FOURTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE
ON
PUBLIC UNDERTAKINGS
(2016-2019)

TENTH REPORT

(Presented on 8th November, 2016)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2016

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TENTH REPORT

On

Kerala State Industrial Development Corporation Limited [Based on the Reports of the Comptroller and Auditor General of India for the years ended 31 March, 2011 (Commercial)and 31 March, 2013 respectively]

1305/2016.

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COMMITTEE ON PUBLIC UNDERTAKINGS (2016-2019)

Composition of the Committee

Chairman :

Shri C. Divakaran.

Members :

Shri T. A. Ahammed Kabeer

Shri K. B. Ganesh Kumar

Shri C. Krishnan

Shri M. M. Mani

Shri Thiruvanchoor Radhakrishnan

Shri P. T. A. Rahim

Shri Raju Abraham

Shri Sunny Joseph

Shri C. F. Thomas

Shri P. Unni.

Legislature Secretariat:

Shri V. K. Babu Prakash, Secretary

Smt. P. K. Girija, Additional Secretary

Smt. Manju Varghese, Deputy Secretary

Smt. Deepa V., Under Secretary.

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2016-2019) having been authorised by the Committee to present the Report on their behalf, present this Tenth Report on Kerala State Industrial Development Corporation Limited based on the Reports (commercial) of the Comptroller and Auditor General of India for the years ended 31 March, 2011 and 2013 relating to the Public Sector Undertakings of the State of Kerala.

The aforesaid Reports of the Comptroller and Auditor General of India were laid on the Table of the House on 23-2-2012 and 16-6-2014 respectively. The Reports, besides other things, brought to light some functional irregularities pertaining to Kerala State Industrial Development Corporation Limited. The Committee, in connection with the perusal of reports, took notice of the comparability of the audit paragraphs containing such irregularities and decided to examine them altogether. The consideration of the audit paragraphs included in this report and the examination of the departmental witness in connection thereto were made by the Committee on Public Undertakings constituted for the years 2014-2016.

This Report was considered and approved by the Committee(2016-2019) at its meeting held on 4-11-2016.

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

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

C. DIVAKARAN,

Thiruvananthapuram,
8th November, 2016.

Chairman,
Committee on Public Undertakings.

REPORT
ON
KERALA STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

AUDIT PARAGRAPH

4.9 Financial Management in four selected areas

4.9 We selected twenty Companies from six sectors based on risk analysis for assessing the effectiveness of performance in the following areas pertaining to the period 1 April 2006 to 31 March 2011 :

- Deployment of Surplus funds
- Disbursement of Loans
- Borrowing of funds and
- Payment of taxes and duties

We noticed deficiencies and were of the opinion that they required urgent attention of the Managements of respective Public Sector Undertakings(PSUs).

Deployment of Funds

Time Deposits

SELECTION OF INSTITUTION

Incorrect selection of the institution for deployment of surplus funds in time deposits by the Company ignoring the rates offered by State Treasury which were better than what they carried resulted in foregoing of possible revenue of ₹ 55.72 lakh as tabulated below:

Company	No. of Fixed Deposits (Fds) Instances	Period Involved	Range of FDs (in lakh)	Range of Period of FDs (Days)	Rate of Interest (ROD) received (%)	Alternative ROI available at State Treasury (%)	Interest forgone (₹ in lakh)
KSIDC	163	Nov 2007 to March 2011	1.00 to 380.14	180 to 365	6.00 to 8.00	6.75 to 10.00	55.72

KSIDC (August 2011) stated that restrictions imposed by Government/Treasury, operational convenience and facilities for Overdraft (OD)/Cash Credit (CC)/Letter of Credit(LC)/Working Capital Loan offered by Scheduled Commercial Banks(SCBs) etc. were the major reasons for the preference given to SCBs while depositing the funds.

The replies were not acceptable as Government/Treasury did not impose any restriction for withdrawal of Fixed Deposits(FDs) on maturity. Monetory ceiling for premature closure could be overcome by opening Fds of smaller denominations and also by adopting phased withdrawal. The State Treasury should have been preferred for investment over SCBs as it would have fetched better returns.

Current Account Deposits

Avoidable deployment of funds in Current Accounts

In the Company, heavy accumulation of balance in Current Accounts for long durations was noticed. Companies with unpredictable cash flows can resort to Flexi Fixed Deposits(FFDs) so as to avoid idling of fund in Current Accounts and also to earn interest for periods ranging from seven days onwards. FFDs offer the twin advantage of liquidity as well as operational flexibility of Current Accounts coupled with interest returns of Fixed Deposits. All the banking facilities attached to a Current Account like fund transfer methods viz. Real Time Gross Settlement (RTGS)/National Electronic Funds Transfer (NEFT) and Internet banking features are also available to the FFD account holders without involving any extra charge.

The total amount blocked up in Current Accounts of the company for various periods ranging up to 1727 days were equivalent to the idling of ₹ 4.91 crore for one year (Annexure 18). KSIDC replied (August 2011) that they had opened FFD accounts.

[Audit Paragraph 4.9 contained in the Report of the Comptroller and Auditor General of India for the year ended on 31 March, 2011]

1. The Committee sought explanation for depositing the surplus funds in commercial banks ignoring the rates offered by Government treasury which had resulted in foregoing of possible revenue of ₹ 55.72 lakh. The witness informed that the said money was the loan amount recouped and if it was deposited in the treasury, the Corporation could not be able to transfer the loan amount to the customer in time because of treasury restrictions. He also added that instead of

profit making, the Corporation was primarily aiming at the fastest and smoothest transfer of loan amount to its customers by availing facilities like RTGS offered by Commercial banks.

2. At this juncture the Committee wanted to know whether the Treasury imposed any restrictions on the withdrawal of FD of the Corporation from its own surplus fund. Then the witness clarified that RTGS facilities were not available in the Treasury and they were facing problems with the inflexible working hours of the Treasury. However, they had been depositing a part of its funds in Government Treasury since 2011. Meanwhile the Principal Secretary, Industries Department informed that the Corporation was depositing its own financing money in banks and the funds received as Government grants in Treasuries. He added that the department had supported the explanation of the Corporation since they are continuing this practice for facilitating the fastest transfer of loan amount to its customers.

3. The Committee was convinced with the explanation of the witness, however the Deputy Accountant General objected that there was no withdrawal from some of the FD Accounts even after a period of 365 days. The Principal Secretary replied that they have opted FD accounts for earning attractive interest rates as compared to current accounts or SB accounts and also for facilitating the timely disbursement of loans.

4. The Committee sought further clarification regarding the steps taken by the Corporation to overrule the audit objection and the deployment of funds in Current Accounts instead of resorting to flexi fixed deposits. The Managing Director informed that the major drawback of Current Accounts cited by the Accountant General was its low interest rate. In order to overcome this, most of the commercial banks had offered swipe facility for their accounts and therefore no loss in terms of interest would arise.

Conclusions/Recommendations

5. **The Committee observes that the Corporation has failed to show due diligence by depositing surplus funds in Current Accounts bearing meagre interest. This has navigated to an erosion of interest, which otherwise, would have benefitted the Corporation.**

The Committee, therefore, recommends that necessary changes should be made in the financial management of the Corporation in accordance with the existing rules and regulations.

AUDIT PARAGRAPH

4.5 Undue Favour

Loss of ₹ 2.00 crore due to one time settlement of outstanding loan in violation of laid down OTS Policy.

Kerala State Industrial Development Corporation Limited (Company) was incorporated in July 1961 as a fully owned Government Company and it is presently engaged in term-loan financing of medium and large scale industrial undertakings, with loan period normally ranging from six to eight years. As per the latest finalised accounts, the non-current loans and advances outstanding as on 31 March 2012 was ₹322.04 crore, of which ₹54.30 crore fell in sub-standard and ₹5.30 crore in doubtful categories. The Company framed 'One Time Settlement' (OTS) Policy 2008 as a last resort to recover its dues, which was approved (October 2009) by Government of Kerala.

As per the OTS Policy, proposals for granting OTS were to be evaluated by the OTS Committee and approved by the Board of Directors of the Company. The eligibility criteria for OTS stipulated that the loanee should have completed five years after its incorporation and its net worth should have been eroded by its accumulated losses. Before arriving at the OTS amount, all the securities were to be revalued by an approved Valuer to assess the Distress Value(DV) and interest for the entire period of the loan was to be recomputed at simple interest to arrive at the Recomputed Loan Payable (RLP), which would be lesser than total outstanding amount of the loan. Final decision on OTS would be guided by the following:

- OTS should not be given where the DV is greater than the total dues payable to the Company.
- Where the DV is less than the total loan payable, but greater than the RLP, the DV should be deemed to be payable as OTS.

- Where the DV is less than the RLP, the OTS should be the best negotiated figure between DV and RLP.

Audit noticed that Company settled (May 2011) outstanding loan amount of ₹8.33 crore of Ganam Hotels Limited, Ernakulam for ₹1.70 crore without assessing the RLP/DV. However, the loanee had itself assessed DV of assets as ₹3.70 crore in January 2010.

The Board approved the recommendations of the OTS Committee, though the same was a deviation from the OTS Policy. This resulted in extention of undue favour to the loanee and loss to the Company to the extent of ₹2.00 crore considering DV of ₹3.70 crore.

The Company replied (September 2013) that proposal was for reviving the old OTS Scheme sanctioned in March 2006 and hence valuation of assets was not considered.

The reply was not acceptable as the validity of earlier OTS scheme had already expired and Company deviated from Government approved OTS policy while extending OTS to the party.

The matter was reported to the Government in September 2013; their reply was awaited (January 2014).

[Audit Paragraph 4.5 contained in the Report of the Comptroller and Auditor General of India for the year ended on 31 March, 2013]

Notes furnished by the Government on the Audit Paragraph is given in Appendix II.

6. The Committee enquired why did the Corporation settle the outstanding loan amount of ₹8.33 crore of Ganam Hotels Limited for ₹1.70 crore without assessing RLP/DV. The Managing Director clarified that they have granted OTS for Ganam Hotel and Resorts as per the OTS scheme of 2006. In 2008, the scheme was revised by incorporating new terms and conditions and only in that scheme clear guidelines regarding the calculation of RLP/DV etc. were mentioned. But prior to that period, the Company had repaid a portion of the loan amount. So the Corporation was not able to deviate from the OTS norms agreed in 2006.

7. The Committee pointed out that even though the OTS was agreed in 2006, the final settlement of the loan was completed only in 2011. The Committee observed it as a serious lapse on the part of the officials concerned.

8. The Principal Secretary, Industries Department informed that the Corporation was able to recover ₹474 lakhs in lieu of 152 lakhs given as loan amount. So it may not be considered as a serious loss. The Committee was of the opinion that though the arguments of the witness were technically correct there was an avoidable delay on the part of the officials in regaining the balance loan amount.

Conclusions/Recommendations

9. **The Committee finds that the Corporation has settled an outstanding loan amount of ₹8.33 crore of Ganam Hotels Ltd. for ₹1.70 crore without assessing RLP/DV as stipulated in the latest OTS scheme. The Committee observes serious dereliction on the part of the officials concerned, in the final settlement of loan.**

10. **Even though the Committee on a technical point of view agrees to the fact that the Corporation could implement final settlement based on the OTS scheme of 2006 only, that settlement itself got unduly delayed and Corporation still suffered a loss due to delay. Therefore, the Committee strongly directs the Corporation to avoid recurrence of such instances in future and to be vigilant to avoid undue delay in settling dues.**

C. DIVAKARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
8th November, 2016.

APPENDIX I

SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

Sl. No.	Para No.	Department Concerned	Conclusions / Recommendations
1	5	Industries Department	The Committee observes that the Corporation has failed to show due diligence by depositing surplus funds in Current Accounts bearing meagre interest. This has navigated to an erosion of interest, which otherwise, would have benefitted the Corporation. The Committee, therefore, recommends that necessary changes should be made in the financial management of the Corporation in accordance with the existing rules and regulations.
2	9	"	The Committee finds that the Corporation has settled an outstanding loan amount of ₹8.33 crore of Ganam Hotels Ltd. for ₹1.70 crore without assessing RLP/DV as stipulated in the latest OTS scheme. The Committee observes serious dereliction on the part of the officials concerned, in the final settlement of loan.
3	10	"	Even though the Committee on a technical point of view agrees to the fact that the Corporation could implement final settlement based on the OTS scheme of 2006 only, that settlement itself got unduly delayed and Corporation still suffered a loss due to delay. Therefore, the Committee strongly directs the Corporation to avoid recurrence of such instances in future and to be vigilant to avoid undue delay in settling dues.

APPENDIX II

STATEMENT OF ACTION TAKEN ON PARA NO.4.5 IN THE AUDIT REPORT OF C& AG OF INDIA FOR THE YEAR ENDED 31-3-2013

Sl. No.	Para No.	Action Taken
1	2	3
	4.5	In the C & AG report on PSUs for the year ended 31-3-2013, vide para 4.5, it has been observed that there had been a loss of ₹ 2.00 crores due to One Time Settlement of outstanding loans in violation of the laid down OTS policy. The case cited relates to the OTS settlement of *M/s* Ganam Hotels Ltd., Ernakulam for ₹1.70 crores without assessing the distress value which was ₹ 3.70 crores. The following remarks may please be considered in the instant case. (1) It may please be noted that the new OTS policy was introduced in 2008 and prior to that KSIDC was following other methods for arriving at the OTS amount. Only after the introduction of the new OTS policy in 2008, KSIDC is taking the valuation of assets for fixing the OTS amount. In this case, the OTS was sanctioned in the year 2006, prior to the introduction of the new OTS policy, but for which final settlement could be reached only in 2013 ; after the introduction of the new OTS policy. The OTS settlement was arrived at based on the consensus arrived at based on the proposal of 2006; which was kept alive till the final settlement in 2011. The promoter had remitted an amount of ₹ 189.48 lakhs (₹ 94.48 lakhs remitted during the time frame of OTS and ₹ 95.00 lakhs after the time frame of OTS) in which ₹₹179.48 lakhs was apportioned against the principal outstanding of ₹ 182.50 lakhs. In 2011, the proposal was placed in the Board for reviving the old OTS sanctioned in March 2006, which was duly approved. As valuation of the assets was not a criteria for arriving at OTS settlement prior to the introduction of the new OTS policy 2008, such a valuation was not carried out.

1	2	3
		(2) The promoters had taken the loan of ₹ 182.50 lakhs to set up an annexe building to the hotel, in the hope of selling the same and repaying the loan to KSIDC. At the time when the promoters availed this loan, they had good repayment track record for the earlier 3 loans already availed. The promoters could not complete the project in time due to fund shortage/cost escalations and they did not get any return from this investment since the year 1996. The hotel was running in losses, but the promoters managed to remit ₹ 189.48 lakhs towards OTS by selling their personal properties. (3) The OTS was considered in the ground that with the proposed OTS amount of ₹170 lakhs, KSIDC would be getting a total sum of ₹ 422. 64 lakhs, fetching a return of not less than 11% over the years. (4) As per the policy of the Corporation, receipts in all RR/OTS cases are credited against principal. In this instant case also, the same procedure was followed and the matter reported to the Board. If the Board had not approved revival of the old OTS, the amount credited against the principal outstanding would have been reversed. Since the Board approved the revival of OTS scheme, no modification in the loan account was made. (5) The OTS settlement on their proposal in 2006 concluded in 2011. As the proposal was live during the period, the effect of the new OTS policy Introduced in 2008 was not made in the instant case. The matter was reported to the Board and the Board had approved the OTS settlement. Therefore, the purported loss of ₹ 2.00 crores on account of the higher distress value based on valuation of assets is not applicable in the instant case.

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