



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

**COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2014-2016)**

**HUNDRED AND SECOND REPORT
(Presented on 3-12-2015)**

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015**

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(2014-2016)**

HUNDRED AND SECOND REPORT

on

**The Action Taken by Government on the Recommendations contained in the
Thirty Seventh Report of the Committee on Public Undertakings (2011-2014)
relating to Kerala Transport Development Finance Corporation Limited
based on the Report of the Comptroller and Auditor General of India
for the year ended 31st March, 2009 (Commercial)**

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COMMITTEE ON PUBLIC UNDERTAKINGS

(2014-2016)

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Smt. P. K. Girija, Additional Secretary

Smt. M. R. Maheswary, Deputy Secretary

Shri P. S. Selvarajan, Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2014-2016) having been authorised by the Committee to present the Report on their behalf, present this Hundred and Second Report on the Action Taken by Government on the recommendations contained in the Thirty Seventh Report of the Committee on Public Undertakings (2011-2014) on the working of the Kerala Transport Development Finance Corporation Limited based on the Report of the Comptroller and Auditor General of India for the years ended 31st March, 2009 (Commercial).

The Statement of Action Taken by the Government included in this Report were considered by the Committee constituted for the year (2014-2016).

This Report was considered and approved by the Committee at the meeting held on 24-11-2015.

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

Thiruvananthapuram,
3rd December, 2015.

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

REPORT

The Report deals with the Action Taken by the Government on the recommendations contained in the Thirty Seventh Report of the Committee on Public Undertakings (2011-2014) relating to Kerala Transport Development Finance Corporation Limited based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2009 (Commercial).

The Thirty Seventh Report of Committee on Public Undertakings (2011-2014) was presented to the House on 28th January, 2014. The Report contained 8 recommendations and the Government furnished reply to all the recommendations. The Committee (2014-2016) considered the replies received from the Government at its meeting held on 24-6-2015.

The Committee accepted the reply to the recommendations in Paragraph Nos. 14, 17 and 26 without any remarks. These recommendations and their reply form Chapter I of the Report.

The Committee accepted the reply to the recommendations in Para Nos. 15, 16, 23, 24 and 25 with remarks. These recommendations, their reply furnished by Government and the remarks of the Committee form Chapter II of the Report.

CHAPTER I

REPLY FURNISHED BY GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAS BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

Sl. No.	Para No.	Department concerned	Conclusions/Recommendations	Action Taken by the Government
1	2	3	4	5
1	14	Transport	<p>The Committee is of the view that the hasty selection of SIL by KTDFC as its agent and lack of monitoring system within company have contributed much to get undue benefit of ₹ 2.21 crore by SIL. The Committee expresses its displeasure over the appointment of a private canvassing agent, SIL, by KTDFC hastily without inviting tenders or giving quotations. It seems very suspicious about the dealings which the Company had with SIL as it</p>	<p>The Kerala Transport Development Finance Corporation Limited has already formed a Loan Committee in 2011 with Project Consultant (Finance), Manager (FM & Loans), Manager (M & BC), Manager (Legal & Recovery) as its present members for scrutinizing various aspects of loans including the processing of fresh Construction/Project loan applications and disbursal of installments in Construction/Project. The loan committee is having several functions including the post disbursement monitoring of the progress, both physical and financial, achieved in the loans. The KTDFC ensures promoters' contributions and asset creation before releasing subsequent installments. Similarly KTDFC has started periodic site inspection of Construction/Project loans for assessing the stage of construction and asset creation achieved in each projects.</p>

		lacks transparency. The Committee opines that being a Public Sector Undertaking, the KTDFC authorities should have shown much prudent in its investment decisions to ensure better offer for the benefit of the Company while using its own fund. The Committee recommends that the Functional Manual of Procedure of the Company should be updated so as to adopt the latest best practices prevailing in the field.	
2	17	"	The Committee also recommends that it should be made mandatory on the part of the department to take copies of all relevant documents related to vigilance cases before
			The suggestion of the Legislature Committee has been noted for future guidance and necessary direction have been issued to all concerned for carrying out the direction in files related to Vigilance Cases.

1	2	3	4	5
			<p>Department for enquiry. The Committee expressed its displeasure and discontent over the reply furnished by Government on audit para and the overall performance of the Corporation. The Committee opines that the Corporation had failed to serve the very purpose of its establishment, since it had deviated from the main objective of financing Kerala State Road Transport Corporation for purchase of vehicles and to assist other transport undertakings.</p>	
3	26	Transport	<p>The Committee observes that though the main objective of appointing DMA was to</p>	<p>Noted for future guidance. Action will be taken on the recommendation of the Committee on Public Undertakings, in consideration of the financial viability of the institution.</p>

generate business where the Company had no branches, the Company failed to attain the same as the business generated in the 11 districts was meager as against the commission paid to them. The Committee recommends that DMA firms should be appointed with due diligence fixed with monthly or region-wise targets and ensured that the very purpose of their appointment is served. The Committee recommends that the existing interest rate should summarily be changed to meet the genuine financial needs of the society. The Committee further recommends that Kerala Transport Development Finance Corporation and other financial institutions in the public sector should follow uniform pattern in interest and impose ceiling on interest rate.

CHAPTER II

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

Sl. No.	Para No.	Department concerned	Conclusions/ Recommendations	Action Taken by the Government
1	2	3	4	5
1	15	Transport	<p>The Committee remarks that it was not wise on the part of KTDFC to allow SIL to directly enter into agreement with the Loanees and to collect security deposits and installments from the borrower. It is observed that laxity on the part of KTDFC to have an effective monitoring system prompted the SIL to exercise full freedom in</p>	<p>The recommendations/observations of the Legislature Committee regarding Shriram Investments Limited has been examined in detail. The following details are furnished:</p> <p>Shriram Investments Limited (SIL) had earlier approached Kerala Transport Development Finance Corporation Ltd. (KTDFC) with a scheme named "Small Road Transport Operators (SRTO) Direct Lending Scheme to Transport Operators in Kerala" for providing finance for the purchase of heavy commercial vehicles like Trucks, Buses of Ashok Leyland/TATA/Eicher/Matador, etc. by KTDFC Ltd. to the borrowers selected and sponsored by SIL. It is seen that the matter was accordingly placed before the 49th Board Meeting held on 25-9-2001 vide Agenda Item No. 867. On the basis of the information furnished in the Agenda Note and enclosures, the Board approved the tie-up scheme named "Small Road Transport Operators (SRTO) Direct Lending Scheme to Transport Operators in Kerala"</p>

<p>dealing with the loanees there by enabling them to make additional benefit of ₹ 2.21 crore at the expense of KTDFC. So the Committee recommends that the Company should have an effective monitoring system to ensure that the amount disbursed reaches the beneficiaries and the agency did not make undue benefit using Company's fund.</p>	<p>with SIL for providing finance for the purchases of heavy commercial vehicles like Trucks, Buses of Ashok Leyland/TATA/Eicher/Matador, etc. by KTDFC to the borrowers selected and sponsored by SIL. The details regarding the induction of SRTO Scheme with SIL and the method of selection of SIL were mentioned in the said Agenda Note. Accordingly an agreement was executed between KTDFC and SIL on 11-10-2001 for providing finance to the new heavy commercial vehicles under the said Scheme. Subsequently it had been proposed to the 53rd Board Meeting held on 25-3-2002 vide Agenda Item No. 952 about making another tie-up scheme named "Used Vehicles Small Road Transport Operators Direct Lending Scheme to Transport Operators in Kerala" with SIL for providing finance for the purchase of all second hand vehicles/used vehicles including heavy commercial vehicles to borrowers including individuals/transport operators selected and sponsored by SIL and the Board accordingly approved the same. The first agreement under the said scheme was executed on 2-4-2002. SIL had also executed corporate guarantee agreements thereby providing the corporate guarantee of SIL as well as the personal guarantee of the Directors of SIL in favour of KTDFC for assuring the repayment of the loans availed by the Borrowers even in case of default in the payment of EMIs by the borrowers to SIL.</p>
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				<p>M/s Shriram Investments Limited later merged with M/s Shriram Transport Finance Company Limited as per the order of the Hon'ble High Court of Madras dated 25-11-2005 with retrospective effect from 1-4-2005 and all the existing corporate guarantees and corporate agreements executed with SIL continued to prevail as if the same has originally been executed by M/s Shriram Transport Finance Company Limited.</p> <p>A total number of 29 Agreements and 2 supplemental Agreements were executed between SIL and KTDFC relating to the above mentioned Schemes. As per the presently available records, it is seen that SIL had also executed 28 Corporate Guarantee Agreements thereby guaranteeing the repayments of monthly installments to KTDFC by it. As per the Agreements, the aggregate amount of financial assistances under each Agreement shall not exceed the amount mentioned in each Agreement. As per the Agreements, Shriram Investments Limited can select and sponsor borrowers, which are to be screened and sanctioned by KTDFC. As per the system, it is seen that 2324 loans were disbursed under the above mentioned Schemes and that the total amount disbursed was</p>

₹ 125,78,84,051 (Rupees one hundred and twenty five crore seventy eight lakh eighty four thousand and fifty one only). As per clause 3 of the agreements, it is the duty of SIL to organize the collection and submission of completed applications from the borrowers, arrange for execution of legal documents from said borrowers, confirmation by said borrowers or charge of KTDFC over the vehicles, registration of the charge on the vehicles in favour of KTDFC Ltd. with the concerned Regional Transport Officer within the time prescribed under the Motor Vehicles Act and any other law applicable for the time being. As per clause 5 of the agreements, SIL shall be responsible for collection of outstanding dues/installments, penal interest and other charges from the individual borrowers notwithstanding any delay or default in collection by SIL or payments by the borrowers to SIL. i.e. SIL shall be responsible for the due payment of installments and other dues and other charges to KTDFC on due dates even if the loanee defaults any of the installments to M/s SIL. So it may be noted that, as per the construction of the tie-up Scheme, KTDFC has not been receiving any installment amounts from any of the loanees of loan under the above mentioned SRTTO Schemes directly, instead SIL is remitting the amounts to KTDFC. SIL is made liable to make remittances or

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<p>not to SIL on due dates to KTDFC Ltd., whether the party had made remittances or not to SIL on due dates (clause 5). Hence the statements of Account of the actual remittances made by the loanees to SIL in the loans disbursed under the above mentioned schemes are available with M/s SIL only. KTDFC is having only the Statement of Accounts of the remittances made by M/s Shriram Investments Limited (presently M/s Shriram Transport Finance Company Limited) in each loans to KTDFC. As per clause 7 of the agreements except the agreement dated 1-4-2005, SIL shall submit quarterly report to KTDFC regarding the outstanding dues from the borrower. However no records are found regarding the submission by SIL of such quarterly reports to KTDFC or demand by KTDFC for the same till 1-4-2005. In any case, the said provision was absent in the final Agreement dated 1-4-2005 executed with SIL. In case of default of payment of installments by the borrowers, SIL can follow the procedure mentioned in clause 8 of the agreement, as per which SIL shall, in case of default by the borrower in payment of 3 installments in respect of installments due, after notice to the borrower and to the satisfaction of and approval by KTDFC, pay to KTDFC the entire balance outstanding amount in respect of the financial assistance to</p>				

that respective borrower and take possession of the vehicles financed by KTDFC. In that event, KTDFC shall, upon request from SIL and upon payments by SIL in full of the entire balance outstanding amount including interest, charges, penal interest, etc. and also the outstanding and unexpired installments of the loan in respect of the particular account, transfer the charge of the vehicle in favour of SIL.

Similarly SIL had the right to collect with the consent of the borrowers, a service charge up to and not exceeding 3% of the loan amount and 10%-20% of the loan amount as security deposit from the borrowers, for the loans disbursed up to 31-10-2003, as per clause 9 of the Agreements earlier executed. However from 1-11-2003 onwards, SIL had no right to collect any such amounts as service charge or security deposit as per the Supplemental Agreements dated 30-10-2003 executed between KTDFC and SIL which were executed on the basis of the decision taken in the 67th meeting of the Board of Directors held on 20-10-2003 vide Agenda Item No. 1190. The decision taken by the Board vide Agenda Item No. 1190 regarding the rate of interest is as follows:

“Resolved, that the interest rates of the SRTO-SIL Loan Scheme be and is hereby refixed as 14.5% p.a. for new vehicles and 19% p.a. for used vehicles”.

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				<p>“Further resolved that the excess interest collected over and above the present interest rates of 12.5% p.a. for new vehicles and 14.5% p.a. for used vehicles be passed on to SIL in the form of service charges, after remittances are made by SIL towards repayment of the sanctioned loans”.</p> <p>It is seen that the rate of interest for new vehicles under the Scheme was later reduced from 14.5% to 13% from 1-3-2004 to 4-8-2004 and to 11% from 5-8-2004 to 1-4-2005 and to 9.5% from 2-4-2005 onwards and that of used vehicles was reduced to 17% from 16-8-2004 to 1-4-2005 and to 15.5% from 2-4-2005 onwards on the basis of the decisions of the Board of Directors vide Agenda Items Nos. 1244, 1280 and 1387. But nothing was mentioned in those Board decisions regarding whether to continue to make payment of any amounts as service charges to SIL after such subsequent reduction of the loan interest rates. Nothing was mentioned in the corresponding Agenda Notes placed before the Board about the fact that KTDFC had been making payment of Service Charge to SIL as per the earlier</p>

decision of the Board vide Agenda Item No. 1190. In this regard, it is also pertinent to note that the earlier decision of the 67th Board vide Agenda Item No. 1190 regarding the payment of Service Charges to SIL was that the interest rates of the SRTO-SIL Loan Scheme was enhanced to 14.5% p.a from 12.5% p.a. for new vehicles and to 19% p.a. from 14.5% p.a. for used vehicles and that the excess interest collected over and above the then prevailing interest rates of 12.5% p.a. for new vehicles and 14.5% p.a. for used vehicles be passed on to SIL in the form of Service Charges, after remittances are made by SIL towards repayment of the sanctioned loans, and not that KTDFC shall pay 2% for new vehicle loans and 4.5% for used vehicle loans to SIL thereafter. Nothing was mentioned therein regarding the continuation of the payment of Service Charges or its quantum to SIL in future on subsequent reduction of interest rates from the above fixed interest rates. But it is seen that KTDFC continued to pay Service Charges @ 2% for new vehicle loans for loans sanctioned after the reduction of interest rates from 27-2-2004 onwards under the new Vehicle Loan Scheme as well as @ 4.50% for used vehicle loans to SIL for loans sanctioned

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				<p>after the reduction of interest rates from 3-8-2004 onwards under used Vehicle Loan Scheme. Similarly no agreements were seen executed between SIL and KTDFC regarding the continuation of payment of amounts as service charges to SIL and the reduction of interest for the period of 1-3-2004 to 4-8-2004 and from 5-8-2004 to 1-4-2005 for new vehicles and the for the period of 16-8-2004 to 1-4-2005 for used vehicles. However an agreement was later executed between SIL and KTDFC on 1-4-2005 on the basis of the decision of the 77th Board Meeting held on 23-3-2005 vide Agenda Item No. 1387. It was stated in clause 9 of the said agreement dated 1-4-2005 that KTDFC shall pay service charges to SIL @2% for new vehicles and @ 4.5% for used vehicles. But it is important to note that nothing was mentioned in the above mentioned Board decision vide Agenda Item No. 1387, on the basis of which the said Agreement dated 1-4-2005 is seen executed, about making payment of any Commission to SIL after the reduction of interest rates. But such a condition was incorporated in clause 9 of the said agreement dated 1-4-2005 that KTDFC shall pay service charges to SIL @ 2% for new vehicles and @ 4.5% for used vehicles. Hence KTDFC made payment to SIL in the form of service charges at such rates and for such periods as stated in the table herein before mentioned.</p>

As per the available reports, a total amount of ₹ 2,59,45,502 was paid SIL (Presently Shriram Transport Finance Company Limited) as Service Charge.

By adopting the above practice, the actual interest rates received by KTDFC in the above loans were much lower than the rate of interest of other Vehicle Loan Schemes directly operated by KTDFC. Similarly the actual rate of interest received by KTDFC for new vehicles under the above scheme for the period 2-4-2005 to 18-4-2006, was even lower than the rate of interest of loans given to KSRTC at that time (7.75% was the interest rate of KSRTC loans at that time, while KTDFC actually received only 7.5% for loans under the above mentioned new Vehicle Loan Scheme through SIL). As per the system generated reports, a total number of 2324 loans for ₹ 125,78,84,051 were sanctioned by KTDFC through SIL under the above mentioned two Schemes from 2001 to 2006.

On verification of the SRTO loan files by KTDFC officials, it is seen that each of the loans under the above mentioned Schemes was sanctioned as per the below mentioned general procedure:

SIL forwarded to KTDFC the loan application, Biodata, an Affidavit about the asset of the Applicant, Pro forma invoice/

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				<p>quotation of dealer and quotation of body builder for new vehicles issued in the name of Applicant (For used vehicles loans, SIL instead generally submitted a copy of Registration Certificate of the Vehicle, Photo of the Vehicle and a Vehicle Inspection report of a valuer specifying the valuation of the vehicle) and a guarantee deed executed in advance by the applicant in favour of KTDFC along with a recommendation letter and another covering letter of the concerned Branch of SIL. SIL also remitted to KTDFC Margin Money (later the payment of Margin Money was seen dropped), Cost of Application Form (Rs. 50) and Processing Charge (Rs. 1,500). Generally all of such applications were seen sanctioned by KTDFC within a maximum period of one or two weeks.</p> <p>The following serious anomalies were found regarding the sanctioning and disbursement of loans under the above mentioned Schemes viz. "Small Road Transport Operators (SRTO) Direct</p>

Lending Scheme to Transport Operators in Kerala" and "Used Vehicle Small Road Transport Operators Direct Lending Scheme to Transport Operators in Kerala":

- Though copies of the related documents are available in the loan files, it is suspected that none of those documents addressed to the loanees (Loan Sanction Letter and Loan repayment schedule) were sent by KTDFC directly to the loanees as no such records of direct despatch through post are found in KTDFC. Moreover, it can be seen from the above mentioned 5 documents in new vehicle loans that in the Loan Sanction letter to the loanee, in the letters to the Dealer & Body Builder and in the letter addressed to Shriram Investments Limited, same wordings viz. 'DD/Cheque No.... dated for Rs..... in favour of (Name of dealer) is enclosed' and 'DD/Cheque No..... dated..... for Rs. in favour of (Name of Body Builder) is enclosed'. As it is impossible to enclose the same DD/Cheques in all of the above 4 letters addressed to the (a) Loanee, (b) Dealer, (c) Body Builder, and (d) Shriram Investments Limited,

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				<p>it can be understood that the originals of the first 3 letters along with the original DDs/Cheques would be enclosed with the original letter addressed to Shriram Investments Limited and the same along with the repayments schedule in the name of the loanee would be forwarded to SIL by KTDFC (No acknowledgement records of the receipt of repayment schedules directly by the loanee are available in the files and hence the same is also presumed to be sent to SIL along with the above letters). It is suspected, for the reasons mentioned in the following paragraphs and as inferred from some petitions and Applications under Right to Information Act, that SIL hasn't given the said Loan Sanction Letters and the Repayment Schedules obtained by them from KTDFC, in the manner mentioned above, to the Loanees concerned, instead they issued completely different repayment schedules and sanction documents to such loanees in violation of the terms including the rate of interest, penal interest, etc. upon which KTDFC had sanctioned those loans, by executing Loan Agreements in their</p>

favour as if those loans were directly sanctioned by them. It is inferred from some old petitions and applications under RTI Act that most of the loanees were totally unaware about the fact that KTDFC was the financier of their loans, since they didn't get any loan sanction letter and repayment schedule from KTDFC, but instead they got agreements and schedules prepared and executed by SIL their own name. This is the reason why a large magnitude of complaints were not arisen so far in this regard to KTDFC from the loanees. However, after the inception of the Right to Information Act, 2005, some of the loanees began to file applications under the Right to Information Act, 2005 to know the actual status of KTDFC in the loans, mainly on the basis of the endorsement of hypothecation in favour of KTDFC in the Registration Certificate of their vehicles.

- A Guarantee deed means a deed to be executed in favour of the Creditor (here KTDFC) by a surety (third party) thereby agreeing to repay the loan in case of default by the Loanee. As such, a loanee cannot execute his own guarantee deed

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<p>in favour of KTDFC, but such guarantee deeds were to be executed by third parties. As such, the Guarantee deeds available in the loan files under the above two schemes, executed by the loanees themselves as guarantors, are not legally sustainable.</p> <ul style="list-style-type: none"> • No Loan-cum-Hypothecation Agreements were seen executed in any of the loan files under the above Schemes in favour of KTDFC. Loan-cum-Hypothecation Agreement is the primary document showing the existence of the liability, method of repayment, etc. between the financier and a borrower. It evidences the relationship between the financier and loanee. Moreover a Loan-cum-Hypothecation Agreement is highly necessary as per the provisions of the Motor Vehicles Act, for endorsing the fact of hypothecation in the name of the financier in the Registration Certificate of the Vehicles concerned. It is seen that SIL generally managed to get the endorsement of hypothecation in favour of KTDFC in the Registration Certificates of the Vehicles under the above Schemes, but the 				

absence of Loan-cum-Hypothecation Agreement in favour of KTDFC was a serious flaw. Absence of such a Loan-cum-Hypothecation Agreement helped SIL to charge higher rates of interest, penal interest and even to disburse such amounts of money, as alleged by some loanees who had later got information that KTDFC was their financier, which are more elaborately explained in the ensuing paragraphs. If there had been any such Loan-cum- Hypothecation Agreements in favour of KTDFC, Loanees would have easily obtained the copies of the same from KTDFC and can defend the claims of SIL, if any, as alleged by some Loanees, in violation of the terms and conditions agreed between KTDFC and SIL.

- It is suspected that SIL had executed Loan-cum-Hypothecation Agreements with the individual loanees in the name of SIL as if those loans were sanctioned and disbursed by SIL. It is seen from a copy of such a loan agreement in the name of SIL obtained in a loan file pertaining to the loan availed by Mr. Priyadarshan, T. V. (Loan No. SRTO N 361) that the said Loan Agreement is seen executed in favour of Shriram Transport Finance Company Limited. It is mentioned in the loan agreement

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<p>that STFCL has granted the financial assistance to the borrower. Nothing was mentioned in the agreement about KTDFC or about the fact that KTDFC granted the loan. Moreover it is seen that another person had signed in the said agreement as a guarantor, but nothing is mentioned in our loan file regarding such a guarantor. Even the general Agreements between KTDFC and SIL don't explicitly envisage guarantors in the loans. It is completely in violation of the actual facts as well as the principles and conditions set forth in the Agreements between KTDFC and SIL. Loanees might also be unaware about the falsity of such statements in such loan agreements executed with SIL, since they didn't get the loan sanction letter or loan repayment schedule from KTDFC. They might probably think that SIL was their financier.</p> <ul style="list-style-type: none"> • On a thorough assessment of the above mentioned Schemes, it is seen that Tripartite Agreements ought to have been executed between KTDFC, SIL and Loanees in each and every loans of KTDFC-SIL SRTO Scheme, in order to avoid the above alleged irregularities. In this regard, it is pertinent to note that the 70th Board Meeting held on 27-2-2004 vide Agenda 				

Item No. 1244 examined the matter of execution of such a tripartite agreement and resolved that the tripartite agreement to be executed between KTDFC, SIL and Loanees in each and every loans of KTDFC-SIL SRTO Scheme may be forwarded to Law Department for vetting. But no subsequent records were found regarding the further actions taken by KTDFC at that time in this regard. In any case, no such tripartite agreements were seen executed in any of the loan files under the above mentioned Schemes. The corresponding Agenda Note set placed before the said Board Meeting is not available now in KTDFC.

- It is seen that nothing was mentioned in the Agreements between KTDFC and SIL regarding the charging of penal interest or its quantum. As per the accounting in KTDFC, KTDFC had been charging just 2% per annum over and above the agreed interest rates from SIL for the delayed remittances by SIL to KTDFC. But it is suspected that SIL has been charging 24% or 36% per annum as penal interest for the delayed remittances. It is also suspected in some cases that SIL has charged the insurance premium for the vehicle for the whole period of loan, initially itself in the loan account and prepared repayment schedules for the said amount also.

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<p>As mentioned earlier, as per the agreements between KTDFC and SIL, SIL was responsible for collection of outstanding dues/ installments, penal interest and other charges from the individual borrowers and notwithstanding any delay or default in collection by SIL or payment by the borrowers to SIL, SIL was responsible for the due payment of installments and other dues and other charges to KTDFC on due dates. As such, SIL had to make due payment of installments promptly to KTDFC even if the loanee defaults any of the installments to SIL and hence such remittances to KTDFC may not reflect the actual remittances made by the loanees to SIL. The Statement of Account of the actual remittances made by the loanees in the loans disbursed under the above mentioned schemes are available with SIL only. There was no provisions in the Agreements to make SIL responsible to KTDFC for producing the copy of receipts issued to borrowers regarding the quantum of amounts received from them or the adjustment of the same in their loan account. Even the provision in the earlier Agreements relating to the submission of quarterly reports to KTDFC regarding the outstanding dues from the borrowers was seen dropped in the final Agreement dated 1-4-2005 executed between KTDFC Ltd. and SIL.</p>				

In case of Loans under "Used Vehicles Small Road Transport Operators Direct Lending Scheme to Transport Operators in Kerala" Scheme, it is seen that the amounts sanctioned were generally disbursed in the name of M/s Shriram Investments Ltd. and not in the name of the seller of the vehicle. No copy of Agreement for sale executed between the seller and buyer (loanee) were produced in such loans showing the agreed sale consideration. Instead loan amounts were sanctioned as sought by SIL on the basis of the valuation shown in the Vehicle Inspection Report of the valuer, submitted by SIL to KTDFC. As such, it cannot be ascertained whether the loanee has purchased the vehicle for the same quantum of amount or not. KTDFC also cannot find out whether the same quantum of amounts disbursed by KTDFC were received by the Loanees or not in used vehicle loan schemes as SIL is making the repayment of the loan amount to KTDFC. Whether the loanees are making payment of lesser amounts, if they were provided with a lesser loan amount in used vehicle scheme or whether they are paying higher amounts as EMI in any loan schemes to SIL, cannot be cross-checked by KTDFC because of the above mentioned reasons.

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<p>On random examination of some files by KTDFC, it is suspected that SIL even misused the above procedure for obtaining loans under new vehicle scheme by availing loans for the already purchased vehicles even prior to the Application for loan.</p> <p>KTDFC received several applications under the Right to Information Act alleging that SIL had arbitrarily been charging huge amounts as interest (it is suspected that SIL has been charging flat interest rates) and other charges from the loanees of the above mentioned Schemes. It can be found that SIL had executed loan agreements with the loanees in their favour under the pretension that they were the financiers and has been charging higher interest and other charges from the loanees as loanees were unaware about our position in the loans and as the loanees were forced to do so as per the provisions of loan agreements executed between them and SIL.</p> <p>It is generally found that SIL had been contesting for and on behalf of KTDFC also in the cases filed by some loanees till 2008, on the basis of the Power of Attorney deeds given by KTDFC to them from time to time. It is suspected that SIL had filed written statements,</p>				

affidavits and other documents in such cases before Courts under the pretension that KTDFC had nothing to do with the loans and that SIL was the financier in such loans and that the loanees are bound to obey the terms and conditions including such rate of interest as embodied in the loan agreements executed between SIL and individual borrowers. However after 2008, KTDFC has directly and independently been defending cases filed by the loanees under the above Schemes, keeping in mind the sole aim of not causing any further monetary loss to KTDFC. As per the available records, it is seen that KTDFC had earlier given five Power of Attorney deeds to SIL from 2003 to 2007 and that no Power of Attorney deeds were executed in favour of SIL from 2008 onwards.

As such, it can be summarized from the above discussed facts that KTDFC sanctioned 2324 Loans under the above mentioned Schemes from 2001 to 2006 and that the total amount disbursed, as per the system generated report, was ₹ 125,78,84,051 (Rupees one hundred and twenty five crore seventy eight lakh eighty four thousand and fifty one only), on the basis of Corporate Guarantee of SIL, personal guarantee of the Directors of SIL, personal guarantee of borrowers

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				<p>and the primary security of the vehicle and that SIL had generally made prompt remittance of the EMI amounts in all loans to KTDFC as per the earlier specified interest rates. In fact, as per the system generated reports, SIL had already completed the repayment of EMIs in all loans and it is seen that in some meagre amounts in the form of penal interest, etc. is outstanding in some loans and such amounts are also being remitted by SIL on formal closure of those loans. However there were serious irregularities and flaws in the above mentioned schemes as well as in the operational procedure adopted in those loans as elaborately mentioned earlier, including the issues relating to payment of the Service Charge, non furnishing of the loan sanction letter and repayment schedule by KTDFC to the loanees directly, execution of Loan-cum-Hypothecation agreements by SIL in their favour with different terms, conditions, rate of interest and repayment schedule and other charges without the knowledge and express permission of KTDFC, suspicion of charging higher rates of interest and other charges from the loanees by SIL contrary to the Agreements between KTDFC and SIL, etc.</p>

Since it was suspected that STFCL had been charging high interest rates and other charges from the loanees by executing such loan agreements in there in favour, under the pretension that they are the financier, in violation of the Agreements between KTDFC and SIL, and filed written statements and such other documents to the Courts of Law disclosing untrue facts in order to hide their not so transparent financial activity standing between KTDFC and the borrowers of KTDFC, KTDFC had earlier filed a complaint with the Officer-in-Charge of Museum Police Station against STFCL regarding the above mentioned matters and the police has accordingly registered Crime No. 434/2008 on 23-12-2008 before the Chief Judicial Magistrate Court, Thiruvananthapuram.

In addition to the above, it is learnt from the records available with KTDFC that Vigilance and Anti-Corruption Bureau, Kozhikkode Unit has already registered a case (VC-01/2011/KKD) on the basis of some complaint of third parties (may be one or more loanees) against some officials of KTDFC and that of SIL who were involved in the formulation and operation of the above mentioned two schemes. In relation with the said case, originals of all Agreements and Corporate Guarantee Agreements executed with SIL and such other documents including copies of minutes of relevant Board decisions were already taken by the Vigilance and Anti-Corruption Bureau, Kozhikkode Unit.

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				<p>As such, in the light of the above mentioned facts as well as on the basis of the Conclusions/Recommendations in the 37th Report of the Committee on Public Undertakings (2011-2014) of the 13th Kerala Legislative Assembly regarding the engagement of Shriram Investments Limited (SIL), KTDFC requested the Government to issue necessary directions to the Vigilance and Anti-Corruption Bureau to conduct a detailed enquiry in this regard.</p>
2	16	Transport	<p>The Committee finds many irregularities like changes in the agreement, granting permission to another company to operate the business of SIL etc. The Committee expresses its dissatisfaction over the reply furnished by the Government and remarks that the reply is not sufficient to clear the objections raised in the Audit and therefore the</p>	<p>The Vigilance Department has been requested to conduct an enquiry in the matter through the Vigilance and Anti-Corruption Bureau.</p>

3	3	<p>reply of the Government is not tenable to the Committee. The Committee recommends that the matter should strictly be included in the ongoing vigilance enquiry.</p>	<p>The matter of appointment of direct marketing agents and related issues were examined in detail through KTDFC. The following facts are furnished:</p> <p>It is seen that on Agenda Item No. 1380 was placed before the 76th meeting of the Board of directors of KTDFC held on 23-3-2005 regarding the appointment of specialised agencies for canvassing the Housing Loans and such other aspects. The 76th Board meeting vide Agenda Item No. 1380 accordingly authorised the managing director of the company to invite a panel of specialised agencies for obtaining the services for canvassing the verification of work of KTDFC finance schemes and shortlist them for selection and to fix the charges payable to them and further decided that the said shortlisted panel should be placed before the Board for making the final appointment thereon.</p>
23	"	<p>The Committee finds a lot of irregularities and lack of transparency in the appointment of direct marketing agents for canvassing and for verification of KTDFC Finance Scheme. The committee suspects ulterior motives behind the appointment of unqualified inexperienced firms managed by persons closely related to each other as direct marketing agents and verification agents.</p>	<p>The matter of appointment of direct marketing agents and related issues were examined in detail through KTDFC. The following facts are furnished:</p> <p>It is seen that on Agenda Item No. 1380 was placed before the 76th meeting of the Board of directors of KTDFC held on 23-3-2005 regarding the appointment of specialised agencies for canvassing the Housing Loans and such other aspects. The 76th Board meeting vide Agenda Item No. 1380 accordingly authorised the managing director of the company to invite a panel of specialised agencies for obtaining the services for canvassing the verification of work of KTDFC finance schemes and shortlist them for selection and to fix the charges payable to them and further decided that the said shortlisted panel should be placed before the Board for making the final appointment thereon.</p>

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<p>It is seen that the company has accordingly published advertisements on 15-6-2005 inviting applications for the advertisements on 15-6-2005 inviting applications for the appointment of DMAs for the marketing and verification procedure of the 'Aiswrya Griha Housing Finance Scheme' from interested parties having a minimum experience of five years in marketing housing loan schemes of National/Commercial Banks. It is seen from the concerned file that fourteen applications were received in this regard. Thereafter the matter was placed before the 78th meeting of the Board of Directors of KTDFC held on 30-8-2005 vide Agenda Item No. 1433. In the said Agenda Note, it was stated that, out of the above mentioned fourteen applications, M/s Powerlink and M/s H-Worknet were the only two eligible firms based on the supporting documents produced along with the application regarding the experience in house loans with other banks. It was accordingly requested the Board in the said Agenda Item No. 1433 to accord sanction for appointing the eligible firms as DMAs.</p> <p>It is seen that 78th Board meeting of KTDFC held on 30-8-2005 vide Agenda Item No. 1433 has accordingly decided to authorise the Managing Director, KTDFC to appoint M/s H-Worknet and M/s Powerlink who satisfied the pre-qualification condition as DMAs of KTDFC Housing Loan Schemes.</p>				

The following serious anomalies were found out during the present examination of available records by KTDFC:

- (1) Though it was mentioned in the Agenda Note No. 1433 that M/s Powerlink and M/s H-Worknet were the only two eligible firms based on the supporting documents produced along with the application regarding the experience of having a minimum experience of five years in marketing housing loan schemes of National/Commercial Banks, no such supporting documentary evidence is found in the concerned file in support of proving the eligibility experience of M/s H-Worknet. It is also seen that H-Worknet, partnership firm, didn't submit a copy of the partnership deed along with its application. But later, in relation with a Writ Petition No. WP(c) No. 1629/2013 filed by it regarding the release of further amounts as Commission, it produced a copy of the Partnership deed dated 15-12-2001 specifying that the said firm has been newly constituted with effect from 15-12-2001 only. If that be so, it is proved beyond any doubt that the firm H-Worknet hadn't been even in existence for more than five years as on 15-6-2005, being the date of advertisement by KTDFC for DMAs.

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				<p>As such, it can be seen that H-Worknet not only failed to submit any supporting documents to prove the experience of having a minimum experience of five years in marketing housing loan schemes of National/Commercial Banks but also hadn't been in existence for more than five years at the time of the notification or even at the time of executing the DMA agreement with KTDFC on 26-10-2005. Hence it can be found that the claim in the said Agenda Note regarding the compliance of experience criteria by H-Worknet is against the actual facts. As such, the Agenda Note No. 1433 is factually incorrect in the matter of experience of H-Worknet.</p> <p>(2) So far as the appointment of M/s Powerlink Services Private Ltd. as DMA is concerned, it is seen that the Application dated 28-6-2005 submitted was in the name of 'M/s Powerlink Services Private Ltd.', which is a Company. However the supporting documentary evidence submitted along with the application to prove the experience criteria of having a minimum experience of five years in marketing housing loan schemes of National/Commercial Banks (copy of a Service and License Agreement executed with the HSBC Bank) was that of</p>

a Partnership Firm "M/s Powerlink", that too for a period of two years up to 31-12-2004. Though it is seen that a copy of a non-executed agreement (Sourcing agent Agreement) [mentioned therein to be signed with ICICI Home Finance Company] is available in the concerned file, the same cannot be relied upon since no date or signature or seal or confirmation of ICICI Home Finance Company is written or affixed therein. Similarly it is also to be noted that it was specifically mentioned in the application of M/s Powerlink Services Private Ltd. that the said company was incorporated in the year of 2002 only. Hence, on the basis of the available records, the claim in the said Agenda Note regarding the compliance of experience criteria by M/s Powerlink Services Private Ltd. is also found to be against the actual facts. Hence, the Agenda Note No. 1433 is factually incorrect in the matter of experience of M/s Powerlink Services Private Ltd. also. So, it can be found that the decision of the Board to appoint M/s Powerlink Services Private Ltd. and M/s H-Worknet as DMAs of the Company was based on the wrong information placed before it.

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				<p>(3) M/s H-Worknet and 'M/s Powerlink Services Private Ltd. were appointed as Direct marketing Agent for mobilizing loans under the house loan scheme of KTDFC (Home Loan Scheme in Kerala State) under 'Aiswarya Grahā Housing Loan Scheme', as per the terms and conditions stipulated in the above mentioned Board decision taken in the 78th board meeting of the Board of Directors of KTDFC held on 30-8-2005 vide Agenda Item No. 1433. It is seen that thereafter letters dated 1-9-2005 were issued by KTDFC to M/s H-Worknet and M/s Powerlink informing the above decision of the Board of Directors regarding the appointment of DMAs. It is seen that while conveying the said decision of the Board vide the said letter dated 1-9-2005, there occurred an error in mentioning one of the Slabs in the payment schedule of fees viz. The Board decision was to give fee @1% for 'loans of ₹ 40 to ₹ 50 lakh as per the original Board decision. However it is seen that Commissions were also paid for loans where the sanctioned loan amounts were above 50 lakh. It is not known whether the error caused in the writing of the commission structure in the</p>

letters dated 1-9-2005 as to give fee @ 1% for 'loans of ₹ 40 to ₹ 50 lakh and above' was accidental or deliberate. The suspicion about the said variation in the terms in the above mentioned letters dated 1-9-2005 is further strengthened by the fact that the said letters dated 1-9-2005 issued in the name of H-Worknet and M/s Powerlink Services Private Ltd. were seen received by a same person only on 23-3-2006 (name, designation of the person who received the letter was not specified therein), ie. much after the execution of the Appointment Agreement executed with H-Worknet on 26-10-2005 [regarding the appointment as Direct Marketing Agent for mobilizing loans under the house loan scheme of KTDFC (Home Loan Scheme in Kerala State) under 'Aiswarya Graha Housing Loan Scheme'] and the subsequent appointment letter dated 27-10-2005 issued to H-Worknet. If that be so there was no need after the execution of the Appointment Agreement to serve such a preliminary letter with wrong payment slabs to the above two firms subsequently on 23-3-2006 by writing the date of the letter as 1-9-2005 so as to make it shown that the said letter was issued prior to the execution of the Appointment Agreement executed with H-Worknet on 26-10-2005. Similarly

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				<p>it is also seen that no Appointment Agreement and Subsequent Appointment Letter (as available in the case of H-Worknet) are available in the concerned file in the matter of appointment of M/s Powerlink Services Private Ltd. as DMA. It is not known whether any such Agreement has been executed with M/s Powerlink Services Private Ltd. regarding its appointment as Direct Marketing Agent for mobilizing loans under the house loan scheme of KTDFC (Home Loan Scheme in Kerala State) under 'Aiswarya Graha Housing Loan Scheme'.</p> <p>(4) It is to be noted that the 78th meeting of the Board of Directors of KTDFC held on 30-8-2005 vide Agenda Item No. 1433 decided to appoint the above mentioned two firms as direct marketing Agents for mobilizing loans under the house loan scheme of KTDFC (Home Loan Scheme in Kerala State) under 'Aiswarya Graha Housing Loan Scheme'. Hence the said engagement may not be considered as applicable to Project/ Construction Loan Schemes which were later introduced in KTDFC in the year of 2006 i.e. much after the appointment of the above DMAs. No records are available in the concerned</p>

files regarding the approval by the Board for the engagement of the above two firms as DMAs for Construction/Project Loans. Nowhere it is mentioned in the so called letter dated 1-9-2005 or the Appointment Agreement executed with H-Worknet on 26-10-2005 or the subsequent appointment letter dated 27-10-2005 issued to H-Worknet that future loan schemes of KTDFC would be included in the purview of their service. As stated earlier, the Construction/Project Loan Scheme was seen introduced for the first time in KTDFC in the year of 2006 which was much after the appointment of M/s Powerlink Services Private Ltd. and M/s H-Worknet as DMAs for House Loans. Similarly as per the decision taken in the 78th board meeting of the Board of Directors of KTDFC held on 30-8-2005 vide Agenda Item No. 1433, the payment of commission is limited only to the canvassing of the home loans up to the maximum of 40 lakh to 50 lakh, from which itself it can be assumed that Construction loans, normally sanctioned for above 50 lakh, may not come within the ambit the said decision of the Board. However it is seen that KTDFC made payments of commission to the above DMAs for construction loans of above 50 lakh also, canvassed by them, also at the same rate as approved by the Board for loans of ₹ 40 to ₹ 50 lakh (i.e. @ 1%).

KTDFC also made payments of fees to the above two firms as Verification Agents for the verification of loan applications received by the company under various loan schemes.

(6) It is also noted that both the Direct Marketing Agents are related and interested parties as those firms are having some common persons. For instance, the Managing Partner of H-Worknet is Smt. Rashmi Ajit, Kaveri, Kadapakada, Kollam, where as one of the 2 directors of M/s Powerlink Services Pvt. Ltd. is Sri A. Ajit, Kaveri, Kadapakada, Kollam, who are husband and wife. It is also noted that Sri P. Pradeep (other director of M/s Powerlink Services Pvt. Ltd.) and Smt. Bindu Pradeep (remaining partner of H-Worknet) are husband and wife. It is observed that this indicated that both agencies were related and interested parties and are *prima facie* managed by same persons.

(7) It is seen that Sri Ajit, R. and his wife Smt. Rashmi Ajit (one of the two directors of M/s Powerlink Services Pvt. Ltd. and the Managing Partner of H-Worknet respectively) were sanctioned with a house loan of ₹ 30,35,356 by KTDFC on 24-5-2006 (Loan No. 39/CL/TT/ CON/2006-07). Similarly Sri Pradeep, P.

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				<p>and his wife Smt. Bindu Pradeep (One of the two directors M/s Powerlink Services Pvt. Ltd. and one of the two partners of H-Worknet respectively) were also sanctioned with a house loan of 60 lakh by KTDFC on 29-5-2006 (Loan No. 47/HL/IT/TOC/2006-07). It is seen from the files that the verification of those house loans applications were done by M/s H-Worknet itself for KTDFC before sanctioning. It is also seen that M/s Powerlink Builders Pvt. Ltd. with the same address of M/s Powerlink Services Pvt. Ltd. was also granted a construction loan by KTDFC for ₹ 2,00,43,774 on 23-4-2007 (Loan No. 1/CL/IT/CON/2007-08), out of which an amount of ₹ 1,00,43,774 was disbursed, for which the verification of loan application was also seen to be done by M/s H-Worknet. It is noted that the sanctioning of the above loans on the basis of verification conducted by a related firm, are irregular as the parties are related to each other as mentioned above. It is also noted that amounts were also paid by KTDFC to the above mentioned two DMAs as service fees (commission) for canvassing the above mentioned 3 loans availed by (1) Sri Ajit, R. and Smt. Rashmi Ajit, (2) Sri Pradeep, P. and</p>

Smt. Bindu Pradeep (3) M/s Powerlink Builders Pvt. Ltd., which also arose a question as to whether Direct Marketing Agents can accept canvassing commission for the loans availed by themselves. It may be noted that the original loan files of two of the above mentioned three loans i.e. the loan availed by (1) Ajit and Rashmi Ajit and (2) M/s Powerlink Builders Pvt. Ltd. are under the custody of Vigilance and Anti-Corruption Bureau in relation with a Vigilance enquiry.

(8) KTDFC is presently issuing NOC to builders and developers who have availed Construction/Project Loans from KTDFC, where repayment is started, for selling the Flats/Villas and corresponding undivided share of land to the prospective buyers, on the condition that the loanee shall remit EMIs proportionate to the value of such Flats/Villas, as may be fixed by KTDFC for this purpose. Similarly, in loans where Lock-in period for starting repayment is not over, KTDFC is presently issuing NOC to the loanees, upon request, for the above mentioned purpose if they remit amounts proportionate to the value of such Flats/Villas as may be fixed by KTDFC for this purpose.

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						<p>(9) It is also to be noted that the Audit Officers of AG have made several adverse observations during their audits regarding the appointment of the above two related and interested firms as DMAs, lack of compliance of eligibility experience, placing of factually incorrect Agenda Note before the Board, Payment of Commission for the loans availed by the related parties of DMAs, Verification of interested loan applications by the Agent, Avoidable and irregular payment of 40.96 lakh by KTDFC to the above firms as Canvassing Commission and Verification Charges, etc.</p>
						<p>In the light of the above mentioned facts as well as on the basis of the Conclusions/Recommendations in the 37th Report of the Committee on Public Undertakings regarding the engagement of DMAs, the KTDFC requested Government to issue necessary directions to the Vigilance and Anti-Corruption Bureau to conduct a detailed enquiry in this regard.</p>

4	24	Transport	<p>The Committee finds in the matter through the Vigilance and Anti-Corruption Bureau.</p> <p>The Vigilance Department has been requested to conduct an enquiry in the matter through the Vigilance and Anti-Corruption Bureau.</p>
			<p>The Committee finds in the matter through the Vigilance and Anti-Corruption Bureau.</p> <p>The Vigilance Department has been requested to conduct an enquiry in the matter through the Vigilance and Anti-Corruption Bureau.</p>

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5	25	Transport	Considering the importance of the case the Committee also recommends that the matter should be included in the ongoing vigilance enquiry and responsibility for the irregularities be fixed and the losses be recovered from the concerned.	The Vigilance Department has been requested to conduct an enquiry in the matter through the Vigilance and Anti- Corruption Bureau.

Remarks:— The Committee directed to furnish a detailed report regarding the findings of the Vigilance Enquiry mentioned in the Government reply and the action taken against the officials responsible for the irregularities.

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

Thiruvananthapuram,
 3rd December, 2015.

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