lapses were being investigated and staff accountability fixed.

e. KLG Systel Limited

The Company sanctioned and disbursed (August 2009) a loan of ₹ 50 crore to KLG Systel Limited (borrower) which was to be secured by first *pari passu* charge on all the fixed assets of the borrower, escrow account of specified receivables and personal guarantee of the promoters. The borrower paid ₹ 4.17 crore (November 2010) out of ₹ 6.25 crore due against the first instalment while the due dates for repayment of the remaining amount and the next principal instalment (February 2011) were revised to May 2011 and August 2011 respectively. The borrower was referred to Corporate Debt Restructuring (CDR) in April 2011 and the Company sanctioned (January 2012) a restructuring package to the borrower. However, as the CDR scheme failed (March 2013) IFCI recalled the loan and invoked the

personal guarantee of the promoters in May 2013. In January 2014, the Hon'ble High Court of Punjab and Haryana passed winding-up order against the borrower due to failure to redeem the FCCBs issued by the borrower to a foreign investment Company³¹. The outstanding principal amount of ₹ 45.83 crore had to be written-off and the unrealized interest amounted to ₹ 70.48 crore.

Audit observed that the loan was sanctioned even though the security cover by way of Fixed Assets Coverage Ratio (FACR) was 1.13³² only as against the General Lending Policy stipulated FACR of 1.5. IFCI disbursed the loan amount without creation of primary security (first *pari passu* charge on all fixed assets) and allowed three months from the date of disbursement for creation of security in deviation from the extant General Lending Policy which stipulated creation of security before disbursement. The terms of agreement provided for payment of additional interest in case the borrower failed to create the security within 3 months. IFCI waived an amount of ₹ 16.26 lakh (approx) of additional interest despite non-creation of security within the stipulated period of three months.

Management (November 2016) stated that the loan was disbursed after creation of security of hypothecation of movable assets and 50 *per cent* of the additional interest amounting to ₹ 16.26 lakh was waived-off due to 'in-principle' approval from SBI (another lender) for extension of charge on the assets.

Reply is not tenable as the disbursement without creation of primary security was imprudent in view of less than stipulated FACR. Further, the value of movable assets at the time of disbursement was not found on record. The waiver of penal interest on the basis of an 'in-principle' approval was not in the best interest of the Company as primary security was not created.

f. TRS Technology Private Limited

IFCI sanctioned (February 2010) a loan of ₹ 100 crore to TRS Technology Private Limited (TTPL) which was secured by pledge of listed equity shares (2.25 times cover³³) of Shiv-Vani Oil and Gas Exploration Services Limited (SVOGL, Promoter) and personal guarantee of the promoters. The loan was rescheduled twice³⁴ with provision of additional security whereby TTPL offered to hypothecate certain movable assets (drilling rigs) with an estimated value of ₹ 90 crore which the Company accepted (March 2013) without any independent valuation. Due to defaults in repayment, the Company sold the pledged shares and recovered an amount of ₹ 15.78 crore. However, the recovery action initiated (October 2013) for sale of hypothecated assets under SARFAESI Act was still pending. The outstanding loan amount of ₹ 68.85 crore had been written-off and the unrealized interest was ₹ 38.84 crore (31 March 2016). The Company reported (January 2015) this case to RBI as a fraud in view of inflated valuation of the assets by the borrower.

³¹ Bank of New York Mellon, London branch vs. KLG Systel.

³² After excluding intangible assets.

³³ Which included 76.24 lakh shares as direct pledge and 28.02 lakh shares held as NDU/POA.

³⁴ April 2012 and March 2013 due to liquidity problems with the promoter company.

Audit observed that due diligence was not conducted at the time of acceptance of movable assets offered as additional security as the Company relied upon the valuations submitted by the borrower instead of carrying out an independent valuation while accepting the security (March 2013) despite the fact that asset was reported to be eight years old and was lying idle at the site. It was later known at the time of independent valuation carried out to initiate action under the SARFAESI Act that this asset had a lower valuation of ₹ 13.50 crore (DSV-February 2014) and ₹ 9.80 crore (June 2014) as against the borrower's valuation of ₹ 90 crore. Due to this, the asset could not be sold at the auction under the SARFAESI Act till date (March 2016) despite lowering the reserve price to ₹ 4.05 crore. Second rescheduling (March 2013) was granted despite weak financial position of the borrower as it was incurring losses for the past two years (2011-12 and 2012-13) with negative cash flows, earlier outstanding dues being recovered by sale of its pledged shares fetching ₹ 8.60 crore in February 2013, net-worth turning negative over the past two years and defaults amounting to ₹ 10.77 crore being reported in the loan given to the borrower's group Company (SVOGL). Even the 28.02 lakh shares held under Non Disposal Undertaking (NDU)/Power of Attorney (POA) were not sold.

The Management accepted the fact that the security of the rig was accepted without conducting independent valuation as it relied on the invoice and insurance cover provided by the borrower. It stated that the shares which were held under Non Disposal Undertaking / Power of Attorney were not sold as no substantial recovery was possible. It further stated that this was to provide additional security cover for which there was no methodology for valuation and the Company accepted the valuation submitted by the borrower in good faith. Being technical equipments these were not valued during site inspection. It further stated that failure to sell the rig at the auction could not be attributed to valuation.

The replies are not tenable as acceptance of security without conducting independent valuation reflected the weakness in the Company's standard operating procedures. Relying on the borrower's valuations was not justified as the borrower (TRS) was not even the owner of the rig but was only the lessee. The insurance policy also did not record the lien of IFCI as required under GLP (2012-13). Negligence on the part of the Company in not having the hypothecated assets valued prior to acceptance of the same resulted in inadequate security cover being created. The fact that the shares under NDU/POA could not be sold reflected the inferior quality of the security accepted as in the case of default these could not be enforced.

g. ESS ESS Exim Private Limited

IFCI sanctioned (January 2011) a loan of ₹ 50 crore to ESS ESS Exim Private Limited (EEEPL) and disbursed the same on 30 March 2011. The security consisted of pledge of 2 times the value of equity shares of Surya Pharmaceuticals Limited (SPL, a group concern) at ₹ 101.93 crore and personal guarantee of the promoter. There was security shortfall (August/September 2011 onwards) and additional shares were pledged for top-up³⁵ of the security cover as per the agreement. Later, there were principal/interest defaults and the

³⁵ Top-up of the security at 15 per cent fall in share price i.e. 4.87 crore shares till April 2012.

security cover fell to 1.58 times (April 2012). The loan was recalled and personal guarantee was invoked (May 2012). The borrower group had filed reference before BIFR in December 2013. Though Debt Recovery Appellate Tribunal ordered (January 2016) the borrower and the guarantor to pay ₹ 49.20 crore (January 2016) to IFCI, no recovery could be made till date. The Company, despite having sold the majority of shares³⁶, could not recover all its dues. The principal of ₹ 44.21 crore outstanding was written-off and the unrealized interest was ₹ 44 crore.

Audit observed that as against the extant General Lending Policy's stipulated credit rating of 'A' for the company whose shares were being pledged, SPL was rated 'LBBB-'³⁷ by ICRA. The eligibility criteria of the borrower were not checked and only the eligibility criteria of the pledgor company, SPL, were verified while sanctioning the loan. Further, the borrower's net worth was ₹ 22 crore only and the repayment capacity was also not properly assessed as it had a total income of ₹ 19 lakh *per annum* (31 March 2009). Moreover, the Company accepted SPL's shares as primary security without obtaining any other tangible security despite the fact that the Credit Risk Management Department, in its risk note, had pointed out the risk of erosion in the value of its equity shares. Out of the total pledged shares, 21.43 *per cent* were locked-in till March 2014 but the same were also considered as primary security despite the fact that these could be sold only after March 2014. Immediately after the sanction, the moratorium period was increased from six months to 12 months and number of monthly instalments was raised from 24 to 48 thereby prolonging the repayment period.

The Management replied (July/November 2016) that though the profitability and liquidity ratios had come down, the proposal for increasing the moratorium as well as the repayment period was accepted due to net cash projections and higher interest rate offered. It also stated that the loan against pledge of shares was sanctioned by the competent authority.

Reply is not acceptable as the financial parameters of the borrower (determinants of repayment capability) were not considered during credit appraisal. Further, the Company sanctioned loan only against shares³⁸ without obtaining any other tangible security despite security risk of shares being pointed out by the CRMD. The change in the terms of sanction was not justified in view of the risk involved due to existing financial parameters.

h. Sthiti Insurance Services Private Limited

IFCI sanctioned (March 2011 and August 2011) and disbursed loans of ₹ 50 crore and ₹ 30 crore to Sthiti Insurance Services Private Limited (SISPL) against security of shares³⁹ of Zylog Systems Limited (ZSL), a group company promoted by the borrower, with a stipulated security cover of 2.25 times. Due to liquidity crunch, SISPL was in default in repayment from March 2012 and the loans were declared (September 2013) as NPA. The outstanding

³⁶ As on May 2016, 54 lakh shares out of 9.60 crore shares could not be sold as trading in SPL's shares was suspended.

³⁷ Indicating moderate degree of safety regarding timely repayment for long term debts.

³⁸ In 52 weeks prior to sanction, high/low share price of SPL was ₹ 356.80/₹ 108.55 in NSE.

³⁹ 39.25 lakh shares at the rate of ₹ 405 per share (September 2011 based on 3 months average) .

principal amount of ₹ 41.89 crore as on March 2016 was fully written-off and unrealized interest was ₹ 24.82 crore.

Audit observed that there was deficient credit appraisal as the Company sanctioned the loan despite being aware that SISPL had no credit rating and its net worth was ₹ 14.06 crore as against the General Lending Policy stipulation of ₹ 100 crore. Further, the loan was sanctioned without obtaining any tangible security. Instead, the Company released the pledged shares twice (March 2012 and September 2012) despite the borrower failing to fulfil its commitment of clearing outstanding overdues. This proved costly to IFCI as there was overdue of ₹ 6.88 crore as on 17 October 2012 and IFCI decided to sell 2.44 lakh pledged shares to recover the same. However, after recovering only ₹ 2.20 crore by selling 0.90 lakh shares, the Company relied upon the borrower's assurance to clear the overdue and put the sale on hold (19 October 2012) despite being aware that it had repeatedly failed to clear the overdue. Since SISPL again failed to clear the overdue, IFCI decided (31 October 2012) to resume the sale of shares but by then the share price had fallen significantly⁴⁰. Resultantly, it could recover only ₹ 22.20 crore by selling all the pledged shares.

The borrower approached the Hon'ble High Court of Madras and obtained (November 2012) a stay order against sale of shares. Afterwards, the Hon'ble court directed (December 2012) the borrower to provide additional security and also restrained IFCI from taking coercive steps except sale of pledged shares. Accordingly, SISPL offered additional security in the form of mortgage of third party land. However, lack of due diligence in conducting title check thereof while accepting (December 2012) it as additional security resulted in it remaining unenforceable under the SARFAESI Act, when the Company realized (December 2014) that the title deed of the land was forged. It was belatedly reported as a fraud case to RBI (July 2015) and to the Central Bureau of Investigation (CBI) (August 2015).

Management replied (November 2016) that as the borrower did not have financial capability to service the loan it was sanctioned based on ZSL's financial strength whose shares were kept as security.

Reply is not tenable as financials of the borrower were weak and should have been given due consideration so as to safeguard IFCI's financial interests.

i. Ramsarup Industries Limited

The Company sanctioned (December 2009, March 2010) two corporate loans of ₹ 20 crore and ₹ 11.6 crore to Ramsarup Industries Limited (RSIL) which were secured primarily by way of pledge of 78.75 lakh equity shares of RSIL, lien over Debt Service Reserve Account⁴¹ (DSRA) of three months interest and personal guarantee of the promoter. Additional security by way of mortgage of agricultural land was taken in May 2011. The loans were restructured twice in November 2010 and June 2011 but the borrower failed to pay the dues and started defaulting from 15 July 2011. All the manufacturing plants of the borrower were closed down and the net worth turned negative. Due to defaults, the account turned into a NPA since January 2012. The borrower made a reference (7 November 2012) to BIFR which was abated

⁴⁰ From ₹ 282.85/share on 17 October 2012 to ₹ 134 on 1 November 2012.

⁴¹ It is an account in which an amount equal to the debt service obligations for a specified period is kept.

(19 February 2014). The entire principal outstanding of ₹ 24.79 crore was written-off and unrealized interest amounted to ₹ 37.67 crore.

Audit observed that the loan was sanctioned despite the fact that the borrower had high Debt Equity Ratio (DER) of 3.38 and had incurred loss in the year prior to sanction (2008-09) as against the extant General Lending Policy stipulated requirement of maximum DER of 1.5 and being profit making in the last three years. Even though there was volatility⁴² in share prices of RSIL before sanction of the first loan, IFCI did not insist on any other tangible security. There was laxity in selling the pledged equity shares in time to recover outstanding dues as the Company sold only 9.7 lakh shares⁴³ out of 78.75 lakh pledged shares, despite there being ample trading volume⁴⁴ in RSIL shares.

Management replied that the shares were not sold in lieu of additional pledged shares of 21.50 lakh (in lock-in period) by way of Non-Disposal Undertaking/Power of Attorney and because of additional security of mortgage of land and rescheduling of loan (30 November 2010). Keeping in view the Corporate Debt Restructuring a second rescheduling was approved (June 2011).

Reply needs to be viewed against the fact that the easily enforceable primary security of pledged shares was not sold on time to recover its outstanding dues. Rescheduling of loan in November 2010 was done despite the fact that the borrower had been referred to the CDR cell for debt restructuring and the locked-in shares could not be sold while agricultural land had little value and was unenforceable under the SARFAESI Act.

j. *Elem Investments Private Limited and Fincity Investments Private Limited*

IFCI sanctioned (October 2008) term loan of ₹50 crore each to Elem Investments Private Limited (EIPL) and Fincity Investments Private Limited (FIPL) for repayment of borrower's existing loans of DSP Merrill Lynch Capital Limited. The security was 3.5 times pledge of shares of Maytas Infra Limited (MIL, a group company), mortgage of commercial property (0.5 times) and personal guarantee of the promoters. However, the security clause was modified (7 November 2008) before disbursement to pledge of 1.03 crore shares of MIL (4.25 times) valuing ₹ 447 crore, 9.7 lakh shares of Satyam Computers Services Limited (SCSL) (0.20 times) valuing ₹ 22.77 crore and mortgage of immovable property (1.25 times) and the Letter of Intent was issued on 10 November 2008. Disbursement of ₹ 42.50 crore each was made (1/ 4 December 2008) to FIPL and EIPL and the remaining undisbursed amount of ₹ 7.5 crore each was cancelled (19 June 2009).

⁴² ₹ 70-80 (March 2006), ₹ 130-145 (March 2007), ₹ 190-280 (December 2007-January 2008), ₹ 28-32 (December 2008), ₹ 80-85 (December 2009).

⁴³ October 2010, November 2010, September 2014/November 2014. Total amount recovered by sale of shares- ₹ 189.19 lakh.

⁴⁴ During October –December 2010 as well as January 2011 to September 2011 there was a total Trading volume of 1.36 crore shares and 1.39 crore shares respectively on NSE and BSE.

As EIPL and FIPL failed to provide top-up for security cover and cash margin as per the agreement⁴⁵ (29 December 2008), IFCI cancelled the facility (7 January 2009) and invoked the pledge of shares subsequent to the discovery of fraud in Satyam Computers by falsification of accounts. An amount of ₹ 90.08 crore was realized through sale of all the shares out of which ₹ 5.35 crore was lying in no-lien account as per the directions of the Enforcement Directorate due to investigation against SCSL. IFCI issued (October 2009) the recall notice and invoked (November 2009) the guarantees which were not honoured. The outstanding principal of ₹ 11.11 crore was written-off and the unrealized interest was ₹ 37.84 crore in respect of both the loans (31 March 2016).

During review, Audit observed that the eligibility criteria of the borrowers were not checked and only the eligibility criteria of the pledgor company, MIL, was verified while sanctioning the loans. Further, the Company did not obtain credit information reports from other lenders especially DSP Merrill Lynch Capital Limited to analyze the payment history/creditworthiness of the borrower. The loans were disbursed only against the pledge of shares without obtaining any tangible security.

It was also observed that the sanction letter and LOI clearly stated that mortgage of commercial/ immovable property should be created but IFCI accepted the mortgage of agricultural land (30 December 2008) without due diligence as the valuation of ₹ 84.10 crore (17 December 2008) was arrived at by considering the land as residential, instead of an agricultural land. IFCI did not conduct any site visit nor carried out any independent verification of land use before accepting the agricultural land as security. IFCI got the valuation of this agricultural land done in January 2016 as per which, the realizable value was stated as ₹ 4.62 crore.

While the Company delayed by almost seven years in reporting the case of EIPL (9 November 2015) to RBI as a fraud case despite being aware of the inflated valuation of the mortgaged property within a month of disbursement itself (30 December 2008), it has not yet reported FIPL as fraud case to RBI despite the fact that in both cases the mortgaged property was the same and its valuation was inflated.

The Management replied (August, November 2016) that the loan was sanctioned based on the financial strengths of MIL whose shares were pledged as security for the loan. The Satyam scandal resulted in IFCI insisting upon the company to create mortgage immediately and accepted agricultural land as security instead of the original commercial property as stated in the terms of the sanction.

The reply is not tenable as the financial parameters of the borrowers (determinants of repayment capacity) were not considered during credit appraisal. Moreover, IFCI accepted the security of agricultural land instead of commercial/immovable property and even this mortgage was created on 30 December 2008 i.e. prior to emergence of Satyam Scam on 7 January 2009.

⁴⁵ Top-up of additional shares required when market value of pledged shares fell by 5% to 20% of initial value and further fall in market value of pledged shares i.e. above 20% would be compensated by the top up of the cash margin.

k. Ind Swift Laboratories Limited and Ind Swift Limited

IFCI sanctioned/disbursed term loans of ₹ 50 crore each to Ind Swift Laboratories Limited (ISLL) in July/August 2009 and Ind Swift Limited (ISL) in October/November 2009. The security was first *pari passu* charge on all the present and future immovable and movable assets of ISLL and ISL and personal guarantees of the promoters. Both the borrowers defaulted in repayment after July 2012 and went into Corporate Debt Restructuring (CDR). IFCI did not participate in CDR and accepted the borrowers' proposals for restructuring of the dues (June 2013). Even after restructuring, the borrowers defaulted and the restructuring package was revoked (September 2014). The account, however, became NPA (31 March 2014), the recall notice was issued (December 2014) and guarantees were invoked (January 2015). The winding-up notices were issued on 19 June 2015 and the case for recovery was filed in July 2015. IFCI assigned (February 2016) its total outstanding (December 2015) of ₹ 62.18 crore to Edelweiss ARC Limited and received Security Receipts and cash valuing ₹ 26.88 crore⁴⁶.

In this regard, Audit observed that both the loans were disbursed on the basis of interim security of corporate guarantee only and the charge on all assets was created only after one year⁴⁷ from the date of disbursement (December 2010). Further, the Company kept on ceding (February, April and December 2011⁴⁸) its first *pari passu* charge in favour of other lenders amounting to ₹ 158.25 crore without demanding any collateral security which in effect resulted in the same security being shared by many lenders in case of default by the borrower. Further, ICRA had downgraded the ratings of loan outstanding in June 2012 due to deterioration in the financial performance and significant financing risk arising on account of large debt repayment in the near future.

It was further observed that IFCI, instead of taking quick action for recovery, restructured (June 2013) the dues despite being aware of the losses incurred by the borrowers (loss of ₹ 120.94 crore and ₹ 119.91 crore in ISL and ISLL respectively in 2012-13), huge finance cost (₹ 86.41 crore and ₹ 139.61 crore in ISL and ISLL respectively in 2012-13) and negative cash earnings per share. The Company failed (October 2015) in its first attempt to sell/assign its debt as no bids were received. Subsequently, the reserve price was reduced (January 2016) by 10 *per cent* and eventually, only single party submitted the bid and the assignment was approved (February 2016) for ₹ 26.88 crore.

The Management replied (November 2016) that as long as ISL was meeting minimum stipulated security cover through mortgage, the *pari passu* charge was ceded in favour of new lenders.

The reply is not tenable as quick action of recovery by enforcing security on *pari passu* basis is difficult and therefore ceding first *pari passu* charge in other lenders was not in best interest of the Company. This has resulted in a loss of ₹ 35.30 crore.

⁴⁶ ₹4.03 crore as cash and ₹22.85 crore as SR.

⁴⁷ As per the Lending Policy security should be created before disbursement of loan.

⁴⁸ FACR was 1.69, 1.61 and 1.54 in December 2010, March 2011 and November 2011 respectively.

Ministry's Response to cases of loans written off

Ministry stated (February 2017) that many cases involving write-off of loans are those which were sanctioned when IFCI was understood to be a private company and the first instance of default also occurred before majority shareholding passed to the Government. Since these issues are Board level decisions, it would not be appropriate for the Ministry to comment.

Reply is not justified in view of the fact that two instalments of grant-in-aid amounting to ₹ 520.31 crore⁴⁹ were released to IFCI even after the shareholding of the Government Controlled Institutions had fallen below 51 *per cent* by March 2005. Even during 2008-09 to 2011-12 when these cases were sanctioned, Government controlled entities had significant shareholding (approximately 45 to 46 *per cent*) in the Company. Also, the burden of these written-off loans had been borne by IFCI after it became a deemed Government Company in December 2012.

⁴⁹ ₹300 crore in 2005-06 and ₹220.31 crore in 2006-07.

Chapter 6: Non-performing Assets

The position of Non-performing Assets (NPAs) in any financial institution is an important indicator of its financial position and has a direct effect on profitability. As per RBI Guidelines, if interest or instalment of principal remained due for more than five months, loans were to be classified as NPAs. NPAs were further classified into Sub-Standard, Doubtful and Loss Assets. The Sub-Standard Assets included those assets which remained NPA for a period not exceeding 16 months⁵⁰ while Doubtful Assets included those which remained Sub-Standard Assets for a period exceeding 16 months. Loss Assets were those assets where loss had been identified by the Company or by the internal or external auditor or by the RBI but the amount had not been written-off wholly and an asset which had been adversely affected by a potential threat of non-recoverability due to erosion in the value of security or non-availability of security due to any fraudulent act or omission on the part of the borrower.

6.1 Status of NPAs in IFCI

The category wise classification of NPAs (413 cases) of ₹ 3544.54 crore as on 31 March 2016 for the last four years is detailed hereunder:

Table-5: Status of NPAs

(₹in crore)

Sl. No.	Particulars as on 31 March (cumulative)	2013	2014	2015	2016
1.	Classification of loans				
	Standard Assets	12852.42	16538.85	22849.06	23610.60
	Non-performing Assets:				
(i)	Sub-standard Assets	1624.40	1735.96	1306.37	2319.61
(ii)	Doubtful Assets	288.37	1033.71	1083.51	1114.82
(iii)	Loss Assets	1150.13	681.68	227.32	110.11
	Gross NPAs ⁵¹ (i+ii+iii)	3062.90	3451.35	2617.20	3544.54
2.	Total loan outstanding	15915.32	19990.2	25466.26	27155.14
3.	Gross NPA Ratio (%)	19.24	17.27	10.28	13.05
4.	Unrealized interest	66113.80	72036.53	87676.77	106752.78
5.	Principal written-off	597.93	1167.91	1832.05	2235.80

As seen from the above, the gross NPA ratio as on 31 March 2016 was 13.05 per cent of the total loan outstanding which is significantly high as compared to that of the industry i.e. 3 per cent given at Chart 3 earlier. It was also observed that out of total Gross NPAs as on 31 March 2016, NPAs amounting to ₹ 2794.58 crore (78 per cent) originated during the last three years.

⁵⁰ Revised to 16 months w.e.f. 2015-16 from earlier norm of 18 months.

⁵¹ Break-up of NPAs as per Asset Classification provided by Management. However, there were minor variations in these figures from the Gross NPA figures as reported in the Financial Statements of respective years.

A higher percentage of NPAs indicated improper evaluation and credit appraisal of loan applications. During the period under Audit (2012-13 to 2015-16), the amount of Sub-Standard and Doubtful Assets increased by ₹1521.66 crore. A decline in the Loss Assets by ₹ 1040.02 crore was primarily due to increase in the loans being written-off by ₹ 1637.87 crore during this period. It was observed that due to NPAs, the unrealized interest⁵² increased by ₹ 40638.98 crore during the review period. This unrealized interest includes accrued interest that was reversed on the date these assets turned into NPA as well as the interest that would have been earned on these assets till 31 March 2016 had these cases not turned into NPA.

The Ministry stated (February 2017) that RBI prohibits the recognition of interest once the account becomes NPA.

Though it is a fact that RBI prohibits recognition of interest once the account becomes NPA, Ministry's reply needs to be viewed against the fact that this amount represents the interest income which would have been earned by the Company had these cases not turned into NPA. Accordingly, observation of audit needs to be viewed from propriety angle rather than merely the accounting angle.

6.2 Status of Restructured Loans

The Company resorted to restructuring of loans as requested by the borrower due to stretched liquidity and cash flows, operational losses, stalled and incomplete projects, borrower's incapability to service interest / interim returns, and repayment of principal instalments. Such restructuring has to be approved based on RBI prudential norms for restructured advances. The details of loans restructured by the Company for the last four years are enumerated below:

Table-6: Details of restructured loans during the period 2012-13 to 2015-16
(₹ in crore)

Particulars	2012-13 ⁵³		2013-14		2014-15		2015-16	
	Cases	Amount outstanding	Cases	Amount outstanding	Cases	Amount outstanding	Cases	Amount outstanding
Opening balance	-	-	3	954.29	12	2031.14	30	4419.64
Restructured during the year	13	1488.39	9	1076.85	21	2469.71	4	1022.39
Accounts Written off during the year	NA*	NA*	0	0	03	81.21	3	679.34
Closing balance	3	954.29	12	2031.14	30	4419.64	31	4762.69

* Figures not available

⁵² It is the interest which would have been earned had these cases not turned NPA as RBI stipulates interest on NPAs shall be recognized only when it is actually realized.

⁵³ Data not available due to restructured assets movement as per RBI stipulated format being compiled from 13-14 onwards.

As seen from the above table, 31 restructured loan cases exist as on 31 March 2016 amounting to ₹ 4762.69 crore. Restructuring resulted in extending the repayment periods beyond the original repayment dates during which the Company's risk of exposure continued. Audit observed that repeated restructuring was granted to the borrowers in some credit facilities⁵⁴.

6.3 Audit findings

The policy for loans, termed as General Lending Policy, framed by IFCI for each financial year prescribed guidelines for providing financial assistance for various purposes and sectors of the economy. With a view to safeguarding the interest of the Company, a system of credit appraisal, sanctions, disbursements and monitoring of loans was put in place by the Company. Compliance with these policies were test checked in audit by examining sample NPA cases to ascertain whether the loans were properly appraised and evaluated as per the stipulated criteria in the General Lending Policy and RBI Guidelines to maintain the asset quality. Examination of the cases in audit revealed the following:

6.3.1 Loans fully provided for

It was observed that in respect of the following five cases, the Company had made 100 per cent provision and classified the same as doubtful assets. The entire principal outstanding of ₹ 296.20 crore was fully provided for and unrealized interest was ₹ 119.09 crore leading to a loss of ₹ 415.29 crore as discussed below:

a. *Era Housing & Developer Limited and Hi Point Investment & Finance Limited*

IFCI sanctioned (October 2009/September 2010) two loans of ₹ 180 crore to Era Housing & Developer Limited (EHDL) and a loan of ₹ 100 crore (September 2010) to Hi Point Investment & Finance Limited (HPIFL) which were group companies and disbursed ₹ 233 crore⁵⁵. The security was pledge of 2.82 crore equity shares of Era Infra Engineering Limited (EIEL), a group company, with security cover of 2 to 2.5 times for all the three loans. Mortgage of land and buildings at Palwal was accepted later (2011)⁵⁶ as additional security. The borrower group defaulted (October 2012) in repayments of the loans which were rescheduled (April 2013) on receipt of further security (22.91 acre land at Bahadurgarh and escrow receivables from Palwal property). However, the account became NPA (30 September 2013). The principal outstanding of ₹ 129.96 crore was fully provided for and unrealized interest was ₹ 54.95 crore (31 March 2016).

Audit observed that while sanctioning the loans, the eligibility criteria for the pledgor company (EIEL) were only considered and financial position of the borrowers was not

⁵⁴ Gayatri Energy Ventures Private Limited, IVRCL (IIGTL) Indore and IVRCL Chengapalli (ICTL), Pipavav Defence & Offshore Company Limited and Pipavav Marine Offshore Limited etc.

⁵⁵ EHDL: Disbursed ₹ 40 crore (October 2009) and ₹ 100 crore (September 2010);

HPIFL: sanctioned ₹ 100 crore, disbursed ₹ 93 crore in September 2010.

⁵⁶ Valuing Rs 146 crore in September 2012.

considered as the loans were against the shares of EIEL. Further, IFCI did not calculate the Debt Service Coverage Ratio for both the borrowers to analyze their repayment capacity.

Prior to creation of mortgage of the land and property (August 2011) IFCI failed to verify the fact that most of the units were already sold to third parties which could have hampered IFCI's recovery action under the SARFAESI Act. Subsequently it came to the knowledge of the company (January 2013), that EHDL and HPIFL had sold flats without seeking prior permission /No Objection Certificate from IFCI. After creation of mortgage, the borrower again created third party interests in the property by selling more units without seeking NOC from IFCI reflecting weak monitoring of its secured assets. It was also observed that IFCI released 9.63 acre of land at Bahadurgarh valuing ₹ 42.56 crore (August 2013) and security of 30 flats of Palwal property (July 2014) despite the borrower failing to meet the commitments under the rescheduling package (April 2013) which was later revoked (June 2013). Despite revocation of rescheduling, IFCI did not enforce the securities to recover all its dues and instead entered into a settlement (March 2014) despite the borrower having failed to honour the earlier one. This was also revoked later (August 2014). Even after taking physical possession (November 2014) of the mortgaged properties, IFCI could not sell the same as no bids were received. Subsequently High Court of Punjab and Haryana had ordered (September 2015) to maintain *status quo* on the sale of Palwal property when few buyers who had purchased the flats in Palwal project challenged IFCI's action for sale under the SARFAESI Act. Finally, IFCI could recover ₹ 18.25 crore only by selling all the pledged shares.

Management replied (May, November 2016) that the loans were sanctioned on financial strength and standing of EIEL. It also stated that no intimation as regards bookings and sale was ever provided by EHDL and HPIFL and the securities were released on the basis of commitment of promoters.

The reply is not tenable as the repayment capacity of the borrowers should have been considered while sanctioning the loans. Moreover, the fact that IFCI had no knowledge of sale of flats prior to creation of mortgage reflects weakness in verification of property details. Release of securities despite existing defaults and failure to honour terms of rescheduling was also imprudent. There was laxity in recovery efforts as IFCI did not enforce the securities and was contemplating settlement despite the revocation (June 2013) of re-schedulement package.

b. Coastal Projects Limited

IFCI subscribed to Compulsory Convertible Debentures (CCDs) of Coastal Projects Limited (CPL) (March 2011) amounting to ₹100 crore which was secured against pledge of unlisted shares of CPL. The exit mechanism was by way of the promoters having call option⁵⁷ and IFCI having the right to exercise put option⁵⁸. CPL started defaulting (June 2012 onwards) and the put option exercised (October 2012) by IFCI was also not honoured by the borrower/promoters. A settlement agreement vide Delhi High Court order (January 2013)

⁵⁷ The promoter can exercise call option at face value between 12 months and 18 months from subscription.

⁵⁸ To be exercised at face value on expiry of 18 months if call option is not exercised by the promoter.

was recorded for repayment by June 2013 but CPL again defaulted in repayment of the dues. The account became NPA (April 2014) and the principal outstanding of ₹ 73.41 crore was fully provided for. The unrealized interest was ₹ 42.39 crore (31 March 2016).

Audit observed that only 15 *per cent* of the shareholding was obtained as security though the General Lending Policy stipulated minimum 26 *per cent* of the shareholding to be pledged. During credit appraisal, the Company failed to take note of the fact that the major portion of the net-worth of the promoters was in equity shares of CPL and several properties were already either attached by the Income Tax Department or mortgaged to other lenders. The Company also failed to protect its financial interest as the put option clause had a restrictive condition of not selling the pledged shares to any competitor of the issuer which in essence closed the exit option available to the Company. The extant General Lending Policy stipulated that the charged securities are to be valued at periodic intervals on conservative basis and stipulated margins maintained at all times. However, it was observed that IFCI valued the security of unlisted shares at ₹ 797.42 on the basis of average Price Earnings Ratio of the listed shares of other comparable companies instead of on the break-up value of CPL's share at ₹ 307.80 per share. This resulted in overvaluation of security by ₹ 138.15 crore.

Management replied (May, November 2016) that only 15 *per cent* of the shareholding was obtained as there was no specific mention about eligibility criteria for investment in CCDs. It accepted that considerable portion of the net-worth of promoters were equity of the borrower. It further stated that as per General Lending Policy unlisted shares may be accepted after internal valuation of unlisted shares.

The reply is not tenable as clause 3.2.1 (iv) of the General Lending Policy (2010-11) specifying the eligibility criteria for funding to holding / investment company stipulated that minimum 26 *per cent* of the shareholding was to be obtained as pledge. Further, the reply of the Company on valuation of the unlisted shares as stated above also mentioned the same clause. The valuation method adopted by the Company was in deviation from the extant General Lending Policy.

c. Mandakini Coal Company Limited

The Company sanctioned a short-term loan of ₹ 200 crore (April 2014) to Mandakini Coal Company Limited (MCCL) and disbursed (May 2014) ₹ 140 crore. The loan was secured against exclusive first charge on all the movable assets, pledge of 51 *per cent* of its shareholding, leasehold mining rights and corporate guarantees of three companies⁵⁹. As MCCL defaulted in interest/principal payments (February/May 2015), the corporate guarantees were invoked (May 2015) and IFCI recovered ₹ 99.12 crore⁶⁰. The recall notice (February 2016) and winding-up notice was issued (February 2016). The loan had a principal outstanding of ₹ 46.69 crore (fully provided) and unrealized interest of ₹ 10.04 crore (31 March 2016).

⁵⁹ Tata Power Company Limited (TPCL), Jindal Photo Limited (JPL) & Monnet Ispat & Energy Limited (MIEL) each to the extent of 1/3rd of the loan amount.

⁶⁰ TPCL paid ₹ 47.80 crore (August 2015) and JPL paid ₹ 51.32 crore (November 2015).

Audit observed that though the General Lending Policy stipulated security cover of 1.75 of which security cover by way of fixed assets and tangible collaterals should be at least equal to amount of loan, the loan was sanctioned with no fixed asset security cover and instead, movable assets valuing ₹ 191 crore was accepted as security. These primarily comprised of the amounts paid towards administration charges and payment against the demands raised by Divisional Forest Officer, Industrial Infrastructure Development Corporation etc. These could not be termed as security being in the nature of project expenses. The comprehensive evaluation of the borrower was also not done before sanction despite borrower's rating being on a watch by CRISIL with negative implication due to issues relating to allotment of coal blocks and due to huge outstanding debts, with commercial operations yet to commence. Post-sanction modifications like waiver of its right to call back the facility if the borrower failed to obtain Mining License/Lease Rights by 31 December 2014 were also made (May 2014) thereby weakening IFCI's recovery rights. The clause regarding mandatory prepayment⁶¹ was also modified (May 2014) by extending the prepayment period from thirty days to sixty days without any justification. Further, immediately after the order of Supreme Court (September 2014) to cancel the coal block allocation, instead of recalling the loan in the event of de-allocation of the mine within 60 days' notice period which was expiring on 9 January 2015, the Company granted a further extension of 120 days on the borrower's request (January 2015). Meanwhile, the Mandakini coal block was allotted to a new allottee together with all the rights and titles. Moreover, the borrower was offered only (March 2015) ₹ 5.57 crore by the Government against a claim of ₹ 243.99 crore (including IFCI's loan of ₹ 140 crore) as the cost invested in the land and mine infrastructure as per Coal Mines Ordinance, 2014.

The Company also had an exposure of ₹ 250 crore (11 February 2014) in MIEL by way of NCDs due to multiple lending within the group. However, the Company decided not to initiate any legal action against it despite it being a corporate guarantor so as not to jeopardize the Company's existing exposure with them to the tune of ₹ 272.76 crore as on 31 March 2016.

The Management replied (June, November 2016) that FACR of 1 (equal to amount of loan) from movable assets was considered reasonable and IFCI would have the first charge over any reimbursement of expenditure by the Ministry to MCCL.

The reply is not acceptable as movable assets primarily constituted the amounts paid towards administration charges and payments made against the demands raised by Divisional Forest Officer, Industrial Infrastructure Development Corporation and these could not be termed as security. Moreover, in view of the Coal Mines Ordinance 2014, IFCI would not be entitled to any compensation as it does not have any security interest in the land or mines as required under the scheme and so the recovery chances of dues of ₹ 56.73 crore are bleak.

⁶¹ On the exercise of put option by IFCI on refusal/de-allocation of mine by Ministry, MCCL would be given 30 days to prepay the loan.

d. REI Agro Limited

The Company sanctioned a corporate loan of ₹ 100 crore (June 2012) to REI Agro Limited (REIAL) against the security of pledge of shares of REIAL equal to amount of loan and first *pari passu* charge on all the fixed assets (1.25 times). Disbursement of ₹ 35 crore was made (July 2012) on the security of shares only and an extension of three months was given to create the first *pari passu* charge. After creation of the mortgage (December 2012), the balance amount of ₹ 65 crore was disbursed (January 2013). As the borrower defaulted in repayment of the dues (January 2014), Joint Lenders Forum (JLF) was constituted and a restructuring agreement under the corrective action plan was executed (June 2014). REIAL paid only two instalments with substantial delay and the third instalment was recovered from sale of shares. The account became NPA on 10 January 2015 and SARFAESI notice was issued on 18 February 2015. IFCI realized an amount of ₹ 40.50 crore by selling all the pledged shares. The principal outstanding was ₹ 31.89 crore (fully provided for) and the unrealized interest was ₹ 8.52 crore (31 March 2016).

Audit observed that the loan was sanctioned despite deteriorating financial position of REIAL⁶². The average Debt Service Coverage Ratio was 1.38 as against the stipulation of minimum 1.5 in the extant General Lending Policy. The CRMD in its risk note had stated that in a volatile market there exists the risk of erosion in the value of pledged equity shares of REIAL. Serious observations on diversion/ siphoning of funds and incorrect portraying of financial statements were made against the borrower in the Forensic Audit Report (December 2014)⁶³ and the Factory Visit Inspection Report (November 2014)⁶⁴. Thus, the recovery of ₹ 40.41 crore remains doubtful due to substantial erosion in the value of security⁶⁵.

The Management replied (June, November 2016) that IFCI sanctioned a fresh facility of ₹ 100 crore to REIAL as it had a rating of 'CARE A+' and had demonstrated the ability to meet the short-term repayment obligations out of its internal accruals in the past.

The reply is to be viewed against the fact that the effect of financial parameters which declined considerably in 2011-12, should have been noted while sanctioning the loan.

e. SEW Green Energy Limited / Sew Infrastructure Limited

The Company subscribed (July 2010) to Fully Convertible Debentures (FCDs) of ₹ 150 crore of Sew Green Energy Limited (SEL) with an interim return of 9.5 *per cent per annum* payable quarterly by SEL's holding Company i.e. Sew Infrastructure Limited (SIL). The final return was 13.5 *per cent* compounded annually and payable at the time of buyback by SIL. Disbursement of ₹ 50 crore was made on 30 August 2010. The Company modified (August 2010) the terms of sanction by making SEL liable to honour the interim return as

⁶² Mounting debts (up by 129.14 *per cent*), interest cost (up by 57.19 *per cent*) and deteriorating PAT (by 19.50 *per cent*), current ratio (by 8.08 *per cent*) and FACR (by 38.22 *per cent*) in 2011-12 from 2010-11.

⁶³ Auditors have observed irregularities with regard to utilization of funds like investment in related companies, sales to doubtful / related parties, non-confirmation of debtors etc.

⁶⁴ The lenders in their visit to units/godowns found no documentary evidence to support the stock in store, units closed due to unavailability of raw materials.

⁶⁵ The security of fixed assets was valued at ₹ 1778 crore on 8 November 2014 and ₹ 945 crore on 31 March 2015.

well as the buyback obligation instead of SIL⁶⁶ and waived the corporate guarantee of SIL. The undisbursed amount of ₹ 100 crore was cancelled (May 2012) as SEL did not avail the same. The FCDs were repayable in a bullet instalment on 30 August 2013. On the basis of SEL's request, the repayment schedule was modified to split the repayment into three parts⁶⁷ (11 September 2013). The borrower failed to clear the third instalment due on 30 August 2014 and the account became NPA on 31 March 2015.

Another loan of ₹ 40 crore was sanctioned to SIL (18 July 2014) against the security of mortgage of a land situated at Nagpur valuing ₹ 60.06 crore (August 2014) and pledge of 88.66 lakh shares of SEL. SIL defaulted in repayment from 15 April 2015 and the account became NPA (31 December 2015). To secure the repayment under the buyback agreement, SIL created another mortgage (9 May 2016) of land at Tamil Nadu valuing ₹ 13.43 crore. The total principal outstanding was ₹ 54.25 crore and the unrealized interest was ₹ 9.20 crore.

Audit observed that IFCI subscribed to FCDs of SEL only on the basis of security of corporate guarantee of SIL, personal guarantee of director and did not obtain any tangible security. While subscribing to FCDs the eligibility criteria of SIL was checked and the financials of the borrower (SEL) were not considered as SIL was to buyback the FCDs. The financials of the borrower (SEL) were also not given due consideration even at the time when the Company modified (August 2010) the terms of sanction by making SEL liable to honour the interim return as well as the buyback obligation. It was also mentioned in the sanction note that SEL would not earn any profits till 2015⁶⁸ whereas its repayment obligation to IFCI would arise by August 2013.

The loan to SIL was sanctioned despite SIL not fulfilling the eligibility criteria as stipulated in the General Lending Policy as its current ratio was 1.02 (March 2014) as against 1.20; the consolidated Debt Equity ratio at group level was stipulated at 3.5 but the consolidated financials were not reviewed. The total security cover was 2.25 times as against a stipulation of minimum 2.50 times in the General Lending Policy and SIL's DSCR had also declined continuously in the past two years and was at 0.86 (2013-14). Its nominee and independent directors were in RBI's list of defaulters and this deviation had been approved by the Executive committee.

The Management stated (July, November 2016) that the deviations were approved by the competent authority and the loan to SEL was given on the basis of SIL's financials.

Reply is not tenable as the critical risk factors and the borrowers' repayment capacity was not properly assessed at the time of sanction/ modification. Out of the total outstanding loan of ₹ 63.45 crore⁶⁹, the principal of ₹ 14.25 crore with respect to SEL has been fully provided for.

⁶⁶ In case SEL defaults then SIL was to honour the buyback obligation.

⁶⁷ Buyback was modified into three equal instalments (August 2013, February 2014 and August 2014) instead of a bullet repayment on 30 August 2013.

⁶⁸ For 2007-08 and 2008-09, the P&L Account was not prepared as SEL had not carried out any commercial operations and for 2009-10 there was a loss of ₹5 lakh.

⁶⁹ Principal: SEL-₹14.25 crore and SIL- ₹40 crore. Interest: SEL-₹3.19 crore and SIL-₹6.01 crore.

6.3.2 Doubtful and Sub-Standard Assets

In addition to the cases where outstanding amount was fully provided for as discussed in para 6.3.1 above, audit examination revealed deficiencies in 18 NPA cases where the recovery of the outstanding amount of ₹ 3799.33 crore including unrealized interest of ₹ 908.13 crore was doubtful.

The deficiencies noticed included deficiencies in credit appraisal of the borrowers, violation of the provisions of the General Lending Policy / terms of sanction, inadequate monitoring of the loans, deficiencies in creating enforceable securities to protect recovery rights, loans being disbursed without creation of primary securities and also release of securities despite existing defaults etc. Further, inadequate monitoring of loans was also evidenced from delays in enforcing the security.

The observations on 10 cases with common deficiencies are presented in **Annexure-2** and detailed observations on eight NPA cases are detailed hereunder:

a. *Sravanthi Energy Private Limited*

The Company sanctioned underwriting facilities of ₹ 1081.34 crore and equity subscriptions of ₹ 113.30 crore between July 2010 and May 2011 to Sravanthi Energy Private Limited (SEPL) promoted by Sravanthi Infratech Private Limited (SIPL) for a gas based thermal power plant in Uttarakhand (in two phases of 225 MW each). Out of the sanctioned amount, ₹ 722.60 crore⁷⁰ towards underwriting facility and ₹ 94.46 crore towards equity subscriptions were released. The facilities were secured by a first mortgage (including first *pari passu* charge on common facilities of Phase-I and Phase-II) of all the immovable properties (present and future) of the project as well as 51 *per cent* pledge of SEPL shares, personal guarantee of the promoters and corporate guarantee. Credit facilities were repayable in 10.5/12.9 years from Commercial Operation Date (COD) while the equity investments only had a put option at the end of two periods⁷¹. Phase-1 and II of the Project were envisaged to be constructed at a total cost of ₹ 845 crore and ₹ 898 crore and were scheduled to achieve COD in December 2011 and in March 2012 respectively. IFCI and Axis Bank jointly underwrote the entire debt requirement of Phase-I. IFCI underwrote ₹ 333.75 crore but limited its sanction to ₹ 148.75 crore after successfully down selling⁷² part of the loan underwritten. In Phase-II, IFCI underwrote the entire debt requirement of ₹ 673.50 crore and downsold ₹ 300 crore to three banks⁷³.

Physical construction of Phase I was fully completed but the commercial operation could not be achieved resulting in cost overruns by ₹ 420.87 crore⁷⁴, due to non-availability of gas from Government at subsidized rates which was the basic input for power generation. Phase II construction was completed upto 85 to 90 *per cent*, and had stalled due to paucity of funds

⁷⁰ Phase-I disbursements were made from 31.8.2010 to 3.2.2011. Phase –II disbursements were made from March 2011 to September 2014.

⁷¹ Between 1st and 2nd year and again between 3rd and 5th year from subscription date.

⁷² It is a portion of the underwritten debt offered to other banks.

⁷³ State Bank of Patiala, Central Bank of India and Canara Bank of ₹ 100 crore each.

⁷⁴ ₹ 1265.87 crore – ₹ 845 crore being the projected cost.

and no gas allocation. The lenders restructured the debt extending the CODs, two to three times from December 2011 to December 2014 for Phase-I and from March 2012 to March 2015 for Phase-II.

In Phase-II, when all the lender banks to whom IFCI had down sold underwriting commitments, decided not to extend any credit facilities due to non-availability of Gas, the Company continued the disbursements as per borrower's requirements and had disbursed ₹ 537.33 crore against a take and hold⁷⁵ commitment of ₹100 crore.

As SEPL defaulted in payment of principal and interest, the outstanding dues accumulated to ₹ 722.60 crore towards principal and ₹ 307.99 crore towards interest for both phases with equity exposure of ₹ 94.46 crore. These assets were classified as NPA in the books of the Company since 31 March 2014.

As COD was not achieved (Phase-II) due to non-allocation of gas and in view of the Promoters not having the financial strength to bring in Gap funding of the term loan for completion of Phase II, JLF decided (September 2015) to undertake Strategic Debt Restructuring (SDR) as per RBI guidelines. The SDR package included conversion of outstanding loan and interest of the lenders into equity on the basis of their *pro-rata* exposure so as to collectively hold 51 *per cent* of the equity shares of the company. The SDR package was approved by JLF on 15 December 2015 and implemented in April 2016.

Audit observed the following:

(i) While sanctioning underwriting and Equity facility in both phases, the eligibility criteria in terms of General Lending Policy were deviated from as discussed below:

- In terms of the lending policy of the Company the borrower /promoter company should have earned profit in previous three years for availing credit facility. Though both the borrower (SEPL) as well as its promoter (SIPL) were newly formed (2009) and did not fulfill this criteria, the Company extended credit facility of ₹ 333.75 crore (Phase-I) and ₹ 673.50 crore (Phase-II).
- The borrower (SEPL) had no rating as against the required CRISIL equivalent investment credit rating of minimum BBB (Phase-II).
- In Phase-I, as against a stipulated minimum net worth of the promoter company being ₹ 200 crore, SIPL had a net worth of only ₹ 0.82 crore with a paid up capital of ₹ 1 lakh only. This criterion was not only relaxed but was also wrongly portrayed at ₹ 52.88 crore by including unsecured loans in equity. Similarly in Phase-II, as against the combined net-worth criteria of ₹ 300 crore, the actual net worth of SIPL and individual promoter was only ₹ 61.20 crore⁷⁶ which was also relaxed.

(ii) Modifications to the Letter of Intent (LOI) were requested by the borrower (on 2 August 2010, 23 May 2011), within two days of LOI issued for Phase-I and on the very same day for Phase-II (30 July 2010, 23 May 2011). On the modification requested by the borrower the

⁷⁵ It is that portion of the underwritten loan retained by the lender as his share.

⁷⁶ SIPL's net worth ₹ 26.34 crore (February 2011) and the individual Promoter's net worth of ₹ 34.86 crore (March 2011).

conditions prescribed in LOIs of both phases for pre-disbursement, such as entering into firm gas allotment agreement with GAIL, entering into a firm Power Purchase Agreement (PPA) agreement for 100 MW on long-term basis and 125 MW on short-term basis were modified (August 2010, June 2011) by giving an option to obtain a comfort letter from the Ministry of Petroleum and Natural Gas (MoPNG) assuring allocation of gas from KG basin and deleting the requirement for short term firm PPA agreement, which favored the borrowers towards easy disbursements.

(iii) The equity investment was made with no firm buyback agreement and no assured yield or security, except a put option which was not a reliable security.

(iv) The first disbursement (Phase-I) of ₹ 75.33 crore (30 August 2010) was made in violation of pre-disbursement condition of registration of the charge on assets. Similarly, in respect of Phase-II disbursements of ₹ 90.38 crore (Disb. No. 3, 4 and 7)⁷⁷ were released (November 2011 and June 2012) without creating first *pari passu* charge on project assets by granting extensions. Further, pre-disbursement condition of receipt of upfront fees of ₹ 41.80 lakh⁷⁸ was also violated as disbursements (Nos. 15, 16 & 17) made during September 2013 and March 2014 amounting to ₹ 51.68 crore⁷⁹ were released without receiving upfront fee. These upfront fees were subsequently debited to the loan account as a book adjustment.

(v) In Phase-I, IFCI had disbursed ₹ 153.86 crore (March 2011) to the borrower as against a total debt exposure limit of ₹ 148.75 crore post syndication (March 2011) resulting in disbursement being made over and above the underwriting commitments. Against the underwriting commitment of ₹ 373.50 crore (Phase-II) excess disbursements of ₹ 115.05 crore⁸⁰ were released by IFCI which was subsequent to the signing (February 2012) of the last down selling agreement by the three banks of ₹ 100 crore each. Despite the legal department's opinion and the CEO&MD's assertion (November 2012) that IFCI was under no obligation to release more than its reduced commitment, excess amount ₹ 115.05 crore over and above the underwriting commitment was released.

(vi) While working out the project financials, IFCI did not consider the problem of shortage of supply of gas being faced by a number of existing projects. This risk was however downplayed as audit noted that neither a firm commitment from MoPNG nor Fuel Supply Agreement (FSA) with domestic supplier existed to support that SEPL would be able to arrange for 70 *per cent* of gas domestically. No sensitivity analysis as to the input cost was also made.

(vii) In-principle approval (9 November 2010) for underwriting entire debt of ₹ 673.50 crore was accorded to Phase II regardless of the fact that the gas allocation to the existing Phase-I project itself was not finalized. Despite the Nominee Director's apprehensions (5 May 2011) of delay in completion of GAIL pipeline and Executive Director's concern of gas allocation (Phase-I) being the critical factor affecting the project, Phase II was approved (23 May 2011)

⁷⁷ ₹ 44.21 crore + ₹ 34.40 crore + ₹ 11.77 crore.

⁷⁸ ₹ 13.20 lakh + ₹ 14.04 lakh + ₹ 14.56 lakh.

⁷⁹ ₹ 16.32 crore + ₹ 17.36 crore + ₹ 18 crore.

⁸⁰ June 2013 to July 2014.

(viii) Default in interest /principal payments ranging from a minimum of ₹1.60 crore to maximum of ₹ 14.15 crore were adjusted from seven disbursements released amounting to ₹ 94.72 crore including payments against Letter of Comforts issued by the Company⁸¹. The adjustments were made to avoid the debt falling into NPA category in violation of RBI criteria of not resorting to evergreening of accounts.

An investigation report on the matter of complaint against the then CEO&MD, IFCI Limited, in respect of loan account of Sravanthi Energy Private Limited was put up (2 July 2015) to the Board of Directors, which accorded its consent to file an FIR with the Banking Security Fraud Cell of the Central Bureau of Investigation.

The Management while accepting audit observations as regards relaxation of eligibility criteria (in respect of credit rating and borrower/ promoter's net worth), non-compliance of pre-disbursement conditions as to security creation as well as adjustment of upfront fees from disbursements stated that the matter is being examined in Vigilance Department. It further stated that other banks also extended loans to SEPL despite it being newly formed, modifications in pre-disbursement terms were made as the project was brought under the ambit of MoPNG as per the defined priority. In-principle approval for Phase-II was granted in November 2010 while the Nominee Director's feedback report was received subsequently in May 2011. Underwriting of the loan for Phase-II was taken as the project was designed to achieve COD within XIth plan and gas allocation was expected. Disbursement over and above underwriting commitment of ₹ 443.37 crore was already made by the time legal opinion was taken. The disbursements in respect of Phase II were released despite interest defaults, to meet Letter of Comfort (LOC) commitments made. Put/Call options signed for Company's equity subscription became invalid as SDR was invoked.

The replies are not tenable because commercial prudence demanded that the Company take decisions based on credit quality rather than how other organizations function. Modifications to critical terms of the sanction were not justified especially since gas allocation which was already in short supply at the time of sanction and the fact that the project was located in Uttarakhand, a power surplus state, was brought out in the risk appraisal note of CRMD. The project was already under the ambit of MoPNG at the time of sanction (September 2010). The project thus didn't meet the criteria of gas allocation as priority was to be given to existing projects located in power deficit states. Hence, obtaining a letter of comfort was not a guarantee for firm allotment. Approval of credit facility for Phase-II was accorded on 23 May 2011 despite the Executive Director's apprehensions (9 May 2011) of no gas availability even in Phase-I and the fact that the project could not have been viable without supply of domestic gas. The fact that at the time of taking this exposure a number of existing projects were already facing supply shortages, even after priority allocation of gas from MoPNG in view of low gas production from the RIL's KG-D6 block from 2010-11 onwards was overlooked. The other banks' stance of not releasing their own commitments in the face of uncertainty of availability of gas did not compel IFCI to take on this commitment as it had already down sold the same.

⁸¹ For the LOC opened by other lenders between April 2012 to August 2012 (Disb. No. 5, 6, 8, 9, 10 & 11).

Thus, absence of due diligence in sanction/disbursement of credit facility resulted in unrealized interest and unrealized return on equity amounting to ₹ 399.74 crore (₹ 307.99 crore *plus* ₹ 91.75 crore) besides non-recovery of outstanding loan of ₹ 722.60 crore and equity investments of ₹ 94.46 crore.

b. MVL Limited

MVL Limited (MVL) was sanctioned and disbursed a corporate loan of ₹ 50 crore (May 2010) with security of 2.5 times pledge of equity shares⁸² of MVL, personal guarantee of the promoter and Corporate Guarantee of MVL Industries Limited, a group company. As MVL defaulted (December 2011) in repayment, its shares were sold⁸³ to recover the dues. However, the loan turned into NPA (30 September 2012) as the default continued. IFCI recalled the loan and invoked the guarantees in November 2012. The loan was restructured (August 2013) with an additional security of mortgage of 76 flats in MVL's real estate project. The restructuring package was however revoked (July 2014) as the borrower did not fulfil the terms and conditions of the restructuring package. As on 31 March 2016, the loan had a principal outstanding of ₹ 43.80 crore and the unrealized interest was ₹ 34.39 crore.

Audit observed that IFCI accepted MVL's shares as primary security despite CRMD pointing out in its risk note that as most of the shares were held by the promoters it could lead to substantial volatility and IFCI would face difficulty in liquidation of the shares. CRMD had further cautioned that the share price seemed to be overvalued and hence the possibility of obtaining additional collateral security could be explored. IFCI also failed to take cognizance of the fact that the projected financials for 2009-10 were showing increase in profits by 376.65 *per cent* and cash by 636.33 *per cent* which was not commensurate with the existing financial status of the borrower. Further, the projected cash flows for repaying borrower's upcoming debts and for financing the balance cost for upcoming projects valuing ₹ 291.22 crore were also not analyzed adequately as all the projects were under implementation.

Instead of selling the shares at the point of default (December 2011) when the trading volume was about 6.58 lakh shares per day and the security cover was 2.19 times (January 2012), IFCI delayed the recovery actions. MVL failed to make payments and augment the security of additional shares/mortgage of property at that point of time. Further, at the time of restructuring (August 2013), IFCI failed to protect its interest and accepted additional security of flats most of which were in semi finished condition. IFCI's attempts (October 2015/April 2016/July 2016) to sell/assign the above loan failed due to lack of bidders.

The Management replied (July/November 2016) that all the projections were based on borrower's inputs and the said loan was considered as per the then prevailing policy under loan against shares. In order to recover higher amounts as offered by the borrower, the rescheduling proposal was approved by the Competent Authority.

⁸² 2.25 crore shares valuing ₹152.49 crore as on 11 June 2010.

⁸³ 1.48 lakh January 2012, 0.68 lakh in May 2012, 1.45 lakh in June 2012.

The reply is not tenable as tangible security assumes significance in the light of CRMD's observation on difficulty in liquidation of the shares. The viability of reschedulement proposal was not established from the borrower's performance and the security of pledged shares should have been enforced when the borrower failed to pay the dues in December 2011.

c. ARSS Developers Limited

The Company sanctioned two corporate loans of ₹ 100 crore (CL-I) (10 March 2011) and ₹ 60 crore (CL-II) (20 January 2012) to ARSS Developers Limited (ADL). The disbursements of ₹ 82 crore (March/April 2011) and ₹ 44.39 crore (6 March 2012) against both the loans respectively were made while the balance was cancelled (June 2012). CL-I was secured by way of pledge of 47.6 lakh shares of ARSS Infra Projects Limited (AIPL) (holding Company of ADL & flagship Company of the ARSS group) giving security cover of 3 times, while CL-II was secured by exclusive mortgage over a mall located at Paschim Vihar (New Delhi), exclusive charge over receivables and personal guarantee of the promoters (both loans).

The security cover for CL-I fell (May / June 2011) below the stipulated three times as per the terms of sanction which the borrower was unable to restore. Due to subsequent interest defaults (May 2012) on both the loans, IFCI sold 43.15 lakh pledged shares in June 2012. In view of defaults, both loans were recalled, personal guarantees of the promoters invoked and action under SARFAESI Act was initiated (June 2012). The borrower challenged the SARFAESI action before the Hon'ble High Court of Cuttack which directed both the parties to resolve the matter amicably. Due to this, IFCI rescheduled (October 2012) CL-II and reversed other legal actions, but the borrower continued to default on rescheduled loan as well. The loan accounts were classified as NPA on 31 December 2012. The Company again granted rescheduling of both the loans (February 2013) but the same was revoked (August 2013) due to non-adherence to the terms and conditions by the borrower. The Board of Directors of IFCI approved (November 2013) negotiated settlement of outstanding dues with the borrower in which IFCI waived ₹ 19.49 crore (90 per cent) out of a total interest outstanding (₹ 21.66 crore) as on 30 September 2013 apart from other clauses⁸⁴. However the settlement was revoked (27 August 2014) due to further defaults committed by the borrower but was again restored (December 2014) and finally revoked (18 May 2015). The Company declared the borrower and its promoters as wilful defaulters in April 2016.

Audit observed that as against the General Lending Policy stipulated credit rating of 'A' for the company whose shares were being pledged, the Company sanctioned first loan on 'BB' credit rating (AIPL) which was actually downgraded to D (default category) in June 2011 i.e. within three months from sanction and finally suspended in April 2012. Due diligence was not exercised in considering critical factors of group Company's (AIPL) previous defaults to banks and known share price volatility⁸⁵ of AIPL while sanctioning first loan only against shares for a long tenure of four years which was even observed by the CRMD. There was

⁸⁴ Out of ₹ 103.04 crore principal and ₹ 21.66 crore interest o/s against both loans as on 30.9.13-Upfront. payment of ₹ 25.30 crore, balance amount ₹ 77.74 crore to be paid from December 2013 to September 2016, and ₹ 2.17 crore interest converted to Funded Interest Term Loan.

⁸⁵ High of ₹ 1376 (27 April 2010) and low of ₹580 per share (9 March 2011).

delay in sale of pledged shares despite sanctioned terms clearly stipulating sale of shares on fall in prices by 25 per cent in case the borrower fails to top up the shares or provide required cash margin. The share prices fell by more than 25 per cent in October 2011. Instead of selling the pledged shares, IFCI accepted mortgage of additional property (including agricultural land) which could not restore the original security cover. Subsequent sale of 43.15 lakh pledged shares (June 2012) was done at an average price of ₹ 46.34 per share recovering ₹ 20 crore (approx.) only though the average price in October 2011 was ₹ 333.48 per share. The Company returned (28 October 2011) 9.24 lakh locked-in equity shares (upto April 2013) offered as collateral security by the borrower which could have been sold later to recover outstanding dues.

There was lack of due diligence while accepting mortgage of the mall and IFCI was unaware that the borrower had already sold some shops before sanction of CL-II. Thus the already sold shops were also included in the valuation of the mall property considered during credit appraisal. Even after availing CL-II more properties in the mall were sold without the knowledge of IFCI. Despite initiating action (14 June 2012) under SARFAESI Act, IFCI has not been able to take physical possession of the mall and put the same for sale even once to recover its outstanding dues. The internal investigation report (3 June 2015) of IFCI's vigilance Department in the matter of complaint against the then CEO & MD of IFCI Limited, also covered similar issues and concluded that "*it can be safely said that there are lapses/irregularities/carelessness in dealing with the above account*". This investigation report was placed (2 July 2015) before the Board of Directors which accorded its consent to file an FIR to the Banking Securities Fraud Cell of Central Bureau of Investigation against the then CEO & MD in respect of allegations levelled against him in respect of this loan account.

Management in its reply has stated that CBI was informed (July 2015) that pursuant to completion of Investigation, the Investigator has concluded that loan sanctioned to ADL indicated violations of IFCI's rules and policies to benefit the borrower.

Reply of Management corroborates the audit observation that there was lack of due diligence as well as violation of General Lending Policy. As a result, recovery of total outstanding amount of ₹ 160.50 crore in respect of both the loan accounts (inclusive of interest of ₹ 57.39 crore) as on 31 March 2016, was doubtful.

d. Binani Cement Limited

The Company sanctioned and disbursed (September/November 2013) a long-term loan of ₹ 380 crore to Binani Cement Limited (BCL) against security of two times of the amount of loan by way of first *pari passu* charge on BCL's fixed assets, pledge of shares of BCL and Corporate Guarantee of Binani Industries Limited (BIL) a group holding company. BCL defaulted in its payments in February 2014 and requested (April 2014) for restructuring of its dues. IFCI approved (9 December 2014) the restructuring package of ₹ 485.01 crore viz. existing loan of ₹ 380 crore, unpaid interest of ₹ 8.79 crore, funded interest of ₹ 36.79 crore and an additional exposure of ₹ 59.43 crore. However, BCL defaulted in repayment despite restructuring and also failed to perfect the security stipulated for restructuring. Accordingly, the Company assigned (February 2016) its debts of ₹ 496.10 crore for ₹ 74.41 crore as cash

receipt and ₹ 421.69 crore as Security Receipts to Edelweiss Assets Reconstruction Company Limited.

Audit observed that BCL did not fulfil certain eligibility criteria of the extant General Lending Policy as its Debt Equity Ratio was 1.92 as against stipulated maximum of 1.5, Current Ratio was 0.62 as against stipulated minimum of 1.33 and Fixed Asset Coverage Ratio was 1.37 as against stipulated minimum of 1.5. The Company also failed to act on the observations of the CRMD to re-examine the projections of Debt Service Coverage Ratio and adequacy of cash flows in view of its future obligations vis-à-vis low cash accruals⁸⁶ for timely servicing of debts. Further, audit observed that the BCL's consolidated Debt Equity Ratio was 18.02, consolidated loss was ₹ 208 crore and its net-worth was eroded by 48 per cent during 2012-13. The Company, unwillingly, had to convert unpaid interest into term loan in line with other lenders as the primary security was not yet created and No Objection Certificates of the other lenders were required for ceding *pari passu* charge in IFCI's favour.

The Company while accepting that it had no other option but to align with the consortium lenders, also stated (August, November 2016) that the deviations were sanctioned as BCL was a well-established brand and the situation was expected to improve.

Reply is not acceptable as BCL had large outstanding debt service obligations and had liquidity constraints due to meagre gross cash accruals in earlier years and it defaulted (February 2014) in repayments within three months from the date of disbursement.

e. Alok Industries Limited

The Company sanctioned (August 2013) a loan of ₹ 300 crore to Alok Industries Limited (AIL) which was to be secured by first *pari passu* charge on all fixed assets (primary security) and exclusive charge on 30 acres of land at Silvassa. A period of six months (upto 31 March 2014) and 30 days (upto 30 October 2013) respectively from the date of disbursement was given for creation of security. The entire loan amount was disbursed (30 September 2013) against interim security of subservient charge over movable assets of the borrower. The required primary security as per the terms of sanction could not be created within the stipulated time period and an extension of six months (upto 30 September 2014) was given to the borrower for the same. Due to defaults by the borrower, Joint Lenders Forum (JLF) was constituted (April 2014) and a Corrective Action Plan was formulated in pursuance of which IFCI disbursed (31 March 2015) an additional corporate loan of ₹ 75 crore to the borrower. SBI (the lead bank) classified the borrower's account as NPA on 31 March 2015. The borrower was in default on account of interest payment (June 2015) and repayment of three quarterly principal instalments (September, December 2015 and March 2016) of ₹ 25 crore each. The account had been classified as NPA and the total outstanding dues (March 2016) amounted to ₹ 337.44 crore (including unrealized interest of ₹37.44 crore).

Audit observed that IFCI disregarded the borrower's weak financial parameters as seen from the high debt equity ratio⁸⁷ of more than 3 and a low DSCR⁸⁸ which indicated a highly

⁸⁶ Debt Service Obligations of ₹ 4,054 crore up to 2020-21, ₹ 625 crore in 2013-14 and ₹ 550 crore in 2014-15. Gross cash accruals of ₹ 152 crore in 2010-11 and Rs 225 crore in 2011-12.

⁸⁷ From 2010-11 to 2012-13.

leveraged financial position and poor debt servicing capability. The borrower did not fulfil the General Lending Policy stipulated eligibility criteria pertaining to maximum Debt Equity Ratio and minimum FACR and current ratio.⁸⁹ IFCI overlooked the fact that the borrower's actual financial performance on various parameters⁹⁰ were far below the projections considered by IFCI during sanction of a previous facility of redeemable NCDs (February 2011) of ₹ 110 crore by the Company. The Company did not insist on adequate securities with exclusive charge despite being aware that NOC to create *pari passu* charge in its favour was required from a large number of other lenders (32) which was time consuming and difficult to obtain in view of the borrower's weak financial health. Even after three years from the date of sanction NOC for sharing of *pari passu* charge from three lenders was awaited (April 2016).

As per information furnished by management the corporate guarantee of the borrower has been invoked by HSBC Limited⁹¹ and winding up petition has been filed against the borrower in Bombay High Court. Though SDR was invoked (November 2015) by the lenders, the same could not be achieved as per the stipulated timeline.

In view of the above, the outstanding dues in respect of the above mentioned loan amounting to ₹ 337.44 crore are doubtful of recovery. Further, the total outstanding dues of IFCI towards various credit facilities⁹² extended to the borrower amounted to ₹ 514.87 crore (including unrealized interest of ₹ 66.87 crore).

Management replied that AIL's debts increased as capital expenditure was largely debt funded and finance costs increased. However, considering its future planning, improvement in profit ability was presumed. The FACR for first *pari passu* loans stood at 1.58 times as on 31 March 2013.

Reply is not tenable as the Company should have exercised caution in view of borrower's high DER and low DSCR and non-fulfillment of GLP stipulated eligibility criteria pertaining to DER, FACR and current ratio. The projections considered during subscription to NCDs vis-à-vis actual performance on parameters mentioned above should have been taken into account before sanctioning the loan of ₹300 crore.

f. Surana Industries Limited

The Company sanctioned loans of ₹ 100 crore (CL-I), ₹ 60 crore (CL-II) and ₹ 25 crore (CL-III) to Surana Industries Limited in July 2010, January 2011 and November 2011 respectively. The loans were disbursed against the security of pledge of 71.50 lakh listed equity shares of the borrower and six crore unquoted equity shares of Surana Power Limited (SPL).

⁸⁸ 1.08 and 1.16 in 2011-12 and 2012-13 respectively.

⁸⁹ General Lending Policy stipulated DER, FACR, CR was 1.5, 1.5, 1.33. Borrowers' actual ratios were 3.3, 0.98, 1.12.

⁹⁰ Projected vs actual for the year ended 31 March 2013– DER (1.6 vs 3.3), FACR (2.84 vs 0.98), DSCR (1.25 vs 1.17) and Current Ratio (2.57 vs 1.12).

⁹¹ In case of loan given to the borrower's subsidiary (Alok Singapore Pte Limited).

⁹² Rupee Term loan, Corporate loan and Non-convertible debentures.

The borrower started defaulting (October 2011) in repayment right from the first instalment on account of liquidity problems and requested IFCI for rescheduling. Accordingly, IFCI granted (May 2012) deferment of six months but the borrower again failed (August 2012) to repay and went for Corporate Debt Restructuring (CDR). IFCI agreed to the terms of CDR package (February 2014) with a cut-off date (COD) of 1 June 2013. As the borrower failed to honour the terms of CDR, IFCI decided to withdraw (January / July 2015) from CDR. The total principal outstanding was ₹ 157.28 crore and unrealized interest was ₹ 154.38 crore (March 2016).

Audit observed that the loans were sanctioned without obtaining any tangible security despite increase in interest burden⁹³ and fall in profitability⁹⁴. Further, the time required for realizing the security was 5.83 months as against the General Lending Policy stipulation of maximum 45 days (CL-II). Moreover, it had posted an operating loss of ₹ 41 crore (2010) and the minimum average DSCR was 1.41 as against 1.5 stipulated in the General Lending Policy.

CL-III was sanctioned to meet the cash-flow mismatch despite non-payment of the first instalment of ₹ 12.50 crore for CL-I and mounting interest burden. Further, it did not meet certain eligibility criteria⁹⁵. As such, the Company failed to assess the repayment capacity of the borrower despite the caution expressed by CRMD regarding liquidity crunch. Moreover, despite being the major lender, IFCI failed to safeguard its own interests as even its critical dues (interest outstanding prior to Cut off Date) were not cleared whereas the same were cleared in respect of other lenders. Decision on other recovery measures like recalling the loan, sale of pledged shares etc. were taken belatedly (February 2016) despite continuous default and dishonor of the commitments.

Management replied (November 2016) that it participated in CDR to strengthen the security cover and recover interest default.

However, the fact remains that even after joining the CDR as a majority lender, IFCI could not recover its critical dues which the other lenders had recovered.

g. Lavasa Corporation Limited

The Company sanctioned/disbursed (May 2011) a short term loan of ₹ 100 crore to Lavasa Corporation Limited (LCL) for development of a township project at Lavasa, Pune. It was primarily secured only by a Corporate Guarantee of Hindustan Construction Company Limited (HCC)⁹⁶. The loan was repayable fully in one instalment on 26 May 2012 but was rescheduled (April 2012) to a long term loan (repayable from April 2014 to January 2018) on the request of the borrower. Due to continuous defaults, the borrower was referred to the JLF which formulated a Corrective Action Plan in pursuance of which IFCI sanctioned (October 2014) an additional loan of ₹ 30 crore⁹⁷ against security of mortgage over land at Lavasa site

⁹³ From ₹ 35 crore in 2009 to ₹ 58 crore in 2010.

⁹⁴ From 11 per cent in 2009 to 4 per cent in 2010.

⁹⁵ Credit rating (BBB as against stipulated rating of 'A'), current ratio (0.91 as against stipulated 1.33) and trading days to recover the loan (117 as against stipulated 45 days).

⁹⁶ Flagship promoter group Company.

⁹⁷ Disbursed ₹ 20.45 crore in 4 tranches from October 2014 to April 2015.

valuing ₹ 46 crore, Corporate Guarantee of HCC Real Estate Limited (HREL)⁹⁸ and second *pari passu* charge on a land held as security by the consortium at Lavasa. The account has been classified as NPA since 31 March 2015. IFCI issued winding up notice to the borrower (July 2015) and the corporate guarantors (August 2015) and invoked the corporate guarantee of HCC and HREL (July 2015).

Audit observed that the loan was sanctioned/disbursed despite IFCI being fully aware of the fact that the Ministry of Environment & Forests (MoEF), GOI, had directed (November 2010) the borrower to maintain status quo on construction and development work at Lavasa. Moreover, the MOEF also observed (January 2011) that the borrower was in violation of Environment Impact Assessment (EIA) notifications and the construction activity undertaken thereon was unauthorized, in violation of EIA notification and was environmentally damaging. Thus, as on date of sanction of the loan, the borrower did not have the final environmental clearance for the township project from the MOEF, GOI. The loan was sanctioned/disbursed merely on the basis of corporate guarantee of the borrowers group Company (HCC Limited) without obtaining any tangible security which could be easily enforced in case of default by the borrower. Even while granting rescheduling of the loan from short-term to long-term (21 April 2012) no tangible security was obtained. In case of additional loan, the security (second *pari passu* charge on consortium land) which was to be created within six months from disbursement (April 2015) had not been created.

Management in its reply stated that the current facility extended to LCL (2011) was similar to the one extended in May 2009 which was fully repaid in May 2010. The credit rating of the borrower was 'CARE BBB-' and that of the guarantor was 'CARE AA-' which was assigned taking into account the status of regulatory approvals including environmental clearance. Management further stated (November 2016) that IFCI was hopeful of recovery of dues from the Corporate Guarantee of HCC.

However, the satisfactory servicing of a past loan was not a constructive guarantee for likewise servicing of future loans. At the time of sanction, the borrower did not have the requisite regulatory environmental clearance for the project. The first short term loan was converted to a long term loan whose repayment also could not be honoured as per schedule. There was inadequate security available with IFCI to recover its dues.

Total outstanding dues of ₹ 130.55 crore as on 31 March 2016 (principal of ₹ 110.21 crore and unrealized interest of ₹ 20.34 crore) was doubtful of recovery.

h. Wisdom Global Enterprises Limited

IFCI sanctioned (September 2010) a corporate loan of ₹100 crore to Wisdom Global Enterprises Limited (WGEL) secured against 1.50 times by the pledge of shares of Core Projects & Technologies Limited (CPTL) (name subsequently changed to Core Education & Technologies Ltd – CETL), a group company, and 0.75 times Non Disposal Undertaking /Power of Attorney besides personal guarantee of the promoter. However, as WGEL defaulted in servicing interest/loan (January 2013), IFCI sold the shares of CETL (February

⁹⁸ Holding company of LCL.

to June 2013 and January to September 2014) and recovered ₹ 47.90 crore⁹⁹. Additional security of 144 acres of agricultural land at Hyderabad was created (May 2013) in favour of IFCI and two other lenders¹⁰⁰. CETL was also referred to CDR (October 2013). The tangible security could not be enforced due to a pending litigation on the title of the mortgaged property. Finally, IFCI recalled (15 May 2014) the loan given to WGEL and issued NOC to SICOM India Limited (Joint Lender) for taking over the land mortgaged at Hyderabad on behalf of IFCI and selling it to recover the dues. A case was filed in DRT (20 February 2015) by IFCI which is still pending. It was declared as NPA on 30 June 2014.

Audit observed that IFCI sanctioned the loan against pledge of shares as the only primary security despite the fact that the share prices of CETL were volatile in respect of earlier loans extended (in 2008 and 2010)¹⁰¹ to the same borrower which were also restructured. IFCI accepted the additional security of agricultural land at Hyderabad against which action under SARFAESI Act could not be taken. Even this was accepted without title search and physical inspection. Subsequently it was found during a site visit in February 2015 that based on the order of Hon'ble High Court of Andhra Pradesh, the land was not in the physical possession of the borrower and was occupied by a third party. Thus, there was absence of due diligence by the Company in creation of mortgage on land not in physical possession of the borrower. A subservient charge on the mortgaged property (Hyderabad) of the borrower was created in favour of a private bank without obtaining IFCI's permission.

Management (November 2016) stated that policy of lending against shares of listed entities were formulated keeping in view the business environment prevailing at the time. The adequate credit quality rating was assigned to the Company whose shares were pledged. Security of agricultural land was accepted as additional security jointly with two other lenders as the security cover kept reducing. The Company accepted that title investigation could not be carried out as the requisite documents were not submitted by the borrower.

The replies are not tenable as commercial prudence demanded some form of tangible security especially since the volatility of the shares was already a known factor. The said rating was as on September 2009 while loan was sanctioned in September 2010. As action cannot be taken against agricultural land under the SARFAESI Act, the additional security did not improve the existing security cover. Acceptance of the security without receipt of security documents itself proved the weak security monitoring policy in this case. This resulted in non-recovery of ₹ 52.36 crore (Principal ₹ 38.02 crore and Interest ₹ 14.34 crore as on 31 March 2016).

⁹⁹ ₹ 44.39 crore + ₹ 2.88 crore + ₹ 0.63 crore.

¹⁰⁰ SICOM India Limited and IFCI Factors Limited.

¹⁰¹ ₹ 250 to ₹ 40 per share between July 2008 to October 2008 and yet again at ₹ 262 in August 2010.

Chapter 7: Equity Investments

Subscribing to equity shares of various companies was one of the forms of credit facility extended by IFCI. As per the norms stipulated in GLP, the exit options for these investments were between three to eight years.

IFCI acquired unquoted equity shares of various companies by way of direct subscription or by conversion of loan and interest into equity as part of restructuring, settlement etc. The means of exit from these investments were either through sale on listing or through promoters buying back these shares as per buyback agreements executed.

IFCI was holding unquoted equity shares of 353 companies aggregating ₹ 2082.65 crore at book value as on 31 March 2016. The status wise summary of unquoted equity shares is summarized hereunder:

Table-7: Details of unquoted equity as on 31 March 2016

(₹in crore)

Sl. No.	Category of companies	Nos.	Book Value
1	Under operation	52	2024.12
2	Referred to BIFR/ AAIFR	13	17.25
3.	Closed / not in operation	52	16.91
4.	Wound up	222	13.16
5.	Having assets with Official Liquidator	14	11.21
	Total	353	2082.65

As seen from the above, out of 353 companies in which the Company had invested, only 52 companies were in operation and the rest were defunct companies in respect of which 100 per cent provision or close to 100 per cent provision was already made by the Company. Further, in respect of these 52 companies in operation, the investment in 20 companies which were written-down to nil valued ₹ 98.85 crore.

Audit reviewed nine out of 13 cases¹⁰² of investment in unquoted equity where substantial investments (₹ 1644.97 crore) were made. These investments carried risk as they were unsecured. Exiting from the investments was not easy since these were unlisted. Review of these cases revealed that the equity investments had buyback defaults (i.e. when the assisted concern defaults in buying back the equity subscribed by IFCI). These were non-performing investments yet to be recovered valuing ₹ 1136.28 crore and the returns thereon amounting to ₹ 651.69 crore had not been recovered. Audit analyzed the causes for non-recovery of equity investment and observed that the issues leading to defaults were mainly lack of due diligence by the Company in credit appraisal, assessment of indebtedness and the repayment capacity as well as the viability of the investment proposals.

A few illustrative cases of equity investment highlighting management lapses are detailed hereunder:

¹⁰² Out of Companies under operation.

Audit findings

7.1 Global Rural NetCo Limited and Chennai Network Infrastructure Limited

A. The Company subscribed (February 2010) to Fully Convertible Debentures (FCDs) of ₹ 250 crore issued by Global Rural NetCo Ltd. (GRNL) which were secured by a negative Lien¹⁰³ on residual fixed assets of the borrower and Non-Disposal Undertaking (NDU) from the promoter companies (Global Holding Corporation Pvt Ltd and GTL Limited) to the extent of 26 *per cent*. The tenure of the FCDs was three years and IFCI had a put option on the promoter Companies at the end of 24th month or 36th month from the date of disbursement. It could also convert the FCDs into equity shares at anytime during its tenure.

The borrower started defaulting on servicing of interest dues (November 2011) amounting to ₹ 4.23 crore which led to an event of default in view of which IFCI conveyed (December 2011) its intention to exercise its right of put option in February 2012. Subsequently, the borrowers request for modifications in the terms of repayment was approved by the Executive Committee in March 2012 and the related settlement agreement was executed in August 2012. As per the settlement agreement which was completed in November 2013, FCDs of ₹ 250 crore were split into two parts comprising of an Optionally Convertible Loan (OCL) amounting to ₹ 100 crore and equity shares of Chennai Network India Limited (CNIL), a group Company, amounting to ₹ 150 crore. The OCL was to be repaid by 31 March 2013 (along with yield of 13.50 *per cent* calculated from 1 April 2012) which could be further extended by 2 years i.e. upto 31 March 2015 and in case of non-payment thereafter IFCI could exercise a put option on GTL Limited. GRNL did not repay the OCL by 31 March 2015 and IFCI again approved restructuring of the outstanding OCL according to which the repayment date was extended to 31 March 2017. The OCL has been fully provided for in the books of IFCI as there was no security against the outstanding dues. With respect to second part of FCDs, IFCI received (November 2013) 20.35 crore unlisted equity shares of CNIL against its outstanding dues of ₹ 183.13 crore¹⁰⁴. IFCI could not sell these shares until merger of CNIL with GTL Infrastructure Limited (GIL) and subsequent listing of GIL shares (another promoter company of GRNL). The merger of CNIL and GIL has not yet taken place.

In this regard, Audit observed that IFCI subscribed to FCDs of a newly incorporated (May 2009) Company without obtaining any tangible security as FCDs were secured only by security in the nature of undertakings given by the borrower/promoter Companies. Even the CRMD observed the repayment risk from GTL Limited as it had significant debt on its books and the cash flows were strained which could lead to inability in servicing of dues. The terms of settlement agreement (August 2012) were not in the best interest of IFCI as FCDs of ₹ 150 crore were converted into unquoted equity shares of CNIL which had already got its debts restructured under the CDR mechanism and sale of shares had restrictive clauses with limited exit options. As the scheme of merger of GIL and CNIL was already known to IFCI

¹⁰³ A Negative lien is an undertaking by the owner of assets for not selling certain assets and not creating any charge on these assets without permission from the creditor.

¹⁰⁴ ₹ 151 crore along with interest of ₹ 32.13 crore up to 31 March 2012.

(July 2011), its willingness to accept shares of GIL which had also undergone restructuring of its dues under the CDR mechanism was not in the best interest of the Company.

Management stated (March/July 2014¹⁰⁵/ November 2016) that the facilities were sufficiently secured by a put option, a negative lien and non disposal undertaking from the Global Group which were enforceable means of credit enhancement. The security risk was duly mitigated at the time of sanction. The proposal was sanctioned on the strength of Flagship Company GTL Limited (GTL) and GTL Infrastructure Limited (a promoter of GRNL). The terms of settlement was the best possible option which were negotiated after intense rounds of discussion and the swap ratio could improve to 1.13:1 The OCL of ₹100 crore has been fully provided for and shall be repaid upon sale of borrower's Fiber Optic business.

The replies are not tenable as a put option, NDU and negative lien were not tangible securities as they were in the nature of undertakings and recovery of dues through them was difficult. Even if the swap ratio improves to 1.13:1, the listing of the CNIL shares on its merger with GIL was unlikely to improve the share value in view of heavy indebtedness of GIL and erosion of net worth due to accumulated losses of ₹ 2893.18 crore (March 2016) and fall¹⁰⁶ in share prices of GIL.

Thus, the Company's exposure of ₹ 435.61 crore (₹ 273.78 crore (equity) and ₹ 161.83 crore (OCL)) including unrealized interest / coupon of ₹ 152.48 crore (₹ 90.65 crore (return on CNIL equity) and ₹ 61.83 crore (OCL)) was doubtful of recovery as on 31 March 2016.

B. The second facility of corporate loan of ₹ 250 crore was sanctioned (July 2010) to Chennai Network Infrastructure Limited (CNIL) of the same Global Group, repayable in one bullet instalment on 31 July 2013. The loan was secured by Non Disposable Undertaking (NDU) of shares of GTL Infrastructure Limited (GIL) (@ ₹ 41.16 per share) at twice the loan amount and the subservient charge on the movable assets (created on March 2011) equal to the amount of loan sanctioned along with the right to exercise put/call option at the end of 12 months from the date of disbursement and every six months thereafter.

Due to defaults (June 2011) in interest payment and fall in security cover within a year of sanction, the Company invoked the pledge and sold 10.31 lakh shares between July-September 2011 and realized ₹ 1.43 crore¹⁰⁷. This action resulted in dispute between IFCI and Global Group leading to legal proceedings. The borrower company had also approached CDR (July 2011) for restructuring its debts. However, due to the deteriorating liquidity position and the inability of the borrower to improve the security cover, the Company entered into a settlement agreement (August 2012) as per which (i) CNIL was to allot unquoted equity for the total outstanding loan of ₹ 250.66 crore and IFCI was to release the pledge on

¹⁰⁵ Reply relates to the draft para issued to the Ministry earlier which has now been included in the Performance Audit.

¹⁰⁶ From ₹ 41.45 (10 Feb 2010 time of sanction), ₹ 10.95 (19 March 2012 restructuring of FCD) , ₹ 8.05 (3 August 2012 date of Settlement agreement), ₹ 1.75 (21 November 2013 completion of settlement agreement) to ₹ 2.10 (31 March 2016).

¹⁰⁷ (₹29.78 lakh+₹113.47 lakh).

balance shares and (ii) these shares were not to be sold until merger¹⁰⁸ and listing of merged entity's shares. Even this was subject to Right of First Refusal (ROFR) of GTL Limited, or its nominees, which meant that IFCI could sell these shares only to GTL Limited (or its nominees) after listing and on their refusal, the shares could be sold to Bank/ Financial Institution but not to a competitor. The above settlement was completed on 21 November 2013.

Audit observed that credit facilities were extended in deviation from the General Lending Policy as GIL (the Pledgor Company) had losses in 2 out of 3 years as against the stipulation of having profits in all the three years and its Debt Equity Ratio (DER) was 2.39 as against the stipulated maximum of 1.5. Further, the loan repayable after three years was sanctioned despite being aware that as per projections, CNIL (borrower) would not be able to achieve breakeven even after four years of operation. Acceptance of settlement agreement was a high risk as the entire loan was swapped with unquoted equity. As the merger of CNIL with GIL did not materialize, the Company could not realize its dues of ₹ 374.74 crore consisting of investment in unquoted equity amounting to ₹ 250.66 crore and unrealized return thereon of ₹ 124.08 crore.

Management while admitting that the borrower's DER at the time of sanction was high, stated (Mar 2014/September 2014/November 2016) that the financials of GIL and CNIL were expected to gradually improve with planned expansion of tower business. It further stated that General Lending Policy was subsequently modified by putting a cap at ₹ 25 crore for lending against shares. It decided to convert the entire debt into CNIL's equity shares outside the CDR mechanism. As the final swap ratio is still being finalized, the expected swap ratio works out to 1.13 share of CNIL for one share GIL and on sale to a strategic investor would fetch the desired return.

The replies are not acceptable as loan was sanctioned in deviation from the General Lending Policy. The decision to convert 100 *per cent* of loan to CNIL's unquoted equity with restrictive exit options was not in the best interest of Company. Even if the expected swap ratio of 1.13:1 materialises, Mark To Market loss could not be ruled out on account of heavy indebtedness of borrowers' group company (GIL¹⁰⁹), erosion in the net worth due to heavy accumulated losses of ₹ 2893.18 crore (March 2016) and fall in share prices of GIL¹¹⁰.

Thus, deficient credit appraisal of the borrower and entering into a settlement agreement with CNIL on terms unfavourable to the financial interests of the Company combined with restrictive exit options resulted in doubtful recovery of ₹ 374.74 crore¹¹¹ (March 2016).

¹⁰⁸ In the approved merger scheme (July 2011) between CNIL and GIL, the swap ratio decided was four shares of CNIL with one share of GIL.

¹⁰⁹ The company with which CNIL is to be merged.

¹¹⁰ The share prices of GIL on sanction date 10.02.2010 was ₹ 41.45, on settlement date 03.08.2012 was ₹ 8.05, on settlement completion date 21.11.2013 was ₹ 1.75 and on 31.03.2016 was ₹ 2.10.

¹¹¹ Outstanding principal on settlement date ₹ 250.66 crore and unrealized return from August 2012 to March 2016 ₹ 124.08 crore.

7.2 Athena Chhattisgarh Power Limited and Athena Infraprojects Private Limited

IFCI sanctioned (September 2010) equity participation (first facility) to the extent of ₹ 250 crore in Athena Chhattisgarh Power Private Limited (ACPPL¹¹²), a Special Purpose Vehicle promoted by Athena Energy Ventures Pvt. Limited (AEVPL and others¹¹³) to part finance the project of a thermal power plant in Chhattisgarh costing ₹ 6200 crore. The equity participation was for a tenure of five to seven years, with interim coupon payment, and was to be then bought back by Zeus Inframangement Private Limited (ZIPL) (one of the promoters of ACPPL) or AiP Power Pvt Limited (AIPPL¹¹⁴) in case the former was not able to buyback the same. The buyback was to commence from April 2015 or one year from Commercial Operation Date (COD) (July 2014), whichever was earlier. In addition to the above equity participation, a previous short term loan of ₹ 100 crore sanctioned (June 2010) by IFCI to ACPPL was converted (March 2011) into equity subscription in ACPL to the extent of ₹ 85 crore and the balance ₹ 15 crore was repaid. A total disbursement of ₹ 138.54 crore was made in four tranches¹¹⁵ from March 2011 to March 2014. The defaults in the coupon payment started from December 2013 and the buyback default took place in April 2015. The total amount defaulted was ₹ 173.17 crore (including coupon of ₹ 80.81 crore) as on 31 March 2016.

A second facility by way of subscription (June 2011) to 10 *per cent* equity in Athena Energy Ventures Pvt Ltd (promoter of ACPPL) was also made by the Company amounting to ₹ 124.99 crore (8.33 crore shares at ₹ 15 per share including a premium of ₹ 5 per share). There was no buyback agreement, no security, no guaranteed returns and the only exit option available was by way of sale of shares to another party. This equity exposure in AEVPL was subsequently swapped (converted in March 2013) by subscribing to Non Convertible Debentures (NCDs) (third facility) of ₹ 177 crore to Viz Infra Consultants Private Limited (VICPL, another investor in the Athena group). This swap was exclusively to repay IFCI's 10 *per cent* equity subscription in AEVPL amounting to ₹ 124.99 crore along with a return of 14 *per cent* and to use the balance for investment in AEVPL which would be used for onward infusion into ACPL. The NCD facility turned into NPA (October 2015) and the total outstanding dues amounted to ₹ 234.44 crore as on 31 March 2016 (Principal ₹ 177.00 crore and interest outstanding ₹ 57.44 crore).

IFCI accepted (August 2013) equity shares of Athena Infraprojects Pvt. Limited (AIPL) (fourth facility) offered by VICPL valuing ₹ 27.11 crore (2.71 crore shares of ₹ 10 each) in lieu of the defaulted return on the buyout of equity of AEVPL along with a commitment by VICPL to buyback these shares by 31 December 2013 together with interest @16 *per cent* from March 2013. Even this buyback was not honoured by March 2016. The total outstanding including coupon was ₹ 42.05 crore (coupon ₹14.94 crore).

¹¹² ACPPL was converted into a Public Limited Company in October 2010 and was renamed as Athena Chhattisgarh Power Ltd. (ACPL).

¹¹³ PTC group, Abir Infrastructure Private Limited and Zeus Infra Management Private Limited (ZIPL).

¹¹⁴ Promoter of Athena Energy Ventures Pvt. Limited (AEVPL).

¹¹⁵ ₹ 85 crore (March 2011), ₹ 22.23 crore (November 2011), ₹ 14.64 crore (Oct 2013), ₹ 16.67 crore (March 2014).

Audit observed that that there was improper credit appraisal by the Company during sanction to ACPL (First Facility) as it did not take cognizance of the fact that ACPL's principal promoter i.e. AEVPL who was liable to pay coupon interest to IFCI did not have sufficient cash flows as it had incurred operating/net loss for all the three years prior to sanction. Similarly, the repayment capacity of the buyback entities (ZIPL, AIPPPL) was not analyzed as they had meager profits of ₹ 3.15 crore and ₹ 0.46 crore at the time of sanction, and also their investments were at implementation stage not yielding cash flows to service the debt. The Company also failed to analyze the equity generating capacity of the promoters, who were required to contribute ₹ 1550 crore besides repayments of its debts to fund the entire project cost of ₹ 6200 crore. The inability of the promoters in raising the required equity was one of the factors which resulted in time and cost overrun of the project.

Audit noticed several shortcomings during release of second, third and fourth installments towards equity participation in ACPL. The release of the second and third installments (November 2011 and October 2013) amounting to ₹ 22.23 crore and ₹ 14.64 crore respectively was made despite shortfall of 9.22 *per cent* and 5.65 *per cent* respectively of matching equity contributions from the promoters/investors and was in violation of the sanctioned terms. Similarly the third and fourth installments were released (October 2013, March 2014) despite partial receipt of only ₹ 4.59¹¹⁶ crore on account of coupon payment as against the existing total defaults of ₹ 9.59¹¹⁷ crore.

Further Disbursement of equity instalment of ₹ 16.67 crore (March 2014) was done despite ZIPL's (buyback entity for ACPL equity) financial health being weak and its failure to infuse its pro rata equity contribution, non infusion of balance equity of ₹ 673.59 crore by the promoters, difficulties in getting coal linkages for the power projects, cost overrun of the project by 34.23 *per cent* from ₹ 6200 crore to ₹ 8322.23 crore. Even VICPL did not clear the default (15 July 2013) of coupon interest amounting to ₹ 10.02 crore (Third Facility) Despite defaults, IFCI did not initiate recovery action to recover its outstanding dues against NCD facility extended to VICPL and defaults in buyout of ACPL and AIPL shares .

Management stated (May/November 2016) that subsequent disbursements were made to maintain the target stake and the terms of sanction stood complied with. Disbursements were made by giving more time for paying interim returns. Viz Infra was not a party for buyout of IFCI's investment in ACPL. Macro-economic factor of the power sector had abnormally affected revenues of promoter group. Hence, the disbursement of ₹ 16.67 crore was made to enable the company to draw further loan.

Replies are not acceptable as tight liquidity position of the borrower, as seen from defaults in the interim returns itself, did not deter the Company from continued subsequent disbursements. Viz Infra was to buyout IFCI's equity investment in AIPL including coupon and not the investment in ACPL as stated in the reply. The defaults in the return thereon still existed when disbursements (3rd and 4th) were released. Release of the further installment of ₹ 16.67 crore was made despite the above mentioned shortcomings. The coupon

¹¹⁶ ₹ 2.16 crore + ₹ 2.43 crore.

¹¹⁷ ₹ 4.55 crore + ₹ 5.04 crore.

servicing/buyback capabilities of promoters were affected as projects of the borrower groups were in implementation stage with no cash flows.

Sanctioning equity/NCD without proper credit appraisal (ACPL, AEVPL) as regards the financial health of the promoters and sanctioning of complicated multiple credit facilities to the same group resulted in non-recovery of ₹ 449.66 crore (equity investments in ACPL and AIPL of ₹ 119.47 crore, and return of ₹ 95.75 crore thereon, besides doubtful recovery of NCD (VICPL) which turned into NPA (October 2015) of ₹ 234.44 crore (principal ₹ 177 crore, interest ₹ 57.44 crore).

7.3 Gayatri Hi-Tech Hotels Limited and Gayatri Energy Ventures Private Limited

A. IFCI sanctioned (March 2010) equity participation of ₹ 61.10 crore (26 *per cent* equity) in Gayatri Hi-Tech Hotels Limited (GHHL) as a strategic investor for a Five Star hotel project in Hyderabad. The equity participation was for a tenure of 36 months and was to be bought back by Gayatri Hotel Ventures Private Limited (GHVPL), deemed holding Company of Gayatri group) and Gayatri Projects Limited (GPL, the flagship Company of the group) in 2 tranches of ₹ 30 crore and ₹ 31.10 crore at the end of 33rd month and 36th month from the date of first disbursement. The overall rate of return was 18 *per cent* which was to be paid at the rate of 10 *per cent* per annum on half yearly basis and the balance eight *per cent* was to be paid along with buyback of the equity. The amount was disbursed in two installments of ₹ 30 crore (April 2010) and ₹ 31.10 crore (June 2010). The equity participation was secured by the buyback agreement along with personal guarantee of two promoters. The borrower defaulted (October 2012) in payment of interim coupon to IFCI. Out of the total equity buyback amount of ₹ 61.10 crore due on 7 January 2013 (₹ 30 crore) and 7 April 2013 (₹ 31.10 crore), equity amounting to ₹ 5 crore only was bought back on 7 March 2013. On the request of the borrower for deferment of balance buyback amount (₹ 56.10 crore), IFCI approved reschedulement of the same twice¹¹⁸ (February 2013 and August 2015) and in the process received (January 2013) additional security of 41,45,217 pledged shares of GPL. Even the debts of the borrower (GHHL) and the buyback entity (GPL) were restructured under the aegis of Corporate Debt Restructuring/Joint Lenders Forum mechanism respectively (June 2014).

Audit observed that that the equity subscription facility was extended (March 2010) to a borrower Company that was yet to start commercial operations and did not fulfil the eligibility criteria stipulated in the extant GLP as the net worth of the promoting Company was ₹ 234.34 crore only as against the GLP stipulated criteria of minimum net worth being ₹ 500 crore. At the time of sanction, there was already time and cost overrun of 21 months¹¹⁹ and ₹ 154 crore¹²⁰ respectively in the project which was not given due cognizance. During credit appraisal the DER and FACR of the promoter Company/buyback entity were

¹¹⁸ From January/April 2013 to January/April 2015 and subsequently to January/April 2018.

¹¹⁹ Commercial Operation Date- April 2009 to January 2011.

¹²⁰ ₹ 366 crore to ₹ 520 crore.

calculated¹²¹ by excluding unsecured loans from the debt portion. The projected profit margin (7 per cent) in the fourth year of operation was a meager ₹ 9 crore at an optimistic 75 per cent occupancy ratio which itself was insufficient to service this facility along with the other term lenders' debt of ₹ 285 crore in this project. During the first restructuring of buyback schedule (Feb 2013), Company did not enforce the personal guarantee of the two promoters and at the time of subsequent buyback defaults (January 2015/April 2015) did not sell the pledged shares though the same were available as security. Instead the facility was again rescheduled (August 2015).

It is pertinent to mention that the present facility was sanctioned despite the fact that IFCIs past experience with the borrowers group concern (Gayatri Sugars Ltd) was not satisfactory as one facility extended to it had to be foreclosed by way of settlement of IFCIs dues (July 2008).

Management in its reply accepted the facts regarding deviations from norms, OTS settlement with one of the borrower group companies as well as exclusion of unsecured loan while calculating D/E ratio. It also stated that the cash flows of GHHL were immaterial as buyback and interim return was being serviced by the other group company and the facility was also secured by pledged shares of GPL.

However the fact remains that the buyback was not honored as per the stipulated timeline and IFCI rescheduled the buyout on two occasions instead of enforcing the personal guarantee of the promoters or selling the pledged shares offered as security for the equity participation.

B. The Company sanctioned (December 2010) subscription to Compulsorily Convertible Debentures (CCDs) of Gayatri Energy Ventures Private Limited (GEVPL) to the extent of ₹ 250 crore to part finance the equity of GEVPL in two power projects (SPVs) proposed to be developed by it. The CCDs were secured by way of pledge of 26 per cent equity shares of GEVPL, 10.74 per cent equity shares of NCC Infrastructure Holdings Limited, an SPV of GEVPL. The CCDs were to be bought back in four equal installments¹²² by Gayatri Projects Ltd. (GPL, the Holding Company) or by two promoters of GEVPL in case of no buy back by the former. IFCI disbursed the first CCD subscription of ₹ 150 crore in May 2011 while the balance undrawn amount of ₹ 100 crore was cancelled (May 2012). The borrower started defaulting (May 2012) on coupon payments to IFCI which subsequently approved (June 2015) a reschedulement of the buyout and coupon payment schedule¹²³. As on 31 March 2016 the total outstanding amount was ₹ 153.47 crore.

In this regard, audit observed that credit facilities were sanctioned to GEVPL which had a paid up capital of ₹ 1.05 crore only, no operational income of its own and did not fulfill the eligibility criteria stipulated in the extant GLP as the net worth of the promoter Company

¹²¹ DER (2008-09) as calculated by the company was 0.2 by excluding unsecured loans and other banks borrowings from debt component of DER. But by including the same the actual DER works out to 1.54 similarly FACR as worked out by the Company was 3.44 by excluding unsecured loans and other banks borrowings. But by including the same the actual FACR works out to 0.44.

¹²² At the end of 42nd (15 Nov 2014), 48th (15 May 2015), 54th (15 Nov 2015), and 60th (15 May 2016) month from date of subscription.

¹²³ Buyout to commence from 15 May 2016 in 8 equal quarterly installments and coupon payment to commence from 15 Feb 2016.

(Gayatri Projects limited) was ₹ 280.41 crore only as against the GLP stipulated criteria of minimum net worth being ₹ 300 crore. Further the capability of GPL to raise required funds on the strength of its low net worth of ₹ 280.41 crore for executing the projects in hand valuing ₹ 8812 crore could not be established. The two power projects proposed to be developed by GEVPL were being financed with a debt component of 75 percent¹²⁴ and the capacity of the promoters to infuse the balance equity portion of 25 percent amounting to ₹ 2469 crore was not evaluated. Even the Flagship Company of the group (Gayatri Projects Ltd.) was facing time and cost overruns in three projects. The Company shifted the critical pre-disbursement conditions of finalization of Fuel Supply Agreement (FSA) and Power Purchase Agreement (PPA) in respect of the proposed power projects to other conditions forming part of the CCD subscription. Despite existing defaults in repayments of credit facilities extended to GEVPL and GHHL, IFCI released a tangible security valuing ₹ 50 crore in respect of the another prepaid loan (2013) of a group concern¹²⁵.

Management while accepting the fact that the net worth fell short of criteria stated that the high Debt Equity Ratio was an acceptable norm and financial closure was achievable. It stated that the delay in execution of Fuel Supply Agreement and Power Purchase Agreement was industry trend and hence IFCI provided more time for the same and that cash flows were sufficient for restructuring. Further, it also stated (November 2016) that GEVPL is making coupon payment regularly post reschedulement and had bought out ₹ 18 crore with Internal Rate of Return of 16 per cent in May 2016.

The replies are not acceptable as the borrower did not meet the stipulated eligibility criteria and the industry trend had to be compared with the existing financial status of the borrower who was incurring cost overruns in its other BOT project. As regards regular coupon payments, the reply is not acceptable as the borrower defaulted in payment of two instalments of principal and coupon, amounting to ₹ 46.59 crore due in August 2016 and November 2016. Financial viability could not have been established especially since the promoter/buyback entity already had its debt restructured under Joint Lenders' Forum in January 2015, in view of its poor financial health prior to its account being restructured by IFCI (June 2015).

Thus, sanction of the credit facilities to ineligible borrowers, and weak credit appraisal of borrowers, multiple lending within group companies resulted in non-recovery of equity of ₹ 56.10 crore due to non enforcement of available security. In addition, there was doubtful recovery of ₹ 153.47 crore (GEVPL) in the absence of any tangible security and also GPL itself (the buyback entity) being indebted to IFCI to the extent of ₹ 66.16 crore in respect of another loan.

¹²⁴ Amounting to ₹ 7403 crore (₹ 5151 crore + ₹ 2252 crore).

¹²⁵ Gayatri Property Ventures Limited (2008).

7.4 ABG Cement Limited and ABG Energy (Gujarat) Limited

IFCI invested (April 2009) ₹ 63.92 crore and ₹ 36 crore (October 2009) in equities of ABG Cement Limited¹²⁶ (ABGCL) and ABG Energy (Gujarat) Limited (ABGEGL) respectively. The exit option available to IFCI was a put option on ABG International Private Limited (ABGIL) for both the facilities or through an IPO with Tag along¹²⁷ rights additionally in respect of ABGCL. Due to liquidity issues, the project encountered time and cost overrun. However, on default, the put option was exercised (November 2012 and March 2013) by IFCI for both the Companies but the same was not honoured by ABGIL. The total dues in respect of these investments amounted to ₹ 99.92 crore apart from ₹ 218.47 crore being returns thereon as on 31 March 2016. A winding up petition has been filed (January 2016) by the Company for the same.

Audit observed that the investment in equity was made in deviation from the extant General Lending Policy as the net worth of the promoting company i.e. ABGIL was ₹ 251 crore as against the stipulated minimum net worth of ₹ 500 crore. Despite it being a Greenfield project, IFCI did not obtain any tangible security. It continued the disbursements disregarding the 29 per cent increase (by ₹ 537.08 crore) in project cost. In addition, *pro rata* subscription in equity was released by focusing more on maintaining the shareholding proportion and on the plea that the put option would insulate IFCI from the impact of cost and time overrun. A further facility of a term loan of ₹ 100 crore was disbursed (March 2013) to ABG Shipyard Limited, another company of ABG Group despite the fact that the put option exercised by IFCI for both the investments (ABG Cement, ABG Energy) in November 2012 and March 2013 respectively were not honoured by the promoting company. Even ABGIL's undertaking at the time of sanction of this loan to buyback investment in ABGCL and ABGEGL by June 2013 was not honoured.

Management stated (August, November 2016) that the eligibility criteria were relaxed considering future growth in borrower's resources and after estimating the ability of the promoters to infuse the funds. Disbursements were released in proportion to equity infused, the amounts disbursed by other lenders and ABGIL's undertaking to fund the entire equity of ₹ 183.96 crore required for the cost overrun. The loan was sanctioned to ABG Shipyard on the securities offered and its profitability.

The replies are not acceptable as the deviation from net worth requirement was against IFCI's interest. Further, the stressed financial position of the borrower and factors affecting its repayment capability were not given due cognizance at each stage. Instead IFCI relied on the borrower/promoter's undertaking and followed the other lenders' practice. The release of fresh loan to ABG Shipyard (March 2013) despite buyback defaults existing in respect of ABGCL and ABGEGL by its promoter was also not in best interest of IFCI.

¹²⁶ Renamed as Vadraj Cement.

¹²⁷ Right to claim the same terms and conditions as being offered to third party in case of IPO / sale of shares.

Chapter 8: Conclusion and recommendations

8.1 Conclusion

As IFCI is a Systemically Important Non-Banking Financial Company (NBFC-ND-SI), it is essential that rigorous standards of appraisal and diligence are followed and due consideration is given to its own financial/commercial interest during the process of appraisal and extension of credit facilities.


The review of sanctioning, disbursement and monitoring of loans/investments extended by IFCI to several borrowers revealed that IFCI did not observe the highest standards of due diligence in credit appraisal while sanctioning, disbursing and monitoring some of the loan accounts. It did not adhere to its own General Lending Policy in several instances and relaxed various stipulated eligibility criteria pertaining to minimum security cover, financial ratios, stipulated credit rating etc. The valuation of securities accepted during sanction was not in consonance with the methodology laid down in the General Lending Policy. Audit observed lack of due diligence in verification of titles of immovable properties taken as security resulted in failure in enforcement of these securities and safeguarding the mortgaged assets. It was also observed that in cases where primary security as per terms of sanction was not created before disbursement, there was high incidence of these turning into NPAs. Even after occurrence of defaults and the loans turning into NPA, there was delay in enforcement of security and there were instances of non-enforcement of security especially in sale of pledged equity shares to recover outstanding dues. Audit also observed violation of Guidelines of RBI on provisioning, restructuring and sanction of loan to borrowers in RBI/CIBIL wilful defaulter's list. Audit observed inappropriate credit appraisal / analysis of financials of the company and buyback entity and unsatisfactory loan history or indebtedness of the borrower in some instances of equity investment in other companies. In most of the cases there was default in buyback, exit options were restricted and multiple lending within the group companies was done with weak post sanction monitoring.

The Ministry stated (February 2017) that in addition to providing a framework for lending institutions, General Lending Policy also provided for a mode of approvals wherever any deviations were required from ideal conditions set out in the policy. Ministry also stated that based on the observations highlighted in this report, the Company had been advised to review the General Lending Policy, tighten process in areas identified in the review of individual cases and examine staff accountability in all cases of negligence / fraud as well as lending to wilful defaulters. It further stated that a due and proper scrutiny into certain cases involving allegations against IFCI was already underway by RBI, SEBI and Serious Fraud Investigation Office as per the directions of Hon'ble Supreme Court of India. The findings of these reports along with this Performance Audit Report would be used to advise the Company and also for periodic reviews of IFCI's performance conducted by this Ministry and drive further improvements.

8.2 Recommendations


- The credit appraisal mechanism should be strengthened;
- The Company should strictly comply with the RBI guidelines applicable to Systemically Important Non-Deposit taking Non-Banking Financial Companies;
- The Company should strictly adhere to its General Lending Policy and should not take recourse to deviations as a matter of routine;
- The Company should assess the financial position of the borrower company along with that of the pledgor Company/buyback entity while sanctioning financial assistance;
- The action for recovery needs to be initiated immediately on default by enforcing the available security.

New Delhi
Dated: 05 April 2017


(H. PRADEEP RAO)
Deputy Comptroller and Auditor
General and Chairman, Audit Board

Countersigned

New Delhi
Dated: 05 April 2017


(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

ANNEXURES

Annexure-1 (Para 3.2)

Details of deviations from norms in cases sanctioned during 2012-13 to 2015-16

Sl. No.	Category of deviations	Nature of deviations	Cases where the deviation was noticed
1.	Deviation from criteria relating to financial ratios (Profitability ratios, liquidity ratios, leverage ratios, coverage ratios)	1.1. Profitability ratios (GP, Gross Margin, Net Profit, Operating Ratios)	1. Country Colonizers Limited 2. Forum Projects Private Limited
		1.2 Liquidity ratios (Current ratio),	3. Adhunik Metaliks Ltd. 4. Alok Industries Limited 5. Amtek Auto Ltd. 6. Bhushan Steel Limited 7. Binani Cements Limited 8. Country Colonizers Limited 9. Exact Developers & Promoters Pvt. Ltd. 10. Genuine Asset Operators Pvt. Ltd. 11. Jain Irrigation Systems Limited 12. Jindal Rail Infrastructure Limited 13. JP Iscon Limited 14. Jubilant Lifesciences Limited 15. MEP Infrastructure developers Limited 16. Palava Dwellers Private Limited. 17. Punj Lloyd Limited 18. Rainbow Papers Limited 19. Reddy Structures Private Limited 20. RSB Transmissions (I) Limited 21. Sree Rayalaseema Alkalies & Allied Chemicals Ltd 22. The India Cements Ltd. (15-16) 23. Tilaknagar Industries Limited 24. Uttam Galva Metallics Limited 25. Vishvaraj Infrastructure Limited
		1.3 High Leverage ratio (Debt Equity ratio, Total outside liabilities TOL/ Tangible net worth (TNW))	26. Alok Industries Limited 27. Bhushan Steel Limited 28. Binani Cements Limited 29. Evergrowing Iron & Finvest Limited 30. Exact Developers & Promoters Pvt. Ltd. 31. Future Brands Limited (DER) 32. Future Brands Limited (TOL/TNW) 33. Genuine Asset Operators Pvt. Ltd. 34. Jai Prakash Associates 35. JP Iscon Limited 36. KSK Energy Ventures Limited 37. Liz Investment Pvt Ltd. (14-15) 38. Liz Investment Pvt. Ltd. (15-16) 39. MEP Infrastructure developers Limited 40. Omkar Realtors and Developers Pvt. Ltd. 41. Parinee Reality Private Limited (DER) 42. Parinee Reality Private Ltd (TOL/TNW) 43. Puranik Builders Private Limited 44. Raheja Developers Limited 45. Shree Naman Healthcare Pvt. Ltd. 46. Walchandnagar Industries Ltd.

		1.4 Coverage Ratios (Debt Service Coverage Ratio (DSCR), Fixed Assets Coverage Ratio (FACR))	47. Adhunik Metaliks Ltd. 48. Alok Industries Limited 49. Amtek Auto Ltd. 50. Bhushan Steel Limited 51. Binani Cements Limited 52. Evergrowing Iron & Finvest Limited 53. Genuine Asset Operators Private (FACR) 54. Genuine Asset Operators Pvt. Ltd.(DSCR) 55. Gran Electronics Private Limited 56. Jai Prakash Associates (DSCR) 57. Jai Prakash Associates (FACR) 58. Jubilant Lifesciences Limited (DSCR) 59. Jubilant Lifesciences Limited (FACR) 60. Manglam Build-Developers Limited 61. Monnet Ispat and Energy Limited (DSCR) 62. Monnet Ispat and Energy Limited (FACR) 63. REI Agro Limited 64. Simhapuri Energy Limited 65. The India Cements Ltd.15-16 66. Uttam Galva Metalics Limited 67. Walchandnagar Industries Ltd.
2.	Deviation from criteria relating to credit rating, minimum net-worth and previous years profitability	2.1 Lower / no credit rating	1. Adhunik Metaliks Ltd. 2. Country colonizers Limited 3. Exact Developers & Promoters Pvt. Ltd. 4. Forum Projects Private Limited 5. Gran Electronics Private Limited 6. Jindal Rail Infrastructure Limited 7. Litchica Products Private Limited 8. Reliance infrastructure Limited 9. Alok Industries Limited 10. Amtek Auto Ltd. 11. Coastal Energen Private Ltd. 12. Evergrowing Iron & Finvest Limited 13. Luxora Infrastructure Private Limited 14. Parinee Reality Private Limited 15. Rainbow Papers Limited
		2.2 Minimum Net worth of the borrower	16. Evergrowing Iron & Finvest Limited 17. Exact Developers & Promoters Pvt. Ltd. 18. Genuine Asset Operators Private Limited 19. Gran Electronics Private Limited 20. Litchica Products Private Limited
		2.3 Profitability of the borrower in the previous three years.	21. Adhunik Metaliks Ltd. 22. Binani Cements Limited 23. Exact Developers & Promoters 24. Genuine Asset Operators private Limited 25. Gran Electronics Private Limited 26. Jindal Rail Infrastructure Limited 27. Jubilant Lifesciences Limited 28. Litchica Products Private Limited 29. Luxora Infrastructure Private Limited, 30. Vishvaraj Infrastructure Limited 31. Walchandnagar Industries Ltd.

3.	Relaxation to the minimum security cover, nature of security and its valuation.	3.1 Minimum Security Cover	<ol style="list-style-type: none"> 1. Alok Industries Limited 2. Ansal Housing & Construction Ltd 3. EMC Ltd. 4. Evergrowing Iron & Finvest Limited 5. Exact Developers & Promoters 6. Gera Developments Pvt. LTD. 7. Gran Electronics Private Limited 8. Jindal Rail Infrastructure Limited 9. Jubilant Lifesciences Limited 10. Litchica Products Private Limited 11. Mandava Holdings Private Limited 12. Manglam Build-Developers Limited 13. Monnet Ispat and Energy Limited 14. Palava Dwellers Private Limited 15. Punj Lloyd Limited 16. Rainbow Papers Limited 17. Reliance Communications Limited 18. Reliance infrastructure Limited (14-15) 19. Reliance Infrastructure Limited (15-16) 20. RSB Transmissions (I) Limited 21. Sobha Developers Limited 22. The India Cements Ltd. 14-15 23. The India Cements Ltd. 15-16 24. Vishvaraj Infrastructure Limited 25. Walchandnagar Industries Ltd.
		3.2 Over Valuation of security (Assets)	<ol style="list-style-type: none"> 26. Gran Electronics Private Limited 27. Jindal Rail Infrastructure Limited 28. Manglam Build-Developers Limited 29. Puranik Builders Private Limited 30. RSB Transmissions (I) Limited 31. Simhapuri Energy Limited 32. Walchandnagar Industries Ltd.
		3.3 Nature of security / unenforceable security (agricultural land, SEZ, BOT etc)	<ol style="list-style-type: none"> 33. DA Toll Ltd. 34. KSK Energy Ventures Limited 35. Mandava Holdings Private Limited 36. MEP Infrastructure developers Limited 37. Reliance infrastructure Limited 38. Vishvaraj Infrastructure Limited
4.	Deviation from other stipulated conditions as per sanctioned terms (lending against shares, non-receipt of upfront fees etc.)	4.1 Lending against share not to exceeds ₹ 25 crore	<ol style="list-style-type: none"> 1. Evergrowing Iron & Finvest Limited 2. Liz Investment Pvt. Ltd. (14-15) 3. Liz Investment Pvt. Ltd. (15-16)
		4.2 Non receipt of upfront fees / legal fees and other charges, liquidity damages.	<ol style="list-style-type: none"> 4. Evergrowing Iron & Finvest Limited 5. Future Brands Limited 6. Puranik Builders Private Limited 7. Reliance infrastructure Limited(14-15) 8. Reliance infrastructure Limited(15-16) 9. Trimax IT Infrastructure Limited 10. Walchandnagar Industries Ltd.

		4.3 Increase in Loan tenure	11. Amtek Auto Limited 12. DLF Limited 13. EMC Ltd. 14. Jaypee Infratech Limited 15. Jindal Rail Infrastructure Limited 16. Simhapuri Energy Limited
		4.4 Promoters pledged shares in excess of restriction	17. KSK Energy Ventures Limited
5.	Sanction to wilful defaulters	5.1 Promoter in list of wilful defaulters	1. Mantri Developers Private Limited
		5.2 Directors in list of wilful defaulters	2. Jubilant Life Sciences Limited ¹ 3. Sew Infrastructure Limited

List of deviations from the norms in sanction of major cases is given in Annexure-IA.

¹ The loan has been prepaid (October 2015/October 2016).

Annexure-1A (Para 3.2)

Illustrative list of deviations from the norms prescribed in the General Lending Policy

A Deviations from criteria relating to financial Ratios

Sl. No.	Name and year of sanction	Financial Ratio	Stipulated Terms	Deviation from stipulated terms
1.	Future Brands Limited (2015-16)	TOL/TNW (leverage ratio)	4:1	(-3.21) Negative net worth
2.	Parinee Realty Private Limited (2015-16)	TOL/TNW (leverage ratios)	4:1	27.46:1
3.	Walchandnagar Industries Limited (2015-16)	TOL/TNW (leverage ratio)	3.5	5.11
4.	Raheja Developers Limited (2015-16)	TOL/TNW (leverage ratios)	4:1	4.33:1
5.	Manglam Build-Developers Limited (2014-15)	Minimum DSCR (Leverage)	1.5	0.74
6.	Amtek Auto Limited (2015-16)	Minimum DSCR (leverage)	1	0.74
7.	Genuine Asset Operators Private Limited (2014-15)	CR(liquidity)	1.2	Nil
8.	Exact Developers & Promoters Private Limited (2015-16)	CR(liquidity)	1.2	0.04
9.	Country Colonisers Private Limited (2012-13)	Current Ratio (liquidity ratio)	1.33	0.26
10.	Sree Rayalseema Alkalies (15-16)	CR(Liquidity)	1	0.59
11.	The India Cements Limtd (2015-16)	CR(Liquidity)	1.33	0.69
12.	Amtek Auto Limited (2015-16)	CR(liquidity)	1.33	0.80
13.	Adhunik Metaliks Ltd (2013-14)	CR(Liquidity)	1.33	0.84
14.	Uttam Galva Metaliks Limited (2014-15)	CR(Liquidity)	1.3	0.94
15.	Parinee Realty Pvt. Ltd (2015-16)	DER (leverage ratio)	1.6:1 (Standalone) 3.5:1 (consolidated)	19.71:1 3.66:1
16.	Liz Investments Pvt. Ltd CL-III (2015-16)	DER (leverage ratios)	2:1	14.13:1
17.	Liz Investments Pvt. Ltd CL-II (2014-15)	DER (leverage ratios)	2:1	8.09:1
18.	MEP Infrastructure Developers Limited (2015-16)	DER (consolidated)	3.5:1	Negative Net worth
19.	Omkar Realtors and Developers Private Limited(2013-14)	DER (leverage)	1.5	4.2
20.	Puranik Builders Pvt. Ltd (2015-16)	DER (leverage ratio)	1.6	2.15
21.	KSK Energy Ventures Limited (2015-16)	DER (leverage ratio)	3:1	4.44:1
22.	Evergrowing Iron & Finvest Limited(2013-14)	DER (leverage ratios)	1.5:1	2:1
23.	Future Brands Ltd (2015-16)	DER (leverage)	1:1	1.4:1

B. Deviations from criteria relating to credit rating, net-worth and profits in previous years.

Sl. No.	Name and year of sanction	Financial criteria	Stipulated Terms	Deviation from stipulated terms	Remarks
1.	Parinee Realty Pvt. Ltd (2015-16)	Credit rating	Minimum BBB-	No credit rating	Time given to submit the same after sanction
2.	Luxora Infrastructure Pvt. Ltd. (2014-15)	Credit rating	BBB-	No external rating	IFCI rating was 7 which is below Invest. Grade)
3.	Amtek Auto Ltd. (2015-16)	Credit rating	BBB-	No external rating	
4.	Exact Developers and Promoters Pvt. Ltd. (2015-16)	Credit rating	BBB-	No external rating	
5.	Nirmal Lifestyle (2013-14)	Credit rating	BBB	Rating suspended (September 2012) before sanction	
6.	Jindal Rail Infrastructure Limited (2015-16)	Credit rating	BBB+ to BBB- To renew rating within 3 months of expiring	BBB- Rating expired on 11 August 15 no renewal seen on records at sanction date	
7.	Hydric Farm Inputs Ltd (2015-16)	Credit rating	BBB-	BB	
8.	Genuine Asset Operators Pvt. Ltd. (2014-15)	Minimum Net worth of borrower	50 crore	1 lakh	Low credit worthiness of borrower shortage of Net worth by 99.9%
9.	Litchica Products Private Limited (2015-16)	Minimum Net worth	₹ 50 crore	₹ 0.11 crore	
10.	Exact Developers and Promoters Pvt. Ltd. (2015-16)	Net worth	100	69.05	Shortage of Net worth by 31%
11.	Evergrowing Iron & Finvest Limited (2013-14)	Minimum net worth	₹ 100 crore	₹ 79 crore	Net worth shortage by 21%
12.	Genuine Asst Operators Pvt. Ltd. (2014-15)	Profitability	2 out of 3 years	Newly formed company. No profits.	

13.	Jindal Rail Infrastructure Limited(2015-16)	Profitability	To be profitable in 2 of last 3 years	Incurred losses in last 3 years	Ineligible borrower
14.	Luxora Infrastructure Pvt. Ltd. (2014-15)	Profitability	Profitable in 2 out of 3 years	Losses in all the 3 years.	
15.	Walchandnagar Industries Ltd.(2015-16)	Profitability	To be profitable in 2 of 3 years	Losses in last 2 years	Ineligible borrower
16.	Exact Developers & Promoters Pvt. Ltd.(15-16)	Profitability	Profitable in 2 out of 3 years	Losses in last 2 years	
17.	Litchica Products Private Limited (2015-16)	Profitability	Profitable in 2 out of last 3 years	Losses in last 2 years	
18.	Country Colonisers Private Limited (2012-13)	Profitability	To be profitable in last 3 years prior to sanction	Not complied	

C Deviations from criteria relating to security consideration

Sl. No.	Name and year of sanction	Stipulated Security Conditions	Deviation from stipulated terms	Remarks
1.	Reliance Communications Limited(2013-14)	Minimum Security Cover	1.26 (Tangible)	0.79 (Tangible)
2.	The India Cements Ltd. (2014-15)	Minimum Security Cover	2 times	1.25 times
3.	Sobha Developers Limited (2013-14)	Minimum Security Cover	2 times (Tangible)	1.25 times tangible
4.	EMC Ltd.(2014-15)	Minimum Security Cover	2 times	1.5 Times
5.	Jindal Rail Infra Ltd. (2015-16)	Minimum security cover to be 2 times first charge over fixed assets	1.25	Lesser security accepted than stipulated.
6.	MEP Infrastructure Developers Ltd. (2015-16)	Enforceable security	Security was pari passu charge on leased land for BOT project	Enforceability of BOT land was doubtful
7.	KSK Energy Ventures Ltd. (2015-16)	Nature of security enforceability	Accepted agricultural land on conditional grounds.	Hence enforceability is difficult.
8.	DA Toll Road Private Limited(2014-15)	Charge over project assets	Charge over project cash flows	Deviation involved unenforceable security
9.	Jindal Rail Infrastructure Ltd(2015-16)	Valuation as per Book Value of assets	Valuation based on distressed sale value of land	Deviation resulted in over valuation of security.
10.	RSB Transmissions (I) Ltd. (2015-16)	Valuation as per book value	Valuation was done at Distress Sale Value	Resulted in over valuation of security

D Deviations from criteria relating to other stipulated conditions

Sl. No.	Name and year of sanction	Criteria	Stipulated Terms	Deviation from stipulated terms	Remarks
1.	Liz Investment Pvt. Ltd CL-III(2015-16)	Lending against security of shares	Maximum of loan of ₹ 25 crore	Loans sanctioned ₹ 70 crore	Excess loan of ₹ 45 crore sanctioned in violation of terms.
2.	Liz Investments Pvt. Ltd. CL-II(2014-15)	Lending against security of shares	Maximum upto ₹ 25 crore loan	₹ 50 crore	Excess loan of ₹ 25 crore sanctioned.
3.	Goyal MG Gases Private Limited (2015-16)	Prepayment premium	2% (anytime)	0.50% after moratorium	Undue benefit of 1.5% given to borrower
4.	Puranik Builders (2015-16)	Prepayment premium	2% at all times	Made into 0% after 1 year of sanction	Undue benefit to borrower
5.	The India Cements Ltd. (2015-16)	Prepayment premium	2%	1%	Reduced by 1%
6.	Jindal Rail Infra (2015-16) 2 loans	Loan Tenure	6 years	10 years	4 years increase in tenure caused assumption of greater risk
7.	Amtek Auto Ltd. (2015-16)	Loan Tenure	6 years	10 years	4 years increase in tenure caused assumption of greater risk
8.	Jaypee Infratech Limited(2014-15)	Loan Tenure	Max. 6 years including moratorium of 2 years (norms shown as 8 instead of 6 in sanction note)	10 years including moratorium of 3 years.	

Annexure-2 (para 6.3.2)

10 NPA cases with common observations

Sl. No.	Name of the borrower	Date & Amount of sanction (₹ in crore)	Total Dues (Principal & Interest) as on 31 March 2016 (₹ in crore)	Audit observations	Management's reply and rebuttal
1	<i>IVRCL Indore Gujarat Toll Ltd and IVRCL Chengapalli Toll Limited</i>	Sept 2010 (₹ 250* crore) *₹ 125 crore to both IIGTL and ICTL in the form of CCDs	₹ 249.99 crore (Principal)	<ul style="list-style-type: none"> •The facility was sanctioned in violation of eligibility criteria as the promoter company incurred loss in 2010 (the year prior to sanction). • The promoter company had negative net cash flows (projected financials) for three years until 2015, when CCDs were due for buyback •CCDs were sanctioned despite the investment being categorized as high revenue risk by CRMD. •There was improper disbursement to ICTL of ₹ 23.37 crore despite default and (between Jan to Sept 2014) despite its promoter company's referral to CDR (January 2014) with debts of ₹ 7000 crore being restructured. 	<p>The Management replied that the buyback agreements protected IFCI. Further, the buyout of CCDs was not envisaged from cash flows of the borrowers. Disbursements were made on request of the borrowers in view of short term tightness in liquidity.</p> <p>Replies are not justified as the call or put option were only an undertaking to buyback and promoters' capability was also not established as eligibility condition were violated.</p> <p>This has resulted in doubtful recovery of ₹ 249.99 crore as on March 2016 and a loss of ₹ 27.17 crore on restructuring.</p>
2	<i>SVOGL Oil & Gas Energy Limited</i>	May 2010 (₹ 135 crore)	₹ 185.42 crore (₹ 114.77 + 70.65)	<ul style="list-style-type: none"> •The loan was sanctioned to a highly indebted borrower having long term liabilities of ₹ 1687 crore as on 31 March 2010. This was pointed out by CRMD also. •The loan was sanctioned in deviation from eligibility criteria with higher DE ratio, lower FACR. 	<p>The Management replied (November 2016) that DER, which was 1.77:1 was expected to improve further.</p> <p>Reply is not tenable as DER of the borrower deteriorated drastically after sanction of the loan (from 1.77 in 2010 to 5.79 in 2014 and 82.97 in 2015).</p>

				With its net-worth of only ₹ 37 crore (March 2015) and negative cash accruals since March 2014, the chances of recovery of outstanding dues of ₹ 185.42 crore are bleak more so in the absence of any exclusive security.	
3	<i>Rainbow Papers Limited</i>	Nov 2013 (₹ 100 crore)	₹ 110.08 crore (₹ 100 crore + ₹ 10.08 crore)	<ul style="list-style-type: none"> •The loan was sanctioned despite borrower's downgraded ratings (July 2013) to CRISIL BBB- with a negative outlook prior to sanction. •The loan was extended with one time cover in deviation from the norm of two times security as per GLP as by then tangible security was not created. •Despite default in interest (August 2014) and sale of pledged shares of ₹ 64.30 lakh (December 2014) to recover its outstanding dues the third disbursement of ₹ 20 crore (March 2015) was released. •There was passive recovery from the sale of pledged shares as with each successive delay in sale, the share price declined from ₹ 80.35 to ₹ 54.10 (Sept. 2014, Aug. 2015) which was not in the best interest of the Company. 	<p>The Management accepted that the borrower was facing short-term liquidity crunch prior to sanction. The facility disbursed may not be treated as lending Against Shares (LAS) as subservient charge on the moveable assets existed. There was no default of interest at the time of last disbursement of ₹ 20 crore.</p> <p>The replies are untenable as critical financial condition of the borrower at the time of sanction was corroborated by the downgraded credit rating with negative outlook and non-mitigation of the assessed financial risks. Besides, when disbursement was made, the Company had no other tangible security and thus the loan was to be treated as LAS. The third disbursement was released despite borrower's previous defaults (August 2014) which were recovered (December 2014) through sale of pledged shares.</p> <p>Thus, poor credit appraisal has resulted in doubtful recovery of ₹ 110.08 crore.</p>

4	<i>Orchid Chemicals & Pharmaceutical Limited</i>	March 2011 (₹ 150 crore)	₹ 117.68 crore (₹ 91.99 crore + ₹ 25.69 crore)	<p>Loan was sanctioned despite the fact that:</p> <ul style="list-style-type: none"> • Borrower had incurred operating loss of ₹ 565 crore in 2009-10 and had earned profit only because of other income. • Interest burden had increased from ₹ 81 crore (2008) to ₹ 241 crore (2010) and profitability had declined from 28 <i>per cent</i> in 2008 to 14 <i>per cent</i> (negative) of sales in 2010. 	<p>The Management replied (November 2016) that the operating loss was due to some exceptional factors which was considered in the sanction note.</p> <p>Reply is not tenable as the leading indicators of NPA viz. financial health, interest burden, profitability etc. were ignored.</p>
5	<i>Vivimed Labs Limited</i>	Sept 2013 (₹ 100 crore)	₹ 75 crore (Principal amount)	<ul style="list-style-type: none"> • IFCI had failed to analyze the effect of steep rise² in VLL's long-term obligations, increased interest burden³ coupled with stressed profitability margins⁴ before sanction. • IFCI initiated legal action for recovery of dues as late as in December 2015 despite early indicators (January 2014) of stressed debt service capacity on account of high repayment obligation and the fact that final security had not been created. 	<p>The Management replied (November 2016) that while revoking recall notice (January 2016) after clearance of over dues, VLL was instructed to adhere to the repayment schedule and clear dues timely. It further stated that VLL will clear the default from sale proceeds of one of its units.</p> <p>Reply is not tenable as VLL again failed to adhere to the repayment schedule despite revocation of recall notice by IFCI leading to default of ₹ 9.64 crore (October 2016).</p>
6	<i>Neesa Leisure Limited</i>	Feb/ March 2010 (₹ 30 crore/ ₹ 15 crore Short Term Loans (STL)) July 2010	₹ 134.51 crore (₹ 56 crore + ₹ 78.51 crore)	<ul style="list-style-type: none"> • Audit observed that the eligibility criteria as per the General Lending Policy of DSCR, Current ratio and requirement of minimum borrower's net-worth were deviated at sanction time. • The securities for term loans as well as for the conversion of the term loans of Rs.26 crore into Compulsorily Convertible Preference Shares (CCPS) in August 2010 were also not 	<p>The Management, while accepting diversion of loan amounts, stated (June/November 2016) that being short-term loans, DSCR was not calculated. Conversion of loan to CCPS was accepted due to attractive return of 20 <i>per cent</i>.</p> <p>Replies are not tenable as IFCI failed to analyze the DSCR of the borrower as subsequently the buyback default was due to poor repaying</p>

² from ₹ 131.90 crore in 2011 to ₹ 431.02 crore in 2013.

³ (from ₹ 22.10 crore in 2011 to ₹ 40.93 crore in 2013).

⁴ EBITDA, PAT margins fell from 21.05 *per cent* and 11.74 *per cent* (2010-11) to 17.83 *per cent* and 7.54 *per cent* (2012-13).

		(₹ 11 crore Long Term Loan(LTL))		<p>fully created.</p> <ul style="list-style-type: none"> •IFCI converted the loan into Preference shares (August 2010) by changing the nature of loan from debt to equity without any tangible security. •NLL failed to comply with the terms of CDR due to diversion of funds as it utilized the money in repayment of part dues to some lenders and balance amount was used to refurbish certain hotel properties 	<p>capacity.</p> <p>The borrower's repayment capacity to pay the attractive return of 20 <i>per cent p.a.</i> as in FY 2010 was not properly analyzed as PAT was a meager ₹ 12 crore, with poor gross cash accruals of ₹ 26 crore.</p> <p>IFCI assumed unnecessary risk⁵ without creation of adequate enforceable security.</p> <p>Thus, the chances of recovery ₹ 56.81 as debts and of ₹ 77.70 crore (CCPS) were bleak.</p>
7	<i>Jai Balaji Industries Limited</i>	February 2011 and August 2011 (₹ 100 crore and ₹ 60 crore)	₹ 23.24 crore	<ul style="list-style-type: none"> • There was deviation of the General Lending Policy as current ratio was 1.0 and 0.99 as against the stipulated minimum of 1.33 for 2 years respectively while average trading days for liquidating the pledged shares was 50 days as against maximum stipulation of 45 days. • The Company accepted security of bank guarantee of only ₹ 50 crore (August 2012) in exchange of the pledged shares of the borrower valuing approximately ₹ 118.81 crore. 	<p>The Management (August 2016) replied that the loan was sanctioned in view of JBIL's credit rating of 'BBB' and increase in its turnover and reputation of the group. It also stated that JBL had adequate security of unlisted shares.</p> <p>Replies are not tenable as despite increase in turnover, JBIL had poor financials as its profits were highly fluctuating and indebtedness had also significantly increased. Moreover, JBIL was registered with BIFR on 22 September 2015.</p> <p>Thus, recovery of ₹ 23.24 crore is doubtful.</p>

⁵ Risk of conversion of short term loans to long term and conversion of debt to equity.

8	<i>Sahasra Investment Private Limited</i>	October 2010 (₹ 35 crore)	₹ 26.94 crore (Principal outstanding ₹ 17.86 crore and unrealized interest of ₹ 9.08 crore)	<ul style="list-style-type: none"> • The Company accepted collateral security of equity shares of Cura Technologies Limited despite being aware that its trading volume was not adequate enough for IFCI to liquidate the shares in 45 days as stipulated by the extant General Lending Policy. As a result, the Company could sell only 4.29 lakh shares out of total pledge of 24.9 lakh shares (till December 2015). • The One Time Settlement proposal (June 2015) of ₹ 11.50 crore also failed. 	<p>Management replied that pledge of shares of CTL was taken only as a collateral and not the main security and same could not be sold in bulk due to low trading volume.</p> <p>Reply corroborates the audit observation that acceptance of this security was not in the best interest of the Company and has resulted in doubtful recovery of ₹ 26.94⁶ crore.</p>
9	<i>Indu Techzone Private Limited</i>	September 2008 (₹ 60 crore, disbursed ₹ 9.90 crore)	₹ 12.15 crore (₹ 7.67 crore + ₹ 4.48 crore)	<ul style="list-style-type: none"> • The security was deficient as the land mortgaged was a SEZ land. • It was attached (February 2015) by the Enforcement Directorate under Prevention of Money Laundering Act, 2002 (PML Act) and CBI had also filed cases of <i>quid pro quo</i> in respect of the land allotted to ITPL. • The Corporate Guarantor was in CDR since May 2012. 	<p>The Management replied that the loan was sanctioned against primary security of land and additional security in the form of corporate guarantee and pledge of shares of IPL was taken to further secure the loan. Further, the property in the form of SEZ land can still be enforced being the industrial land but the transferee has to use the same form industrial purposes only.</p> <p>Replies are not tenable as the primary security is under attachment by ED and there are bleak chances of recovery from additional security.</p> <p>This could have been avoided had due caution been taken while sanctioning the loan on the basis of weak security.</p>

⁶ Of ₹ 26.94 crore, being the unrealised amount as on 31 March 2016, an amount of ₹ 1.72 crore was realised (April 2016) from sale of another mortgaged collateral property.

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10	<i>Cedar Infonet Private Limited</i>	May 2011 (₹ 100 crore, Disbursed ₹ 20 crore)	₹ 9.38 crore (₹ 5.65 crore + ₹ 3.73 crore)	<ul style="list-style-type: none"> • Despite being aware of unsound repayment capacity of CIPL due to increasing indebtedness⁷ and interest burden⁸, IFCI accepted additional security (September 2012) of mortgage of a property original papers of which had already been taken away by the Income Tax Department (ITD) during a raid on its office in 2009 • Instead of selling the shares (approved on 14.9.2012), IFCI relied upon CIPL's assurance to augment the security cover resulting in realizing (12.10.2012) only ₹ 6.35 crore at an average of ₹ 35/share as compared to ₹ 65 per share (14 September 2012). • The auction for the mortgaged property through SARFAESI Act also failed twice (February and March 2015). 	<p>The Management replied that the sale of shares was put on hold as CIPL had agreed to augment the security cover by way of mortgage. Further, the original documents seized by ITD also could not be made available despite follow-up by the Company with the promoters.</p> <p>Reply of the Company itself corroborates the fact that the acceptance of mortgaged property without original documents was against the safeguarding of its financial interests as it also delayed the sale of shares leading to under realization and thereby loss of ₹ 9.38 crore.</p>
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⁷ ₹ 740 crore (2009-10) to ₹ 1567 crore (2011-12).

⁸ ₹ 72 crore (2009-10) to ₹ 163 crore (2011-12).

GLOSSARY AND ABBREVIATIONS

GLOSSARY

Sl. No.	Terms	Explanation
1.	Assignment of debt	The sale of Non-Performing Assets (NPAs)/stressed accounts by financial institutions to Securitisation Companies / Asset Reconstruction Companies (ARCs) at a given price. The NPAs/stressed accounts thus acquired by Securitisation Companies / ARCs are transferred to a Trust setup by them against which Security Receipts (SRs) are issued to the Financial Institutions which are to be realized within a period of five years (extendable up to eight years) from the original date of acquisition. If the Securitization Company/ARC does not resolve the NPA within a maximum period of eight years the investment in the form of Security Receipts is to be written off from the books of accounts of the Financial Institutions.
2.	Breakup value of shares	The equity capital and reserves as reduced by intangible assets and revaluation reserves divided by the number of equity shares.
3.	Buyback of shares	The purchase of own shares by the investee company whose equity has been subscribed to by the investor as per the timeframe given in the terms of agreement entered into between the investor and the investee company.
4.	Call option	A call option is an undertaking that gives the issuer the right to buy a stock, bond at a specified price within a specific time period.
5.	Joint Lenders' Forum & Corrective Action Plan	As per RBI guidelines dated 21 March 2014 on "Early Recognition of Financial Distress, Prompt Steps for Resolution and Fair Recovery for Lenders: Framework for Revitalizing Distressed Assets in the Economy", when an account is reported as Special Mention Account-2 (principal/interest payment overdue between 61 to 180 days), the lenders should mandatorily form a committee to be called Joint Lenders' Forum (JLF) which shall formulate a corrective action plan (CAP) for early resolution of the stress in the account. The CAP is aimed at arriving at a feasible resolution to preserve the economic value of the underlying assets as well as the lenders' loans. The options under Corrective Action Plan (CAP) by the JLF would generally include restructuring, rectification and recovery.
6.	Compulsorily Convertible Preference Shares	Preference shares which are convertible into equity shares of the Company after a predetermined time span or on a specific date.
7.	Compulsory Convertible Debentures	A type of debt security where the whole value of the debentures is compulsorily convertible into equity shares in future as per terms of sanction.
8.	Corporate Debt Restructuring	It is a voluntary system based on debtor-creditor agreement and inter-creditor agreement which provides a framework to ensure a timely and transparent mechanism for restructuring of the corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned.

9.	Credit Information Reports	Reports obtained from other existing lenders detailing the credit history of the borrower.
10.	Commercial Operation Date	The stage when project construction ends and commercial operations start
11.	Cut-off Date	Date from which restructuring is effective
12.	Collateral Security	Security given in addition to the primary security.
13.	Coupon	The prescribed return on debentures/equity as per terms of agreement
14.	Current ratio	A liquidity ratio that measures whether a Company has enough resources to meet its short-term obligations. Formula= $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
15.	Debt Equity Ratio	A leverage ratio which indicates how much debt a Company is using to finance its assets relative to the amount of value represented in shareholders' equity. Formula: $\frac{\text{Long term Debt}}{\text{Equity Share Capital} + \text{Free Reserves}}$
16.	Discounted Cash Flows	A valuation method that uses future cash flow projections and discounts them to arrive at a present value , which is used to evaluate the potential for investment.
17.	Debt Service Coverage Ratio	The ratio of cash available for servicing the debt to the actual debt obligation. Formula= $\frac{\text{PAT} + \text{Depreciation} + \text{interest}}{\text{Maturing annual obligation} + \text{interest}}$ Existing DSCR is calculated on the basis of information available in the existing financial statements. Projected DSCR during the term of credit facility is calculated on the basis of future financial projections.
18.	Distress Sale Value	The minimum value which the lenders hope to realize in the event of sale of the property.
19.	Event of Default	Events mentioned in the loan agreement entered into between the lender and the borrower, the occurrence of which constitutes an event of default. It includes failure to comply with loan conditions, inability of the borrower to pay its debts as they fall due, the value of shares falling by a certain specified percentage, failure to provide cash margin within 3 working days beyond 25% fall in prices of pledged shares etc.
20.	Escrow account	A bank account created specifically for a project. All income and expenses related to the project are to be routed through the Escrow Account. The borrower cannot withdraw the deposits in escrow account without permission of the lender.
21.	Fixed Assets Coverage Ratio	The ratio that determines a Company's ability to cover long term debt obligations with its fixed assets. It is significant because a Company's long-term debts are often secured with fixed assets. Formula= $\frac{\text{Net fixed assets} + \text{CWIP}}{\text{Term loans}}$
22.	Foreign Currency Convertible Bond	A type of debt security issued in a currency different than the issuer's domestic currency. These bonds can be converted into a predetermined amount of Company's equity shares during the tenure of the bond usually at the discretion of the bondholder.

23.	Fully Convertible Debenture	A type of debt security where the whole value of the debenture is convertible into equity shares in future as per terms of sanction.
24.	Non-Convertible Debentures	A type of debt security that cannot be converted into equity shares in future.
25.	Funded Interest Term Loan	The outstanding interest amount which is converted into a term loan.
26.	Green field project	An activity in a completely new area of investment.
27.	Interest Coverage Ratio	A ratio used to determine how easily a company can pay its interest expenses on outstanding debt. Formula= $\frac{\text{PAT} + \text{Interest}}{\text{Interest}}$
28.	Interim security	Security obtained from the borrower till the time primary security as per terms of sanction is created/perfected.
29.	Lead bank	A bank that manages the process of underwriting a security or leads the consortium of lenders.
30.	Lock- in period of shares	The period during which the shares cannot be sold.
31.	Moratorium period	Period during the loan tenure when the borrower is not required to make any repayment of principal/coupon.
32.	Non Disposal Undertaking/Power of Attorney	In this arrangement shares are deposited in Escrow account with Agent / Trustee. If default occurs Agent / Trustee will deal with these shares in accordance with NDU arrangement and on the basis of instructions of Lenders.
33.	Net Present Value Loss	Loss of principal or interest suffered by the lender due to renegotiated terms on restructuring of a credit facility.
34.	Optionally Convertible Debentures	Debentures which can be converted into equity shares at the expiry of a certain period at a predetermined price, if the debenture holder wishes to do so.
35.	<i>Pari passu</i> charge	This charge provides an equal right to all the <i>pari passu</i> lenders in the share of specified assets of a borrower Company.
36.	Price Earnings Ratio	The ratio of a Company's share price to its earnings per share. It is calculated by taking the current equity share price divided by its earnings per share.
37.	Put Option	A put option is an undertaking that gives the investor the right to sell a stock, bond at a specified amount within a specified time.
38.	Scheme for Sustainable Structuring of Stressed Assets (S4A)	It is RBI's scheme for resolution of large stressed accounts. It envisages determination of sustainable debt level for a stressed borrower and bifurcation of outstanding debt into sustainable and unsustainable debt. The unsustainable debt will be converted into equity/equity related instruments which can be redeemed at a later date.
39.	Second charge	This charge on a security gets its dues after the first charge has been satisfied.

40.	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002	Under this act secured creditors (banks and financial institutions) have the right to enforce security interest. It allows banks and other financial institution to take possession of the mortgaged properties and auction the same to recover outstanding loan dues. However, agricultural land is exempt from the purview of this Act.
41.	Short Term Loan	A loan scheduled to be repaid in less than a year.
42.	Special Economic Zone	A geographical region within a State in which a distinct legal frame work provides for more liberal economic policies and governance arrangements than prevail in the country at large
43.	Special Purpose Vehicle	A legal entity created for a well-defined purpose, such as undertaking a project, facilitation of a financial arrangement or creation of a financial instrument.
44.	Strategic Debt Restructuring	As per RBI guidelines dated 8 th June 2015/23 rd July 2015, it is a debt restructuring mechanism wherein the loan dues (principal and outstanding interest) of lenders are converted into equity shares of the borrower Company so as to acquire majority shareholding in the borrower Company. Post conversion, all lenders must collectively hold 51% or more of the equity shares issued by the borrower Company and in due course lenders should divest their equity holding in the borrower Company to a new promoter.
45.	Subservient Charge	This is a residual charge on a security which gets its dues after all the other charges have been satisfied.
46.	Trust and Retention Account	A mechanism in which revenues of the project are directed into a single account, maintained with the designated TRA agent. The lenders, in consultation with the borrower, draw up a detailed mandate for the TRA agent for periodic transfer and utilization of funds available in the TRA. The payment to the lenders is to be made directly by the TRA agent without any intervention by the borrower. It has been a common feature in financing of infrastructure projects.
47.	Underwriting of loan	An arrangement in which the lead bank/financial institution gives a commitment that if the loan is not fully subscribed, the underwriter can opt to absorb the undersubscribed portion or it can sell the undersubscribed part of the loan to other lenders after retaining its own share of the loan underwritten.
48.	Unlisted/unquoted shares	Shares which are not listed on any recognized stock exchange.
49.	Unrealized interest	Interest accrued on the Non-Performing Assets which is not recognized in the Income Statement as per RBI guidelines on Income recognition. Interest accrued on NPAs can only be recognized in the income statement when it is actually received in cash.

ABBREVIATIONS

Sl. No.	Terms	Explanation
1.	AAIFR	Appellate Authority for Industrial and Financial Reconstruction
2.	ARC	Asset Reconstruction Company
3.	BIFR	Board for Industrial and Financial Reconstruction
4.	BOT	Build, Operate and Transfer
5.	CAP	Corrective Action Plan
6.	CARE	Credit Analysis & Research
7.	CBI	Central Bureau of Investigation
8.	CCD	Compulsory Convertible Debenture
9.	CCPS	Compulsorily Convertible Preference Share
10.	CDR	Corporate Debt Restructuring
11.	CDR- EG	Corporate Debt Restructuring- Empowered Group
12.	CIBIL	Credit Information Bureau (India) Limited
13.	CIC	Credit and Investment Committee
14.	CIR	Credit Information Report
15.	CL	Corporate Loan
16.	COD	Commercial Operation Date (for projects) and Cut-off Date (for restructuring)
17.	CRMD	Credit Risk Management Department
18.	DER	Debt Equity Ratio
19.	DFS	Department of Financial Services
20.	DRT	Debt Recovery Tribunal
21.	DSCR	Debt Service Coverage ratio
22.	DSRA	Debt Service Reserve Account
23.	DSV	Distress Sale Value
24.	EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
25.	EC	Executive Committee
26.	EIA	Environment Impact Assessment
27.	EOD	Event of Default
28.	FACR	Fixed Assets Coverage Ratio
29.	FCCB	Foreign Currency Convertible Bond
30.	FCD	Fully Convertible Debenture
31.	FI	Financial Institution
32.	FITL	Funded Interest Term Loan
33.	FSA	Fuel Supply Agreement
34.	GLP	General Lending Policy
35.	GOI	Government of India
36.	ICRA	Investment Information and Credit Rating Agency of India
37.	IPO	Initial Public Offering
38.	ITD	Income Tax Department
39.	JLF	Joint Lenders Forum
40.	LOI	Letter of Intent
41.	MoEF	Ministry of Environment & Forest
42.	MoF	Ministry of Finance
43.	MoPNG	Ministry of Petroleum & Natural Gas
44.	MW	Megawatt
45.	NBFC	Non-Banking Financial Company

46.	NBFC-ND-SI	Systemically Important Non-Deposit taking Non-Banking Financial Company
47.	NCD	Non-Convertible Debenture
48.	NDU/POA	Non-Disposal Undertaking/Power of Attorney
49.	NOC	No Objection Certificate
50.	NPA	Non-Performing Assets
51.	NPV Loss	Net Present Value Loss
52.	OCD	Optionally Convertible Debenture
53.	OCL	Optionally Convertible Loan
54.	OFCD	Optionally Fully Convertible Debenture
55.	PAT	Profit After Tax
56.	PE ratio	Price Earnings Ratio
57.	PPA	Power Purchase Agreement
58.	PSB	Public Sector Bank
59.	RBI	Reserve Bank of India
60.	ROFR	Right of First Refusal
61.	SARFAESI Act, 2002	Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
62.	SDR	Strategic Debt Restructuring
63.	SEZ	Special Economic Zone
64.	SPV	Special Purpose Vehicle
65.	SR	Security Receipt
66.	STL	Short Term Loan
67.	TL	Term Loan
68.	TRA	Trust and Retention Account

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