



THIRTEENTH KERALA LEGISLATIVE ASSEMBLY

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

HUNDREDTH REPORT

(Presented on 3-12-2015)

**SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2015**

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

HUNDREDTH REPORT

On

**Kerala Transport Development Finance Corporation Limited based on
the Report of the Comptroller and Auditor General of India
for the years ended 31st March 2010, 2011 & 2012 (Commercial)**

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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 Hundredth Report on Kerala Transport Development Finance Corporation Limited based on the Reports of the Comptroller and Auditor General of India for the years ended 31st March 2010, 2011 & 2012 (Commercial) relating to the Government of Kerala.

The Reports of the Comptroller and Auditor General of India for the years ended 31st March 2010, 2011 & 2012 were laid on the Table of the House on 28-6-2011, 22-3-2012 and 19-3-2013 respectively. The consideration of the audit paragraphs included in this Report and the examination of the departmental witness in connection thereto was made by the Committee on Public Undertakings constituted for the years 2014-16.

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 Audit Paragraphs included in this Report.

The Committee wish to express their thanks to the officials of the Transport department of the Secretariat and Kerala Transport Development Finance 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, Transport and Finance Department and the officials of Kerala Transport Development Finance Corporation Limited who appeared for evidence and assisted the Committee by placing their concerned views before the Committee.

Thiruvananthapuram,
3-12-2015.

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

Report on
Kerala Transport Development Finance Corporation Limited
(KTDFC)

Avoidable expenditure on finance charges

The Company was formed with the objective of financing Kerala State Road Transport Corporation and other transport undertakings and operators in Kerala. The Company had been availing credit facility in the form of fund based working capital limit / cash credit (CC) / overdraft (OD) to the extent of ₹ 45 crore, ₹ 30 crore and ₹ 20 crore respectively from SBT (March 2007) State Bank of Hyderabad (July 2006) and DLB (April 2007). The interest rate charged by the banks for the credit availed, ranged between 10.50 per cent and 14 per cent. The Company during April 2007 to March 2010 paid an aggregate amount of ₹ 15.64 crore as interest for the CC / OD availed. While availing the facility of CC / OD at the above interest rates, the Company was also operating current accounts with different branches of six banks without fetching any interest on the balances held.

As per statements of transactions of the banks, the Company held balances in all the current accounts and the monthly minimum balance held during the period April 2007 to February 2010 ranged between ₹ 0.73 crore and ₹ 4.06 crore.

The Company, however, failed to monitor its funds requirement and balances held in current account vis-à-vis CC / OD accounts on a daily basis and reduce finance charges through transfer of funds from non-interest-fetching current account to interest-bearing CC / OD account. Had directions been given by the Company to transfer balance above minimum required balances in these non- interest fetching current accounts to CC / OD account of the respective banks, there would have been a minimum saving of finance charges amounting to ₹ 0.68 crore.
(April 2007 – March 2010)

The inadequate monitoring of the fund requirements and non-transfer of funds from current accounts to interest bearing CC/OD accounts in six banks resulted in loss of opportunity of saving finance charges amounting to ₹ 0.68 crore (Annexure 26)

Management stated (July 2010) that the standing instructions had been given to all banks to automatically transfer the amount lying in respective current accounts over and above minimum balance fixed daily to cash credit account effective from 21/06/2010. Government endorsed (August 2010) the views of management.

[Audit Paragraph 4.5 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March 2010]

The Notes furnished by Government on Audit paragraph is given in Appendix II

Conclusion/Recommendations

1. No Comments.

Financial Management in four selected areas

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

Incorrect selection of financial institutions for deployment of funds, inappropriate duration of term deposits and avoidable deployment of funds in Current Accounts resulted in loss of interest of ₹ 6.57 Crore, as discussed further.

Time Deposits

Selection of institution

Incorrect selection of the institution for deployment of surplus funds in time deposits by the following nine PSUs ignoring the rates offered by State Treasury which were better than what they carried resulted in foregoing of possible revenue of ₹ 3.30 crore in 399 cases 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 (ROI) received (%)	Alternative ROI available at State Treasury (%)	Interest forgone (₹ in lakh)
TELK	31	Jan 2009 to Oct 2010	40 to 300	180 to 468	2.00 to 6.25	6.75 to 10.00	68.08
KSPIFCL	48	March 2009 to March 2011	25 to 500	365 to 730	7.00 to 8.80	7.50 to 10.00	64.35
KMML	40	Jan 2009 to March 2011	15 to 261.93	365	6.50 to 9.00	7.50 to 10.00	63.18
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
TRKL	06	March 2009 to March 2011	9.50 to 556.31	365	5.00 to 8.00	7.50 to 10.00	29.50
KURDFC	49	April 2008 to March 2011	15.90 to 99.00	180 to 556	5.75 to 8.00	6.75 to 10.00	23.11
KSIE	17	Jan 2009 to Nov 2010	0.55 to 109.38	365	7.00 to 8.50	7.50 to 10.00	9.74
KELTRON	22	May 2006 to Feb 2011	5.00 to 116.55	181 to 897	4.05 to 7.70	6.50 to 10.00	8.48
KFL	23	May 2009 to Feb 2011	55.00 to 99.00	180	5.50 to 7.00	6.75 to 8.50	8.21
Total	399						330.37

Four Companies namely TELK (July 2011), KSPIFCL (August 2011), KSIDC (August 2011) and KMML (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. Monetary 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.

About TRKL, Government (October 2011) replied that they parked their deposits with banks for operational convenience. The Management stated (August 2011) that they could not monitor their deposits due to shortage of manpower. The reason did not justify the loss of potential interest income of ₹ 29.50 lakh.

KSIE stated (August 2011) that they had switched over to deployment of surplus funds in long term FDs with banks because of the OD facility offered to them while KFL replied (August 2011) that the Company could not estimate short term requirement of funds correctly and there were chances of premature closure. The Audit point that these Companies did not beneficially deploy their surplus funds stays, as the Treasury did not discourage premature withdrawals.

Optimal utilisation of increasing interest rates

Treasury periodically revised the rate of interest on Fixed Deposits. Regular monitoring coupled with comparative assessment of continued investment in existing FDS or switching over to new FDs, will help maximisation of interest on investment. No penalty is imposed by the Treasury for premature renewal of term deposits.

- Delay in renewal of term deposits by KSFE on 66 occasions in line with upward revision in interest rates (October 2008) by Treasury resulted in loss of potential earnings of ₹ 3.47 lakh.

The company replied (August 2011) that the delay in foreclosure of FDs was due to the delay in getting approval from Board of Directors which took all major decisions. Thus, quick decision making was absent, and to overcome this, operational freedom should have been given to functional managers within specific guidelines laid down by the Board of Directors.

- The Company also erred in selection of term deposits for foreclosure which resulted in interest loss of ₹ 10.55 lakh. The Company assured to evolve appropriate methodology for foreclosures.

- Non-closure of existing FDs to redeploy funds when the Treasury had raised rates of interest resulted in loss of potential interest of ₹ 69.09 lakh in KLDB during the period from April 2005 to October 2008.

The Company replied (September 2011) that prior approval of Government was required for opening new Fixed Deposit Account as well as renewal of existing Treasury FD account.

The reply was not tenable since given the benefits involved, operational freedom should have been sought from the Government subject to specific guidelines from the Government.

Inappropriate duration of deposits

Due to lack of planning, the following companies failed to deploy funds in FDs of longer durations instead of renewing and re-depositing in FDs of shorter durations resulting in foregoing of potential interest income of ₹ 1.31 crore:

(₹ in lakh)

Name of the Company	Funds Deployed in	Period involved	Initial Investment	Actual duration of deposits	Alternative long term duration available	Rates of interest (Actually earned in deposits (%))	Rates of Interest for longer duration (%)	Interest Received	Interest that could have been received	Interest Foregone
KAMCO	State Treasury	June 2005 to March 2011	2332.13	6 to 13 months	36 months	6 to 9	7.5 to 10	1278.70	1361.25	82.55
KSBC	SCB	Feb 2008 to March 2011	1985.85	12 Months	36 months	6.25 to 10	8 to 11	252.24	295.84	43.60
SILK	SCB	Jan 2010 to March 2011	190.00	30 to 46 days	181 to 414 days	3 to 4	6.75 to 7.5	4.58	8.93	4.35
Total			4507.98					1535.52	1666.02	130.50

KAMCO replied (August 2011) that the Company was engaged in various diversification/expansion schemes and to ensure fund availability for the same at appropriate time short term FDs were resorted to.

The reply was not tenable since the facility of foreclosure of deposits in Treasury would have taken care of unanticipated cash outflows associated with diversification. As per the Government policy in vogue, there was no restriction/ban for withdrawal of FDs from Treasury.

SILK replied (August 2011) that absence of integrated information system contributed to the loss and it had plans of implementation of fund management techniques.

Current Account Deposits

Avoidable deployment of funds in Current Accounts

In nine companies viz. KFL, TELK, KAMCO, KEPIP, TRKL, KSIE, KMML, KSIDC and KLDB, 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 nine companies for various periods ranging up to 1823 days was equivalent to the idling of ₹ 54.42 crore for one year (Annexure 18). The equated annual idling of funds ranged from ₹ 0.86 crore (KLDB) to ₹ 14.52 crore (KAMCO). This resulted in foregoing of interest income. In the light of the advantages of FFD account, there was a need for these companies to consider availing of this facility.

KAMCO and KSIDC replied (August 2011) that they had opened FFD accounts.

KFL (August 2011), KLDB and KEPIP appreciated (June 2011) the benefits of opening FFD Account and information relating to the progress thereon was awaited (November 2011). About KLDB, Government replied (September 2011) that the interest forgone was not considerable and about TRKL (October 2011), that efforts would be made to open FFDs in future.

KMML replied (August 2011) that they had requested the banks to provide FFD account facility.

KSIE (August 2011) replied that amounts accruing in Current Accounts of the Company at different locations were transferred to OD account and the balance in Current Account was minimised leading to need of additional funds.

The corrective actions taken by the Companies were appreciable.

- At KEPIP, four dormant Current Accounts in SCBs were observed during the period from April 2006 to February 2011 wherein balances ranging from ₹ 4.00 lakh to ₹ 18.00 lakh were persistently maintained which resulted in forgoing potential interest income of ₹ 7.51 lakh. The Company assured that short term surplus funds would be invested in interest bearing FDs in future (July 2011)

Maximisation of rate of interest

Daily sales collections in all the units of KSBC were transferred to its Current Accounts maintained with Canara bank, Union Bank of India, Dhanlakshmi Bank Limited and Punjab National Bank in Thiruvananthapuram. After leaving a minimum daily balance of ₹ 2.50 lakh in the accounts, remaining funds were transferred to the Flexi Fixed Deposit Accounts maintained with the same bank. The agreements with the banks provided for re-deployment of funds to earn maximum revenue in the event of revision of rates of interest. The Company did not have a system to daily compare the rates of interest that existed across the banks and to redeploy funds whenever interest rate changes thereby forgoing interest of ₹ 95.50 lakh during 2006-07 to 2010-11.

KSBC replied (August 2011) that the loss was worked out by Audit without considering the period of seven days for generation of interest, number of transactions in a bank account and the higher interest earned by the company by transferring fund from FFD account to Term Deposits with Treasury.

The period of seven days mentioned in the reply was not relevant to the audit observation. Our comment was restricted to initial deployment of cash collections.

The reply with regard to transferring of funds from FFD account to Treasury was not relevant as the calculation done by us pertained to the period when the funds remained with the banks. We were of the opinion that KSBC was providing low cost funds to banks.

Loan Disbursement

Of the selected PSUs we observed inconsistency in lending activity as under : Non- synchronisation of due dates of loan repayment and bond redemption (KSPIFCL) and non-revision of interest rate linked to increase in cost of funds (KTDFC) resulted in avoidable extra expenditure on interest/short realisation of interest income amounting to ₹ 56.24 lakh as discussed further.

- KSPIFCL issued (1 January 2003) redeemable 11.10 *per cent* bonds worth ₹ 200 crore for lending to Kerala State Electricity Board (KSEB) at the rate of 11.75 *per cent*. The bonds carried a put/call option exercisable on or after 01 January 2009. The loan given to KSEB had a repayment schedule of four half yearly installments starting from 30 June 2008. KSEB repaid the first installment of ₹ 50 crore on 30 June 2008. Though the Company offered to redeem bonds worth this amount immediately, only those holding bonds worth ₹ 1.57 crore accepted the Company's offer. Hence the Company could redeem the remaining bonds worth ₹ 48.43 crore (ie 50 crore – 1.57 crore) only on 01 January 2009. During the intervening period of 184 days (from 30 June 2008 to 31 December 2008) the Company had to park ₹ 48.43 crore in FDs which earned interest at the rate of 9.85 *per cent* per annum. This resulted in interest loss of ₹ 30.52 lakh towards differential interest. (11.10 *per cent* – 9.85 *per cent*) payable to bond holders. Had the initial date of repayment of loan by KSEB been synchronised with the call/put option date, the interest loss could have been avoided.

The Company replied (April 2011) that several attempts were made (October 2005 onwards) with KSEB to get the repayment schedule of loan revised but in vain

and that the above loss was absorbed in the overall profitability in the bond transaction.

- KTDFC decided in the Board Meeting (June 2007) to revise the interest rates of loans under Aiswarya Griha Scheme sanctioned thereafter, in tune with the increased cost of borrowings. Loan disbursed (March to May 2006) by KTDFC to three parties- SK Hospital, Credence Hospital and Paramount Photographers provided for revision of interest rates based on the changes in the borrowing cost of the Company. The interest rates of these loans were revised in the Board meeting (November 2008) with effect from June 2008 after a delay of 11 months (for the period from July 2007 to May 2008) resulting in loss of interest income of ₹ 25.72 lakh.

Government replied (August 2011) that the above three loans were housing loans and were sanctioned with fixed interest rates. The loanees objected to the decision to have floating rates and to avoid litigation, it was decided to refix the interest rate and later on bring them under floating interest rate.

The reply was not tenable because the loan agreements clearly indicated that they were sanctioned as floating loans with clear provisions for revision of interest rates.

Borrowings

Ineffective management of loans

Ineffective management of loans resulted in avoidable interest payout of ₹ 94.01 lakh as discussed further:

Three companies (TELK, UEIL and SILK) did not utilise the available funds in their FDs/Current Accounts for extinguishing the loans/CC/OD availed though the available funds were fetching lesser rates of interest compared to the carrying cost of loans/CC/OD availed. We worked out that this resulted in avoidable interest payout amounting to ₹ 37.93 lakh (Annexure 19) as detailed below:

- Despite having sufficient funds invested in FDs earning interest of 5 *per cent* to 5.25 *per cent* per annum, TELK availed LCs of 90 days duration carrying interest commitments of 12 *per cent* - 12.75 *per cent* during the period from November 2007 to August 2009 for purchases. This resulted in avoidable interest payout of ₹ 25.97 lakh.

TELK replied (August 2011) that the Company was forced to open unsance LCs instead of sight LCs as the monopolistic suppliers insisted for the same. Further, the Company could persuade the suppliers to accept sight LCs from 2009 onwards and that lately the Company was making advance payments through RTGS mode to avoid interest.

The corrective action taken by the Company was appreciable.

- UEIL and SILK failed to transfer surplus funds lying in Current Accounts to Cash Credit Accounts which would have helped in avoiding extra interest expenditure of ₹ 11.96 lakh during the period 2007-2011.

About UEIL, Government (October 2011) stated that the funds parked in Current Accounts were received from Public Sector Restructuring and Internal Audit Board (RIAB) against specific undertaking that the same would not be diverted.

CC account being a standing arrangement for Working Capital, utilisation of Working Capital assistance received from RIAB to mitigate interest burden on CC account did not amount to diversion.

SILK replied (August 2011) that their units were geographically and functionally scattered and that they could not integrate the fund position of its units with the fund requirements which attributed to the loss.

The reply was not tenable because the Company should have developed an integrated information system to ensure effective fund management.

Non-compliance with terms and conditions of borrowings.

- CC arrangements opened by KTDFC with two SCBs stipulated that periodical financial statements and statements of debtors shall be furnished

by the borrower to the lender, failing which penal interest, limited to two *per cent* over and above the rate of interest would be levied. On persistent default by the Company (from 2007-08 onwards) in preparation and submission of statements agreed upon, the relevant penal clauses were invoked by the lenders which cost the Company Rs. 36.64 lakh by way of avoidable penal interest.

Government replied (August 2011) that the non-submission of financial statements to the banks was due to retrenchment of almost entire staff of the Company and also due to the delays associated with migration of data to new software. It was also stated that the cost of funds included penal interest charged by banks and the interest charged by the Company on loans were over and above the cost of funds.

Thus, the delay caused in submission of statement to banks resulted in the Company foregoing potential profit of ₹ 36.64 lakh.

Failure to minimise cost of borrowing

KTDFC had other issues of financial mismanagement also. It had CC arrangements with three banks but had no mechanism to ensure that CC limit of the bank offering lowest rate of interest was utilised first at any point of time. We worked out that the Company could have minimised their borrowing cost by ₹ 16.60 lakh by capitalising on the rate differentials, but failed to do so (Annexure 20)

Similarly, surplus funds (credit balances) were maintained in CC accounts with certain banks while deficit (debit balance) existed in CC account with other banks during the corresponding period. Non-settlement of these deficits resulted in avoidable interest payment of ₹ 2.84 lakh.

Government replied (August 2011), that absence of qualified staff in its finance wing coupled with shortage of staff affected the financial arrangements of the Company adversely. It was further added that the Company did not incur any loss as it gives loans at a rate higher than the rate charged by its banks.

The reply was not tenable as the lapses pointed out persisted up to 2010-11 and staffing issues were sorted out by the Company in 2007-08. Prudent financial management demanded minimisation of cost and not covering up the inefficiency by passing on the burden to the unsuspecting customers.

Payment of Taxes & Duties and Guarantee Commission

Payment of Advance Income Tax

As per Section 234 B and C of the Income Tax (IT) Act, 1961, a corporate assessee was to pay 90 *per cent* of the tax in advance when the amount of Tax payable exceeds ten thousand rupees per annum. The Advance Tax was payable in four quarterly installments between June and March of the corresponding financial year. Excess payment of Advance Tax earned an interest of 6.00 *per cent* per annum until refund was received. It was observed that refund of tax took one to two years to materialise. Similarly for failure to pay instalments of Advance Tax by specified dates, interest was chargeable at the rate of one *per cent* per month (Section 234 C of the Act *ibid*). However, any shortfall in payment of Advance Tax in earlier instalments could be offset by making additional payment during last installment due on 15 March, by which time, Tax liability for the year would be certain. The duration of penalty could thus be restricted to a period not exceeding nine months.

We observed nine instances of overpayment ranging from ₹ 0.10 crore to ₹ 15.57 crore in six companies due to assessment of tax based on budgeted profit rather than working out approximate income based on income of previous 11.5 months, a methodology which had already been recommended by the Committee on Public Undertakings (CoPU). We worked out the associated interest loss at ₹ 3.25 crore (Annexure 21)

To estimate the profit accurately, Projected Profit and Loss Account was to be prepared on quarterly basis taking into account Purchase and Sales budgets duly revised, ratio of expenditure to total sales and sales trend during the corresponding months in the previous years, if any. Absence of proper functional budgets or periodical revisions or non-preparation of projected Profit & Loss account on

quarterly basis led to wrong estimation of profit resulting in excess payment of Advance Tax.

It was observed in KSFE that the Tax Deducted at Source by banks for each quarter was not considered while ascertaining the tax payable for that quarter thereby resulting in over payment of Advance Income Tax.

KSFE replied (August 2011) that the criteria adopted for computing the Advance Tax Liability was based on the estimated profits as per budgets for the year, profitability trend as well as the payment of Advance Tax for the previous years. However, absence of an integrated real time information system and non-synchronised operation of different wings of the Company hampered timely-revision of estimates. Further, there was also demand from the Commissioner of Income Tax, Thrissur for remitting Tax at least equal to that which was remitted in the previous year (2006-07)

About UEIL, Government (August 2011) stated that owing to the change over to new accounting platform, Enterprise Resource Planning, the work of finalising accounts for the year was delayed and they could not come out with accurate figures.

KSIE admitted (August 2011) that, there was some excess payment of Advance Tax and stated that they would review and revise budgets periodically to minimise the Advance Tax payments to be made before 15 of March every year.

KSBC replied (August 2011) that, a higher income was estimated at the beginning of the year to avoid the penal interest of 12 *per cent* charged by IT Department for incorrect assessment. It was also stated that the rate of interest on excess Advance Tax offered by IT Department was higher than the average interest earned by the Company from Flexi Fixed Deposit Accounts. The reply was not acceptable as the rate offered by IT Department (six *per cent*) should have been compared with the FD rates offered by Treasury/Banks. The reply with regard to penal interest did not hold good as discussed earlier.

About KTDFC, Government replied (August 2011) that due to heavy arrears in finalisation of accounts coupled with unreliability of the accounting package, the

Company had been unable to make a reasonable estimation of the Advance Tax payments, but the Company admitted system lapses as the cause of excess payment of Advance Income Tax.

KMML while admitting (August 2011) the audit observation stated that the Company had changed to a daily profit monitoring system at present which reduces the chances of excess/short payments.

Payment of Income Tax

Income Tax Act does not admit all the expenses unless they comply with the provisions of the Act. Any payment of expense over and above ₹ 20,000 by way of cash rather than by bank would render those expenses inadmissible. The Act also provides for deduction of Tax at Source from expenses in case of consultancies, technical fee, etc., failing which the party liable to collect the Tax at source would have to bear Tax burden. The following companies did not exercise due diligence resulting in avoidable Tax burden to the tune of ₹ 44.69 lakh:

Name of Company	Particulars	Provision of IT Act	Avoidable payment of Income Tax (₹ in lakh)
KSBC	Due to non-claiming of allowable expenses such as interest/commission/professional fee etc. paid by the Company for which TDS was deducted	Section 40 (ia)	15.26
KSBC	Due to payment of expenses above ₹ 20000 in cash	Section 40 A (3)	11.99
KTDFC	Due to recognition of fictitious interest income during 2006-07	NA	14.44
KAMCO	Due to non-deduction of Tax at source from interest/commission/professional fee etc. paid by the Company	Section 40 (ia)	2.21
KMML	Due to payment of expenses above ₹ 20000 in cash	Section 40 A(3)	0.79
	Total		44.69

KSBC, KAMCO and KMML admitted their lapses and assured to ensure avoidance of such lapses in future.

About KTDFC, Government replied (August 2011) that recognition of interest on the amount spent on BOT project was in order and that the Company was entitled to operate the asset over a period of time to recoup the total expenditure incurred with return on investment through user charges namely rent.

The reply was not acceptable as there was no payment of interest by government. The Company could earn return on investment in the form of rent.

Payment of Service Tax/Excise Duty

- Though the service rendered by KSIE (Airport services) were taxable as per the relevant Finance Act, the Company failed to collect/remit Service Tax from the customers resulting in a liability of ₹ 10.24 lakh.

The Company replied (August 2011) that the Service Tax on facilitation charges (₹ 1.05 lakh) was receivable from the airlines. The uncollected Service Tax on unaccompanied baggage (₹ 9.20 lakh) was borne by the Company.

- As per Rule 3 of the CENVAT Credit Rules 2004, a manufacturer could utilise CENVAT credit against the payment of excise duty. But KMML did not utilise the entire CENVAT available to its credit during the period from April 2006 to February 2011 resulting in an interest loss of ₹ 44.33 lakh.

KMML replied (August 2011) that it had a dispute regarding eligibility of certain input credit with Excise Department and hence the CENVAT credit had been kept unutilised deliberately so as to avoid interest liability in the event of losing the dispute. The reply was not tenable. As per rules, interest liability existed even if the wrongly availed credit had not been utilised.

Payment of Guarantee Commission

KSPIFCL was liable to pay Guarantee Commission (GC) to the State Government at the rate of 0.75 *per cent* on the amount guaranteed by the State Government on loans raised by the Company. Any default in payment of GC would

attract penalty at the rate of 12 *per cent* per annum on amount defaulted. The delayed discharge of liability ranging from ₹1.02 crore to ₹5.64 crore for periods extending up to 600 days by the Company despite having sufficient funds resulted in avoidable liability of ₹1.03 crore as penal interest. Considering the interest realised from investment in FD, which was lower than the GC payable by 4 *per cent* to 8 *per cent*, the Company suffered interest loss of ₹41.33 lakh.

The Company admitted the situation and replied (April 2011) that they had approached Government to get the GC payable converted into equity participation of Government in the Company but was rejected (March 2010). A further proposal by the Company for waiver of penal interest was pending with the Government (June 2011).

Reply of Government on Companies except UEIL, KSFDC, KFL, KURDFC, TRKL, KTDFC and KLDB was awaited (November 2011).

[Audit paragraph 4.9 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March 2011]

The Notes furnished by Government on audit paragraph is given in Appendix II

2. The Committee observes that the Company had not revised the interest rate in tune with the increased cost of borrowings resulted on short realisation of interest ₹ 25.72 lakh, without considering the loan agreement which clearly indicates that the loans were sanctioned as floating loans with clear provisions for revision of interests. The Committee decided to discuss the issue in detail on the succeeding paras regarding the sanction and disbursement of loans.

3. When the Committee enquired about the reason for payment of excess amount of income tax, the witness replied that as the accounts were not finalised, Corporation remitted the advance Income Tax according to the transaction details at that time. The witness further replied that the excess amount paid as advance Income Tax had been refunded with interest.

Conclusion/Recommendations

4. The Committee is dissatisfied over the system of accounting and monitoring prevailed in the Corporation and reiterates its earlier recommendation that the income tax should be assessed by working out the approximate income based on income of previous 11.5 months. The Committee directs that such methodology should be strictly followed in future so as to minimise the instances of excess payment and also to avoid the payment of penal interests on income tax.

Sanction and Disbursement of Loans by Kerala Transport Development

Finance Corporation Limited

Introduction

Kerala Transport Development Finance Corporation Limited (Company) was incorporated in 1991 and registered with the Reserve Bank of India (RBI) as a Non-Banking Financial Company (NBFC). The main objective is to finance Kerala State Road Transport Corporation (KSRTC) for building up commercially viable infrastructural facilities and for the purpose of acquisition of transport vehicles and machinery. The Company also disburses other category loans viz, construction, housing, vehicle and personal loans and finances BOT projects.

The Company mobilises funds mainly through cash credit from banks and deposit from public. During the five years up to March 2012, the Company disbursed ₹ 1377.62 crore (Annexure 31). The total loan outstanding as on 31 March 2012 was ₹ 1014.70 crore (KSRTC ₹ 899.11 crore, construction loan ₹ 95.71 crore, housing loan ₹ 16.94 crore, vehicle loan ₹ 2.90 crore and personal loan ₹ 0.04 crore). Thus the loan to KSRTC constituted 90.70 *per cent* of the total loan disbursed. Construction and housing loans constituted 92.71 *per cent* and 2.37 *per cent* respectively of the other loans distributed during the period of five years. Construction loans comprised loans to builders/promoters for housing projects, hotels and commercial complexes. The Company sanctioned both construction and housing loans under the Aiswarya Griha Housing Finance Scheme.

We analysed the appraisal, sanction, disbursement and recovery of Construction and Housing loans during the period 2007-08 to 2011-12 in Head office and Thiruvananthapuram branch.

The major findings are discussed in succeeding paragraphs:

Lack of Guidelines for Construction loans

The Company did not have codified procedure/guidelines for appraisal, sanction and disbursement of construction loan. Procedures for the loans were, however, issued in piece meal in various circulars for guidance.

The Company stated (August 2012) that it followed the guidelines of Aiswarya Griha Housing Finance Scheme for these loans also. Construction loans were sanctioned based on financial viability and credit worthiness of the applicant/company and also considered the land value.

The fact remained that the Company sanctioned/disbursed construction loans on a case to case basis. Absence of codified guidelines for construction loan led to deficiencies in sanction, disbursement and recovery as summarised below:

Sl. No.	Nature of failure	No. of cases	Impact
1	Failure to ensure credit worthiness	35	Loans amounting to ₹ 83.14 crore
2	Non-compliance with eligibility	1	Repayment obligation beyond 50 <i>per cent</i> of monthly income– ₹ 2 crore
		3	Loan to NRI- ₹ 7.51 crore
3	Non-compliance with conditions of take over	2	Enhancement loan beyond maximum limit –₹5.11 crore
4	Failure to ensure capacity, sufficient security, asset creation, etc	1	Loan of ₹ 20 crore
5	Non-compliance with Board decision	1	Charged fixed rate instead of floating rate– ₹ 5 crore
6	Disbursement of loans	7	Disbursement without ensuring initial investment and utilisation – ₹ 32.20 crore

We observed that though construction loans were sanctioned under the broad frame work of Aiswarya Griha Housing Scheme, the competent authority took various decisions involving deviation from the scheme without obtaining concurrence of the Board.

The deficiencies noticed at various stages of appraisal, sanction, disbursement, monitoring, recovery are discussed in succeeding paragraphs.

Sanction and Disbursement

Failure to ensure credit worthiness of loanee

The terms and conditions of the Aiswarya Griha Housing Finance scheme prescribe to ensure the credit worthiness of the loanee before sanctioning of the loan. We, in 35 cases amounting to ₹ 83.14 crore test checked, observed that the Company did not ensure the repaying capacity of the applicant. As a result, nine loans amounting to ₹ 7.02 crore as on 31 August 2012 were under default.

Government replied (September 2012) that loans were sanctioned after getting valuation, legal and inspection report from empanelled Engineers, Advocates and from verification agencies.

The fact was that the above mentioned loans were sanctioned without ensuring credit worthiness which ultimately resulted in default in repayment of loans. The verification agents did not consider existing liabilities of the loanees while recommending for sanction of loan in two cases (SI no. 1 and 2 of Annexure 34) and in one case (Granttech Builders) the Company did not consider the weakness pointed out by the credit appraisal agency.

Non-compliance with eligibility criteria

The terms and conditions of Aishwarya Griha Housing Finance Scheme of the Company and RBI Exchange Control Manual stipulates the eligibility criteria for sanctioning of loan. We observed non-compliance of these guidelines as detailed below:

- As per the terms and conditions, the repayment obligation (EMI) of the borrower should be restricted to 50 *per cent* of the monthly income. In an instance (Power link Builders), a construction loan of ₹ 2 crore with sixty EMI of ₹ 2.16 lakh was sanctioned (disbursed ₹ 1crore) in violation of the above condition considering the monthly income of ₹ 0.90 lakh. We observed that at the time of sanctioning the above loan, two housing loans amounting to ₹ 90 lakh with total EMI of ₹ 0.74 lakh availed by the applicants were outstanding. An amount of ₹ 49.78 lakh (August 2012) was under default.
- As per RBI Exchange Control Manual, loans to non-resident persons of Indian nationality/origin should not be sanctioned for investment in real estate business, dealing in land and other immovable property, for commercial purposes either singly or in association with others. The Company, contrary to the said direction sanctioned loans amounting to ₹ 7.51 crore to three NRIs (SI no. 1, 2 and 4 of Annexure 32). Out of these, two loans amounting to ₹ 84.28 lakh were in default. Of the above, a loan of

₹ 4.31 crore was sanctioned (December 2006) to be repaid in 72 installments though the monthly salary of the applicant was ₹ 18 lakh with a liability of ₹ 6 crore. Further being a NRI, the Company was not in a position to recover salary given by foreign employer though the loan was under default.

Government stated that the loans were sanctioned based on the financial viability and credit worthiness of the applicant/company and also by considering the land value.

The reply was not correct as the sanctioning of loans to NRIs for construction of real estate/commercial purpose violated the provisions of RBI Exchange Control Manual and loans were sanctioned under Aiswarya Griha Housing Finance Scheme which was not meant for this purpose.

Non-compliance with conditions of takeover

The Company in addition to sanctioning of loan takes over loan disbursed by other financial institutions. As per the terms and conditions of Aiswarya Griha Housing Finance Scheme, the amount that can be enhanced was limited to 25 per cent of the takeover. If further top ups were required then it would be sanctioned at a later stage after evaluating the progress of construction. We noticed that:

- While taking over a loan of ₹ 1.37 crore (Paramount Studio) the Company sanctioned (July 2006) enhancement of ₹ 83.42 lakh (61 per cent) in violation of the above limit. The loanee defaulted installments amounting to ₹ 51.51 lakh (August 2012) besides the outstanding balance of ₹ 1.17 crore.
- While taking over a loan of ₹ 71.76 lakh (Venugopal & Bindu Venugopal) the Company sanctioned (August 2008) ₹ 5 crore including enhancement of ₹ 4.28 crore (596 per cent). The loanee defaulted 12 installments amounting to ₹ 90.87 lakh as on March 2011. Meanwhile the Company sanctioned (May 2011), an additional loan of ₹ 2 crore as top up and the same was disbursed by adjusting defaulted installments with penal interest (₹ 1 crore).

Thus the Company violated its guidelines/procedures to favour the loanees.

Government replied that there were no specific norms regarding the amount that could be sanctioned in the case of construction loan by take over from banks/financial institutions.

The reply was not correct as the loans were sanctioned under Aishwarya Griha Housing Finance Scheme, terms and conditions of which limit the amount of enhancement to 25 per cent.

Failure to ensure promoter's contribution/repaying capacity

For timely completion and prompt repayment of loans the Company should ensure the repaying capacity of the loanee and the prescribed promoter's contribution (10 to 20 per cent of the project cost) before releasing the loan amount. Further, adequate security to alleviate risk for the loan amount has also to be obtained. The Company sanctioned (April / October 2010) two loans of ₹ 10 crore each for construction of residential villa – Green city phase I and II to Grandtech Builders and Developers Pvt Ltd (represented through its Directors), a company with a share capital of only ₹ 21.58 lakh. However, the amount disbursed in second loan was ₹ 4 crore. We noticed that:

- The Managing Director was empowered to sanction loan up to ₹ 10 crore only. The MD, however, sanctioned two loans of ₹ 10 crore each within a period of 6 months to the same firm to keep it within the delegated power;
- The credit worthiness and repaying capacity of the borrower was uncertain as the firm was newly incorporated and promoters had no previous experience in construction field;
- Land offered as security for the loan was reckoned (March 2010) at an inflated value of ₹ 3.64 crore as against the purchase (February 2010) cost of ₹ 28.50 lakh;
- The loan carried an EMI of ₹ 48.01 lakh; whereas the monthly income of the applicants was left blank. However, the first applicant in his personal details had shown an annual income of ₹ 6 lakh;

- The Company released first installment of ₹ 5 crore on 8 April 2010 though the land offered as security was valued at ₹ 3.64 crore only. The subsequent installments were released (₹ 2 crore on 27 May 2010 and ₹ 3 crore on 28 June 2010) within a gap of two months without ascertaining asset creation corresponding to the previous disbursements;
- For releasing subsequent installments, asset created out of previous disbursement were reckoned as security. The Company on inspection found that construction valuing ₹ 9.20 crore (March 2012) was completed as against the total cost of construction of ₹ 17.22 crore. Thus the loan was left without adequate security.
- The Company sanctioned (15 October 2010) another loan of ₹ 10 crore to the same borrower at a time when the third installment (due on 05 October 2010) of the previous loan was under default and released (15 October 2010) ₹ 2 crore as first installment. The borrower utilised a portion of the amount for remitting the third overdue installment of ₹ 48.01 lakh with penal charges of the first loan. The second installment (₹ 2 crore) was released on 26 October 2010 after a period of 10 days without ensuring utilisation of the first installment for asset creation. The project was yet to commence.
- The borrower defaulted repayment from thirteenth installment (August 2011) onwards. Total overdue amount was ₹ 3.15 crore (August 2012) besides outstanding loan amount of ₹ 5.21 crore.

Government stated that the loans were sanctioned based on the recommendations in report of the credit appraisal agency. Further, the Company considered the loans as two different loans since these were sanctioned on the mortgage of two different properties.

The reply was not factual as the recommendation of the credit appraiser was subject to valuation of property. Further, it was clearly mentioned as weakness in the appraisal report that the company was a new one and it was their first project. The second loan was sanctioned within a period of six months without ensuring the utilisation and prompt repayment of the loan disbursed earlier.

Sanctioning of loans at interest rate below cost of borrowings

For the profitable operation of the Company the rate of interest on loans should be fixed with a margin over the cost of borrowings. During the year 2005-06, the cost of borrowings of the Company was 9.99 *per cent*. The Company, however, reduced (w.e.f 16 January 2006) the interest rate for housing loans by 0.75 *per cent* as discussed below. Subsequently, after four months the Company decided (09 May 2006) to restore the original rate w.e.f 16 May 2006 and to allow the pre-revised rate for all loans sanctioned till 15 May 2006 including those pending disbursements.

We observed that:

- The Company sanctioned 68 loans at the reduced rate of interest during the above four months period.
- Of the above, 38 loans amounting to ₹ 2.57 crore were sanctioned during 9 to 16 May 2006 without complying with necessary formalities. As the rate of interest during this period was fixed, it resulted in estimated revenue loss of ₹ 21.72 lakh (sl no.1 to 10 of Annexure 33) in ten cases test checked.
- Out of the above, in seven loans amounting to ₹ 50.50 lakh, the date of sanction of loan was seen corrected as 15 May 2006.
- Though the higher rate was applicable w.e.f 16 May 2006, the Company sanctioned four loans amounting to ₹ 0.38 crore during 16 to 23 May 2006 at pre-revised rates resulting in forgone revenue of ₹ 4.54 lakh (sl no.11 to 14 of Annexure 33).
- The Company sanctioned loans (₹ 60 lakh and ₹ 30 lakh) to the Managing partners of canvassing and verification agents (M/s Power link and M/s H-Work net) based on their own verification report.
- Out of 42 loans disbursed as above, two loans amounting to ₹ 45.53 lakh were defaulted.

Government, in their reply stated that they had charged the rate of interest as per the direction of the Board.

Non-compliance of Board Decisions

The Board decided to charge floating rate of interest for all construction and project loans w.e.f 4 July 2008. The Company, while sanctioning (16 May 2011) top up loan of ₹ 2 crore to Venugopal and Bindu Venugopal changed interest rate of first loan (₹ 5 crore sanctioned on 8 August 2008) from floating rate to fixed for three years and then floating rate resulting in benefit of ₹. 29.54 lakh to the loanee.

Government while admitting this as a mistake, stated that the interest was being reworked and loanee being intimated to remit the balance amount.

Disbursement of Loans

To safeguard the interest of the Company and to weed out non-serious promoters, the terms and conditions stipulates disbursement of 30 *per cent* of the loan on executing necessary documents including creation of mortgage and after the borrower has expended 30 *per cent* of his share (margin) in the construction. The Company, however, disbursed to seven loanees the initial installment (₹ 7.04 crore) without ensuring the investment of 30 *per cent* share and subsequent installments (₹ 25.16 crore) before utilisation of the amount already disbursed (Sl no.2 to 8 of Annexure 32).

Government replied that construction loans were released in installments based on nature of projects and conditions of normal housing loans were not applicable to construction loans.

The reply was not acceptable as the Company had not formulated any separate rules for construction loans.

Monitoring

Post disbursement monitoring is of vital importance for ensuring utilisation of loan for the purpose for which it was sanctioned and the project was progressing as per schedule. We observed that:

- The Company did not have any institutionalised mechanism for post disbursement monitoring of the progress (physical and financial) achieved. Hence the Company also could not ensure promoters contribution and asset creation before release of subsequent installments as already mentioned.
- As per special condition (a) of Annexure H to agreement, the collateral/ additional securities should not be released during the currency of loan. During 2008-09 the Company, however, in a case as per the request of loanee released the collateral security of 19 cents of land valued at ₹ 1.71crore leaving only a security of 17 cents valuing ₹ 1.36 crore.

Government replied that the collateral security was released considering the completion of the project and its present value of ₹ 10 crore. This, however, was in violation of the terms and conditions of the agreement.

Recovery

Recovery of loan as per repayment schedule is essential to safeguard the financial interest of the Company. Slackness in recovery may lead to increased dependence on borrowings for disbursement of fresh loans. We, however, noticed that

- The Company delayed the preparation and communication of the repayment schedule to loanee. Further post dated cheques collected to ensure prompt repayment were not presented for collection. This resulted in non-recovery of ₹ 0.94 crore in respect of two loans (Sl. no. 1 and 2 of Annexure 34).
- The Company did not revise the interest rates for construction and housing loans in accordance with the loan agreement and Board decision despite the acceptance by the borrowers resulting in revenue loss of Rs. 0.31crore to the Company in respect of three loans (Sl. no.1, 4 and 5 of Annexure 34).
- The Company released (January 2008) the mortgage created in respect of two loanees, valuing ₹ 3.99 crore, enabling them to sell the 49 built-up apartments/villas in two projects test checked. We observed that the Company, however, did not recover the proportionate loan amount of ₹ 0.56 crore (sl no. 2 and 3 of Annexure 34) in respect of these apartments/villas

before releasing the mortgage to safeguard its interest. Both the loans amounting to ₹ 3.65 crore were under default.

Further, the Company did not obtain title deed of the mortgaged property from one of the above loanees. This enabled the loanee to sell 18 as against 11 apartments for which the Company had issued No Objection Certificate. The value of the seven apartments thus sold by the loanee without obtaining NOC amounted to ₹ 0.61crore.

Government replied that the repayment schedule was not forwarded to the loanee in time mainly due to inadequate skilled staff in the Branch office and that the interest on loans was charged as per Board decision.

The reply indicated that the internal control and monitoring mechanism was poor. Further there was no rationale behind Board's wavering decision for charging the interest which would ultimately result in loss of revenue to the Company.

Government further stated that necessary directions had been given to the MD to take urgent action for avoiding the shortcomings in future and to initiate recovery action in cases of default.

[Audit Paragraph 4.5 contained in the report of the Comptroller and Auditor General of India for the year ended 31st March 2012]

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

5. The Committee sought explanation on the issue of disbursement of huge amount of construction loans to private builders which was against the declared objective of the Corporation and enquired whether there was any provision in the bye-law of KTDFC to issue loans for personal housing purposes. The witness replied that the personal housing loans were sanctioned under the Aiswarya Griha Housing finance Scheme and such loans would be issued only after getting the approval from the Board. The witness replied that at present the sanctioning of construction loans had been dropped temporarily as per direction of the Board and a new comprehensive set of term and conditions for sanctioning the construction loans was framed by the internal auditor of KTDFC M/s Varma & Varma.

6. To the queries of the Committee regarding the release of No Objection Certificates to the loanee for selling the villas before the recovery of defaulted amount, the witness explained that the NOC's would be released on the condition that the loanee should remit the amount in the form of EMIs proportionate to the value of such villas and also subject to the condition that the repayment would be correct as per the repayment schedule at that time. In the case of defaulted EMI's NOC's would be issued only according to the payment of outstanding interest to correct the EMI.

7. The committee disagreed with the above contention of the witness and pointed out that when the company had initiated Revenue Recovery action against a loanee to recover the defaulted amount, 40 NOC's were also be issued to the same loanee and enquired the present position in the matter.

8. The witness informed that Revenue Recovery proceedings had already been taken to recover the total outstanding loan amount and accordingly, Grantech Builders had remitted ₹ 2 crore out of ₹ 10 crore sanctioned to them in order to construct 106 villas. Penal interest @ 18 % was levied from them.

9. When the Committee enquired about the promptness in the repayment of loans by KSRTC, and the higher rate of interest levied from them the witness

informed that from September 2011, the rate of interest charged from KSRTC was reduced whereas the same was increased for the loans disbursed to others. The witness further informed that the interest levied from KSRTC had to be increased because the loans disbursed to them was raised from the fund received from the external agencies at exorbitant rate of interest.

10. To the query of Committee about the action taken with respect to mismanagement in the Corporation, the witness informed that action was taken and liability had already been fixed against the Assistant Branch Manager. Moreover when the AG had pointed out that the Managing Director being the Sanctioning authority, he had to comply the rules and regulations to safeguard the financial interest of the Company, the Committee enquired the reason for not taking action against the then Managing Director. The witness informed that the Government had directed to warn the former Managing Director and she is on deputation since 2006-07. Even though Vigilance enquiry had registered in one or two cases, action had not been taken against those who retired voluntarily.

11. To the queries of the Committee regarding the termination of some employees the witness informed that in KTDFC 106 persons were appointed as Computer operators and Assistants on daily wage basis, and since their appointment was without proper advertisement they were later terminated. But they filed a case and as per the direction of the Court they were re-appointed for one month. During that period they damaged the computers and destroyed the files, that adversely affected the functioning of the Corporation and the finalisation of accounts were disrupted. At present all the objection raised by the Accountant General had been rectified.

Conclusion/Recommendation

12. The committee is surprised to note that Corporation had disbursed huge amount of loans for construction purposes even in the absence of codified guidelines for Construction Loans. The Committee remarks that the lack of a comprehensive set of policies for the sanctioning of high value loans contributed to the deficiencies in disbursement and recovery of loans. The Committee expresses its grave concern over

the fact that the Corporation did not take any measures to frame separate rules for issuing construction/Project loans before introducing such loans. Hence the Committee recommends to formulate secure mechanism and to ensure that project/constructions loans shall be sanctioned only to genuine and credible applicants. The Committee also directs that due diligent care should be taken on processing and sanctioning high value loans.

13. The Committee is dissatisfied with the contention of the witness regarding the release of No Objection certificates to the loanee for selling the villas before the recovery of defaulted amount and points out that the Corporation could not achieve its ultimate objective through Revenue Recovery Proceedings, if the Corporation initiates Revenue Recovery Proceedings and issues No Objection Certificates to the same defaulter concurrently for selling already constructed Villas. The Committee feels that whether there is any malafide intention on the part of the Corporation officials to initiate Recovery Proceedings against a defaulter. The Committee also finds that the Corporation had been unduly favouring the private builders by disbursing the initial and the subsequent installments of loans against the declared objectives of the Corporation. The Committee further points out that there was mismanagement and hence the committee decided to recommend that stringent action should be taken against the officer who had played hard balls against the interest of the Company.

14. The Committee observes that the mechanism for monitoring post disbursement activity was very pitiable in the Corporation. The Committee is of the view that the overall functioning of the corporation was not satisfactory with respect to remittances. In order to safeguard the financial interest of Corporation stringent actions are to be taken to ensure the prompt and timely recovery of loans.

15. The Committee recommends that the Corporation should be vigilant in pursuing action against the unlawful practices that had prevailed in the Corporation.

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

APPENDIX – I

SUMMARY OF MAIN CONCLUSIONS / RECOMMENDATIONS

Serial No.	Paragraph No.	Department Concerned	Conclusions / Recommendations
1.	1	Transport	No Comments.
2.	4	Transport	The Committee is dissatisfied over the system of accounting and monitoring prevailed in the Corporation and reiterates its earlier recommendation that the income tax should be assessed by working out the approximate income based on income of previous 11.5 months. The Committee directs that such methodology should be strictly followed in future so as to minimise the instances of excess payment and also to avoid the payment of penal interests on income tax.
3.	12	Transport	The committee is surprised to note that Corporation had disbursed huge amount of loans for construction purposes even in the absence of codified guidelines for Construction Loans. The Committee remarks that the lack of a comprehensive set of policies for the sanctioning of high value loans contributed to the deficiencies in disbursement and recovery of loans. The Committee expresses its grave concern over the fact that the Corporation did not take any measures to frame separate rules for issuing construction/Project loans before introducing such loans. Hence the Committee recommends to formulate secure mechanism and to ensure that project/ constructions loans shall

Serial No.	Paragraph No.	Department Concerned	Conclusions / Recommendations
			be sanctioned only to genuine and credible applicants. The Committee also directs that due diligent care should be taken on processing and sanctioning high value loans.
4.	13	Transport	<p>The Committee is dissatisfied with the contention of the witness regarding the release of No Objection certificates to the loanee for selling the villas before the recovery of defaulted amount and points out that the Corporation could not achieve its ultimate objective through Revenue Recovery Proceedings, if the Corporation initiates Revenue Recovery Proceedings and issues No Objection Certificates to the same defaulter concurrently for selling already constructed Villas. The Committee feels that whether there is any malafide intention on the part of the Corporation officials to initiate Recovery Proceedings against a defaulter. The Committee also finds that the Corporation had been unduly favouring the private builders by disbursing the initial and the subsequent installments of loans against the declared objectives of the Corporation. The Committee further points out that there was mismanagement and hence the committee decided to recommend that stringent action should be taken against the officer who had played hard balls against the interest of the Company.</p>

Serial No.	Paragraph No.	Department Concerned	Conclusions / Recommendations
5.	14	Transport	The Committee observes that the mechanism for monitoring post disbursement activity was very pitiable in the Corporation. The Committee is of the view that the overall functioning of the corporation was not satisfactory with respect to remittances. In order to safeguard the financial interest of Corporation stringent actions are to be taken to ensure the prompt and timely recovery of loans.
6.	15	Transport	The Committee recommends that the Corporation should be vigilant in pursuing action against the unlawful practices that had prevailed in the Corporation.

APPENDIX – II

NOTES FURNISHED BY GOVERNMENT ON AUDIT PARAGRAPHS

Serial No.	Audit Paragraph	Reply furnished by Government
(1)	(2)	(3)
1	4.5 (2009-2010)	<p>Apart from petty expenses, KTDFC is remitting all its expenditure through cheque and RTGS transfer. The payments are made through the Current Account maintained by the company for H.O and Branch. Hence KTDFC has to maintain sufficient balance in the current accounts for meeting the payment against cheque issued from current account especially the payments relating to maturity proceeds for Fixed Deposits and Fixed Deposit Interest Warrants/cheques issued by KTDFC. Also shortage of skilled staff for the above period due to the sudden retrenchment of 106 employees, non availability and inadequacy of the online banking transaction facility, lack of monitoring of the bank statements daily have also affected the functioning. However, the contention of audit that KTDFC could have saved ₹ 0.68 Crore towards finance charge is not correct when the whole mechanism of fund transaction is viewed with respect to its basic function of borrowing and lending.</p>

(1)	(2)	(3)
		<p>Also standing instructions were given to the Bank to automatically transfer the amount over and above the minimum balance fixed daily. Now the position is being reviewed every day by KTDFC and necessary fund transfer is effected.</p>
2	4.9 (2010-2011)	<p>LOAN DISBURSEMENT</p> <p>In respect of Construction/project loans sanctioned before 16-5-2006, the rate of interest charged was fixed. The three loans referred to in the audit para was sanctioned before 16-5-2006 at the rate of interest of 7.75% fixed. However the KTDFC Board in its meeting held on 4-7-2008 resolved that thereafter all construction/ project/ house loan shall have only floating rates. The three loanees noted in the audit para filed objection against the decision. In order to avoid litigation and delay in realisation, through a process of consensus, the KTDFC Board vide Agenda item No. 7/102 dated 6-11-2008 directed further to get the interest rate fixed at 12.5% and to charge the same with effect from the date specified in the first notice issued to the loanees and later on the loans in question should be brought under floating interest rate.</p>

(1)	(2)	(3)
		<p>All the three loans in question were sanctioned with fixed interest rates and changing the terms of loans immediately without their consent could have lead to litigation which may affect the trust and credibility of KTDFC as a lender in the financial market. The contention of the audit that these loans were floating loans is incorrect. In the KTDFC Board decision dated 9-5-2006, it was resolved that for all housing loans i,e personal housing and construction housing loans sanctioned till 15-5-2006 and pending disbursement, the earlier interest will be applicable. So, the loans mentioned in the audit para are fixed interest bearing loans and no loss has occurred to KTDFC.</p> <p>Borrowings</p> <p>1. Non-compliance with terms and conditions of borrowings</p> <p>The annual accounts of KTDFC for 2006-07 was adopted by AGM on 31-1-2009, that of 2007-08 on 15-9-2010 and that of 2008-09 on 9-4-2012. The non submission of accounts for the year 2007-08 was mainly due to the termination of 106 employees from the service of KTDFC. After the</p>

(1)	(2)	(3)
		<p>termination, there was no person to handle the accounts and data for some period was not captured in the system. There was a near vacuum in human resources to perform the function including accounting during the year 2007 and rectifying the omissions in accounting of data during that crisis period took considerable time and effort.</p> <p>The funds availed from banks especially for the year 2009-10 were fully utilised on the basis of cost of funds of KTDFC. Therefore the cost of fund will also include penal interest charged by the Bank from time to time. So also, there won't be any financial loss to the corporation as the interests charged on the loans were over and above the cost of funds of KTDFC.</p> <p>The Board approved accounts were sent to the bank to reduce the interest rate. Consequently the banks have reduced the rate of interest on Cash Credit to 14%.</p> <p>Since there was insufficient skilled manpower for the accounting work to KTDFC the same was outsourced for the years 2008-09, 2009-10 and</p>

(1)	(2)	(3)
		<p>2010-11. KTDFC has taken timely measures to finalise the accounts and the delay in this regard was beyond the control of the management. It is expected that the entire arrears in Accounts will be cleared by December 2012.</p> <p>2. Failure to minimise cost of borrowing</p> <p>It may be noted that there was retrenchment of 106 employees in KTDFC. This resulted in a situation that affected the normal duties in the day to day financial management that has to be done.</p> <p>Earlier the financial management of the company did have a system to assess the cash requirement on a daily basis and to find out balance available in the different accounts of KTDFC and thereby effectively utilize the surplus cash. Due to the peculiar situation the company was facing on account of the retrenchment of 106 irregular recruited employees of the company and following the strike by the employees, the company could not achieve business as per its usual expectations. The company do not have qualified staff in the Finance Wing to deal with each situation. This coupled with shortage of staff</p>

(1)	(2)	(3)
		<p>affected the financial arrangements. Even though the company used funds from SBT it will not cause any loss because KTDFC gives loans to KSRTC at a rate which is 0.50% above the cost of funds of KTDFC. Now the Company is following a prudent financial management thereby ensuring that surplus funds do not get parked in non-interest bearing accounts.</p> <p>Payment of Taxes & Duties and Guarantee Commission</p> <p>Payment of advance income tax</p> <p>For the financial year 2006-07 the due dates for remittance of advance tax were 15th July 2006, 15th September 2006, 15th December 2006 and 15th March 2007. The accounts of the company were in arrears for the past many years mainly due to the incompleteness of the data generated by the accounting software. It usually takes about 10 to 12 months from the date of closure of financial year to arrive at a fair view of the financial performance of the company. In such a context, the company has been following the practice of estimating its advance tax liability on the basis of</p>

(1)	(2)	(3)								
		<p>the trend of past performance combined with the Trial Balance data generated from the accounting system.</p> <p>In 2006-07, the latest finalised account available was financial year 2004-05. The taxable income of the company for the proceeding finalised years that were available in 2006-07 is given below,</p> <table border="1" data-bbox="649 869 1318 1100"> <thead> <tr> <th data-bbox="649 869 961 926">Financial Year</th> <th data-bbox="961 869 1318 926">Taxable Income</th> </tr> </thead> <tbody> <tr> <td data-bbox="649 926 961 982">2002-03</td> <td data-bbox="961 926 1318 982">₹ 3,94,88,670</td> </tr> <tr> <td data-bbox="649 982 961 1039">2003-04</td> <td data-bbox="961 982 1318 1039">₹ 3,34,07,539</td> </tr> <tr> <td data-bbox="649 1039 961 1100">2004-05</td> <td data-bbox="961 1039 1318 1100">₹ 4,05,81,880</td> </tr> </tbody> </table> <p>Based on the estimated interest income and TB generated from the accounting system and also considering the impact of deployment of fund for the new projects of Trans Towers, the company could assess that the income of the company is on a decreasing trend. Accordingly, based on the available information, the income was estimated at ₹ 216.54 lakhs and the advance tax was remitted accordingly.</p> <p>The accounts of financial year 2006-07 could be finalised only by September 2008, due to the</p>	Financial Year	Taxable Income	2002-03	₹ 3,94,88,670	2003-04	₹ 3,34,07,539	2004-05	₹ 4,05,81,880
Financial Year	Taxable Income									
2002-03	₹ 3,94,88,670									
2003-04	₹ 3,34,07,539									
2004-05	₹ 4,05,81,880									

(1)	(2)	(3)
		<p>obvious reasons of termination of the majority of staff, all on a sudden. And, only in 2008, company could make out that the profit for the financial year 2006-07 is too low compared to the previous years.</p> <p>Though the management could recognized the fact that the accounting package of the company is unable to provide the reasonable information for the decisions on advance tax or other performance linked decisions and initiated the process of development of an integrated ER package, due to the huge volume and geographical spread of the transactions and intricacies involved in the treatment of transactions, the development of software got delayed and the situation got further aggravated due to the termination of irregularity appointed staff in February 2007.</p> <p>Till December 2007, company has been following the practice of getting the advance tax computed by the consultants by providing with them the estimate of income, TB and accounts of preceding years. KTDFC had to estimate the income for financial year 2008-09 based on the data then available and remit the tax. The fact that</p>

(1)	(2)	(3)
		<p>the audit of accounts of financial year 2008-09 was completed only in 12th September 2011 will clearly demonstrate the situation that prevailed during that year.</p> <p>However for the assessment year 2009-10 (Financial year 2008-09), the Income Tax Department has refunded an amount of ₹ 1,10,07,780/- which include interest payable to KTDFC amounting to ₹ 11,79,408/-.</p> <p>Payment of Income Tax</p> <p>KTDFC has invested an amount of ₹19.88 crores which include the borrowing cost capitalised amounting to ₹ 1.26 crores. Out of this assets costing ₹ 3.54 crores have been treated as the fixed assets of the company based on the recommendation of the project team and the balance ₹16.34 crores has been shown as loan to the government. As per the related Government Order the company will be housed in the 6th floor of the building and the remaining floors will be rented/leased out. Since the investment made in Trans Tower's is from the own funds of KTDFC the charging of interest @ 10.5% on the loan portion is in order as the company has to get return</p>

(1)	(2)	(3)
		<p>on its investment. In the G.O. (Ms) No.8/2003/Tran dated:28-1-2003 it is specifically stated that the KTDFC is entitled to realise the entire cost of the project and return from the investment of KTDFC. KTDFC has recognised return on investment @ 10.5% which is prudent from financial point of view. The contention is the audit that there is uncertainty over its realisability/collectivity is not correct since KTDFC is entitled to operate the asset over a period of time in order to recoup the total expenditure incurred with return on investment through used charges namely rent. The income recognised is not fictitious due to the reasons stated above. The fixation of BOT amount and BOT period has not been finalised. This is due to the fact that the total cost of the building has to be apportioned between KTDFC and Motor Vehicle Department.</p> <p>However based on the observation of audit and in consultation with auditors, the Company has discontinued to recognise the interest income from the year 2008-09 onwards subject to final orders to be issued by Government in this regard.</p>

(1)	(2)	(3)
3	4.5 (2011-12)	<p>Sanction and Disbursement of Loans by Kerala Transport Development Finance Corporation Limited</p> <p>1. Introduction</p> <p>Kerala Transport Development Finance Corporation Limited (KTDFC) is a Non Banking Financial Company registered under the Companies Act, 1956 as well as under Section 45-IA of the Reserve Bank of India Act, 1934. It was incorporated in 1991 and its present functions vary from providing loans to KSRTC and other sectors to the construction of buildings on BOT basis. KTDFC mobilizes funds mainly through fixed deposits from public and cash credit facilities with banks. As per the provisional accounts, the total loan outstanding as on 31-3-2012 was ₹ 1040.1 Crores (unaudited) [KSRTC ₹ 904.82 Crores, Construction/Project Loans ₹ 100.81 Crores (including interest and other charges), House Loans ₹ 18.13 Crores, Vehicle & Personal Loans ₹ 16.34 Crores].</p> <p>2. Lack of Guidelines for Construction loans</p> <p>The Board of Directors of KTDFC in its 75th meeting held on 18-2-2005 vide Agenda Item No.1346 approved the House Loan Scheme viz.</p>

(1)	(2)	(3)
		<p>‘Aiswarya Griha Housing Finance Scheme’. KTDFC accordingly launched the scheme in 2005 for providing personal house loans mainly for the following purposes:</p> <ol style="list-style-type: none"> 1. Purchase or construction of house, 2. Purchase or construction of flat, 3. Refinance to the existing house which has no liability at all. 4. Purchase of land/plot and then construction of house/building or purchase of land with building. 5. Take over of house/flat/apartment/building etc from other financial institutions the security of which loan has been extended by other financial institutions. 6. Repairs/Renovation/Addition/Alteration/Upgradation/Improvement to the existing house/building. <p>So far as the sanctioning of Construction loans are concerned, the same was seen launched by KTDFC in 2006 on the basis of the decision taken by the Board of Directors of KTDFC in its 81st meeting held on 23-2-2006 vice Agenda Item No.1527 by confirmation of Circular Resolution</p>

(1)	(2)	(3)
		<p>dated 7-2-2006 with the captioned subject 'Interest Rate of Loan Scheme of the Company other than for personal housing purposes'. The general terms and conditions of disbursement of instalments in Housing Loans will not <i>ipso facto</i> be applicable in Construction Loans. For example, in the terms and conditions for house loans under 'Aiswarya Griha Housing Finance Scheme', there is a condition that the second instalment will be released at 40% of the loan amount when the construction of the building reaches the plinth level. It can be seen that such conditions cannot at all be made applicable in construction loans for the construction of multi storied buildings as KTDFC cannot fix the plinth level of first floor for releasing the second instalment. Another instance is that the conditions for release of last 30% of loan in Housing loans that the same can be released on compliance of certain conditions including the conditions that the construction shall reach the stage of completion and that the borrower shall be in a position to complete the construction within one month are also impossible and irrational to be applied in Construction loans and no loanees will prefer it and there is no point</p>

(1)	(2)	(3)
		<p>in releasing any amount at the time of completion rather than releasing the same at suitable stages for helping the loanees to complete the construction. There are several other provisions in the terms and conditions of 'Aiswarya Griha Housing Finance Scheme' which cannot be applied <i>mutatis mutandis</i> to the Construction loans. So it can be found that amounts in Construction/Project loans can be released in instalments based on the nature of the project and not on the basis of conditions applicable to the normal Housing loans for the purchase/construction of land and house / house to the individuals. The compliance of the terms and conditions prepared for personal House Loans under 'Aiswarya Griha Housing Finance Scheme' for the purchase/construction of an individual house cannot at all be made applicable in every aspects to high value construction loans for the construction of multi storied buildings. The Company has been taking due diligence in processing and sanctioning of high value loans.</p> <p style="text-align: center;">In all loans, primary level scrutiny of the loans is done at different sections in KTDFC. The Corporation has already formed a Loan Committee</p>

(1)	(2)	(3)
		<p>in 2011 with General Manager as Chairman and Chief Engineer (BOT). Project Consultant (Finance). Manager (FM&Loans), Manager (BC), Deputy Manager (Fin) and Assistant Manager (Legal/Recovery) as its present members for scrutinizing various aspects of Loans including the processing of fresh Construction/Project loan applications and disbursement of instalments. In Fresh Construction/Project Loan applications, after initial assessment by the Loan Committee, the file will be forwarded to external appraisal agencies for legal, financial, technical and valuation aspects. After getting the above reports, internal, legal, financial and technical verifications will be done by the officials of KTDFC at various levels and thereafter the file will again be placed before the Loan Committee for meticulous scrutiny of the application. With the recommendations of the Loan Committee, the file will be forwarded to Managing Director, KTDFC for the sanction/rejection of the application.</p> <p>In Construction/Project loans, disbursement details are now being clearly mentioned in the loan sanction letters issued to the loanees at the very</p>

(1)	(2)	(3)
		<p>outset. Disbursements are to be done based on the terms and conditions specified in the loan sanction letter and other agreements. Thus KTDFC ensures promoters contribution and asset creation before release of subsequent instalments. As per the decision of the 122nd meeting of the Board of Directors held on 07-09~2012 vide Agenda Item No. 8/122, KTDFC has initiated action to empanel new credit appraisal agencies for appraisal of the financial and valuation aspects of projects, submitted by the loan applicants, separately in order to ensure that there is no collusion between these agencies. Similarly it has been decided in the 123rd Board Meeting held on 01-12-2012 vide Agenda Item No.2/123 to engage the internal auditors of KTDFC to frame a new comprehensive set of terms and conditions for the sanctioning and disbursal of Construction/Project Loans. As such KTDFC has already entrusted its Internal Auditor viz. <i>M/s Varma & Varma</i> Chartered Accountants to frame a new comprehensive set of terms and conditions for the sanctioning and disbursal of Construction/Project Loans. Thus KTDFC is committed to formulate a foolproof system to ensure that Project/Construction loans are</p>

(1)	(2)	(3)
		<p>sanctioned only to genuine and trustworthy applicants.</p> <p>Similarly, the Board of Directors of KTDFC in its 123rd meeting held on 1-12-2012 vide Agenda Item No. 2/123 has also decided to place the status of all outstanding Project/Construction loans in all further Board meetings for a meticulous scrutiny and supervision of Construction/Project loans. KTDFC is vigilant in taking effective and timely action against defaulters including filing of cases as per the provisions of The Negotiable Instruments Act, 1881 against the dishonour of EMI cheques and Revenue Recovery actions.</p> <p>3. Sanction and Disbursement</p> <p>3.1 Failure to ensure credit worthiness of loanee</p> <p>It may be noted that, as mentioned earlier, Construction/Project Loans were sanctioned based on the nature of each project and its viability. KTDFC sanctioned loans after getting valuation, legal and inspection reports from Engineers, Advocates and from verification agencies. It is</p>

(1)	(2)	(3)
		<p>seen that prior to 2009, verification of Construction/Project loan applications were done by M/s H-Worknet and M/s Powerlink Services Pvt Ltd and that financial appraisal were mainly done by M/s N.S Panicker &Co., Chartered Accountants and that valuation and legal scrutiny were done by the Engineers and Advocates engaged by the Company. From 2010 onwards, M/s Keratech Management Consultants(P) Ltd has been engaged as the credit appraisal agency of the Company for the total appraisal of the Construction/Project Loan Applications. M/s Keratech Management Consultants (P) Ltd analyses legal, financial, asset valuation and verification of profiles of the applicants in Construction/Project loan applications. Construction Loans were sanctioned from 2009-10 till 2011-12 on the basis of the credit appraisal reports of M/s Keratech Management Consultants (P) Ltd. Now, as mentioned earlier, KTDFC has already initiated actions to empanel new credit appraisal agencies for appraisal of the financial and valuation aspects of projects, submitted by the loan applicants, separately.</p>

(1)	(2)	(3)
		<p>As regards the observations in the Audit Report regarding the sanctioning of loans to Sri. Mathew Varghese and Sri. Chandramohan. G vide Loan No. 3/CL/IT/CON/2006-07 and to M/s Powerlink Builders (P) Ltd vide Loan No.1/CL/IT/CON/2007-08, it is seen that KTDFC has sanctioned the construction loan (Loan No.1/CL/IT/CON/2007-08) of ₹ 2,00,43,774/- on 23-04-2007 with initial interest @ 10.5% under 3 years fixed and then floating scheme' with a repayment period of 5 years to M/s Powerlink Builders (P) Ltd. after obtaining the verification report and that only an amount of ₹ 1,00,43,774/- was disbursed in the loan and that now, as on 07-06-2013, loanee has closed the loan by remitting all overdue and penal interest as well as other applicable charges. Similarly the loan sanctioned to Sri. Mathew Varghese and Sri.Chandramohan.G vide Loan No. 3/CL/IT/CON/2006-07 was also after obtaining the verification reports and the loan has been closed on 05/06/2013 by remitting all dues and charges. Therefore amount in both loan accounts has been recovered with full interest and charges and</p>

(1)	(2)	(3)
		<p>KTDFC did not sustain any financial loss on these loans. So far as the observation in the Audit Report that the Company didn't consider the weakness pointed out by the Credit Appraisal Agency in the matter of sanctioning of loan to M/s Grandtech Builders and Developers Pvt Ltd is concerned, it is to be noted that in the case of sanctioned construction loan applications. M/s Keratech Management Consultants(P) Ltd. has specifically recommended in their Credit Appraisal reports for the sanctioning of the loans after analysing the merits and demerits of the projects as well as applicants after analysing all aspects including legal, financial, asset valuation and verification of profiles of the applicants and hence there is no point in extracting and projecting some parts mentioning demerits/weakness in their credit appraisal reports without projecting the other parts mentioning merits, since their final opinions after analysing all aspects including legal, financial, asset valuation and verification of profiles of the applicants, were to sanction those loans including the loans sanctioned to M/s Grandtech Builders and Developers Pvt Ltd vide Loan No.01/CL/IT/CON/2010-11 & Loan No.05/CL/IT/CON/2010-11.</p>

(1)	(2)	(3)
		<p>It is to be noted that the credit appraisal agency is an external professional body. It is on the basis of the recommendation for sanctioning of the loans by the external credit appraisal agency and internal verification at various levels within the Company that the loans were sanctioned. Moreover from 2011-12 onwards, as mentioned earlier, a Loan Committee has been formed with several functions including the evaluation of the application and render advice/ recommendation to Managing Director regarding sanctioning of the loans applied for.</p> <p>3.2 Non-compliance with eligibility criteria</p> <p>At the very outset, as mentioned earlier, it is to be noted that the general terms and conditions of eligible amount of loan and EMI in Housing Loans will not <i>ipso facto</i> be applicable in Construction/Project Loans. Construction loans are to be sanctioned mainly based on financial viability, project cost and credit worthiness of the Applicant /Company and also by considering the land value and not merely on the basis of the Net monthly income of the individuals.</p>

(1)	(2)	(3)
		<p>a. However so far as the Construction loan sanctioned to M/s Powerlink Builders (P) Ltd vide Loan No.1/CL/IT/CON/2007-08 is concerned, the following aspects may be noted:</p> <p>It is seen that KTDFC has earlier engaged two agencies viz. H - Worknet and W/s Powerlink Services Pvt Ltd as the Direct Marketing Agents for Housing Loan Schemes in the year of 2005. Thereafter they were also seen engaged as verification agents. It was earlier noted by the AG that both the verification Agents have common partners in the firms; 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 R. 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. AG observed that this indicated that both agencies were related and interested parties and are prima facie managed by same persons. It is also noted by the AG that the decision to appoint</p>

(1)	(2)	(3)
		<p>M/s H-Worknet and M/s Power link Services Pvt Ltd as verification agent for loans was without the approval of Board 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 Rs. 30,35,356/- by KTDFC on 24/05/2006(Loan No.39/CL/IT/CON/2006-07). Similarly Sri. Pradeep.P and his wife Smt. Bindu Pradeep (one of the two directors M/sPowerlink Services Pvt. Ltd and one of the two partners of H-Worknet respectively) were also sanctioned with a house loan of Rs 60 Lakhs by KTDFC on 29/05/2006 (Loan No:47/HL/IT/T0C/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, having Sri. Ajith. R and Sri. Pradeep.P as two of its three directors, was also granted a construction loan by KTDFC for ₹ 2,00,43,774/- on 23-04-2007 (Loan No:1/CL/IT/CON/2007-08) for which the verification of</p>

(1)	(2)	(3)
		<p>loan application was seen to be also done by M/s H-Worknet. AG also noted that amounts were paid by KTDFC to the above mentioned two DMAs as service fees (commission) for canvassing the above mentioned 3 loans availed by Sri.Ajit.R and Smt. Rashmi Ajit, Sri. Pradeep.P and Smt. Bindu Pradeep & M/s Powerlink Builders Pvt Ltd.</p> <p>Now there is only 1 EMI at default, subject to the decision regarding the application of 3 year fixed then floating rate instead of full fixed rate, in the loan availed by Sri Ajit. R and his wife Smt. Rashmi Ajit. Similarly now there is no default in the payment of EMIs in the loan availed by M/s Powerlink Builders Pvt Ltd. There is no default in the repayment of EMIs in the House loan availed by Sri. Pradeep.P and his wife Smt. Bindu Pradeep subject to the decision regarding the application of 3 year fixed then floating rate instead of full fixed rate.</p> <p>KTDFC has sanctioned the construction loan (Loan No.1/CL/IT/CON/2007-08) of ₹ 2,00,43,774/- on 23-04-2007 with initial interest @ 10.5% under 3 years fixed and then floating</p>

(1)	(2)	(3)
		<p>scheme' with a repayment period of 5 years to M/s Powerlink Builders (P) Ltd. It is seen that an amount of ₹ 1,00,43,774/- was disbursed in the loan. The loan was sanctioned for the construction of an apartment complex in 18 cents of land comprised in Survey Nos. 824/6, 824/1 and 824/6-1 of Thycaud Village, Thiruvananthapuram Taluk. The said property is seen owned by other two persons, viz Sri. Padmakumar P.S. and Sri. Krishna kumar.P.S. It is seen that Adv.Vazhuthacaud R. Narendran Nair has conducted the legal scrutiny and submitted his legal opinion report dated 29-03-2007 stating that Sri. Padmakumar P.S. and Sri. Krishnakumar.P.S have got absolute, valid, clear and marketable title over the above properties by virtue of a Will deed. It is also seen that Adv. Vazhuthacaud R. Narendran Nair has also submitted another report dated 19-04-2007 stating that it may not be fair and justifiable in insisting the parties for depositing the original Will deed No. 28/ 1969 for the purpose of the loan stating that it may be practically impossible to obtain consent from other title holders of other properties covered by the said</p>

(1)	(2)	(3)
		<p>Will and he advised that the only thing practicable is to accept a certified copy of the Will along with an indemnity bond of the parties and to return the original Will deed after verification. Adv.Vazhuthacaud R. Narendran Nair also confirmed that the loan can be sanctioned based on accepting certified copies of the said Will deed No. 28/1969 and its two Codicils viz. 28/1975 and 9/1983 and an indemnity Bond. It is seen that Sri. Padmakumar.P.S, Sri. Krishnakumar.P.S and M/s Powerlink Builders (P) Ltd represented by its director Mr. Pradeep.P have together accordingly executed a joint Bond of Indemnity and Undertaking dated 11-04-2007 notarised by Adv.Vazhuthacaud R. Narendran Nair thereby agreeing to produce the original will along with certified copy so as to return the original after verification by KTDFC and further undertake to indemnify KTDFC against all losses, claims, damages, etc that may be incurred by KTDFC in pursuance of granting loan by accepting the certified copy of the Will deed and further undertake that they will not avail any other loan/financial assistance from any bank, financial institution or any other institution by</p>

(1)	(2)	(3)
		<p>pledging/depositing the original Will No. 28/ 1969 of Chalai SRO and that they shall not create any charge over above mentioned properties before closing the entire loan liability with KTDFC and that they shall not transfer, convey, dispose or alienate the above mentioned properties and that they shall not cause the said property to be involved in any case or cases, civil or criminal, in respect of any matter whatsoever during the period when the loan is in existence. It is also seen that the three directors of M/s Poweriink Builders (P) Ltd viz, Sri. Vikraman.V, Sri. Ajith.R and Sri. Pradeep.P have also executed personal undertakings separately in relation with the loan.</p> <p>As mentioned earlier, it is seen that the verification of the said loan application was done through one of the verification Agency of KTDFC, viz. M/s H Worknet. It is seen that the certified copies of the said Will deed No. 28/1969 and its two Codicils viz.. 28/ 1975 and 9/1983 are now available with KTDFC. As KTDFC will not get first charge over the said property in case of any creation of subsequent mortgage by deposit of title deeds of the said property in favour of any other</p>

(1)	(2)	(3)
		<p>institution after availing loan from KTDFC in violation of the above undertaking, by suppressing the fact of the loan from KTDFC which can be easily be materialized as the original title deeds are with the parties, if they intend to do so, and as KTDFC will not get any charge over any part of the above property if sold by the parties in violation of the above undertaking without the consent of KTDFC and as only personal liability against the above mentioned parties can be enforced in case of breach of any of the undertakings mentioned above and as the loan was already sanctioned by allowing the request of the parties to accept the certified copy of the original Will deed, it has been decided to obtain an Encumbrance Certificate of the said properties for subsequent period from 27-04-2007 onwards and also to demand the parties to produce the original deeds for verification in order to ascertain whether the above undertakings are promptly complied, in the light of the observations in the Inspection Report dated 3-07-2012 of C&AG. The parties have accordingly produced originals of the Will deed No. 28/1969 and its two Codicils viz. 28/1975 and 9/1983 for verification on 25-09-2012.</p>

(1)	(2)	(3)
		<p>So it was found that the said property was not under any equitable mortgage on 25-09-2012.</p> <p>KTDFC is presently issuing No Objection Certificate (NOC) for releasing the lien of KTDFC over each flat/Villa and corresponding share of land to builders and developers who have availed Construction/Project Loans from KTDFC, where repayment is started, for enabling them for selling the flats/Villas and corresponding share of land to the prospective buyers, on the condition that the loanee shall remit amounts in the form of EMIs proportionate to the value of such flats/villas, as may be fixed by KTDFC for this purpose and also subject to the condition that there shall not be any default in the normal repayment as per the repayment schedule at that time. 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. In the loan availed by M/s Powerlink Builders (P) Ltd, KTDFC has so far released 11 NOCs for the sale of 11 flats as per</p>

(1)	(2)	(3)
		<p>the request of the loanee having proportionate value of ₹ 1,00,28,850/-. As mentioned earlier, the loanee has availed only ₹ 1,00,43,774/- out of the total sanctioned loan amount of ₹ 2,00,43,774/-. It is seen that the above NOCs were seen issued on the basis of the said unavailed portion of the sanctioned loan amount i.e ₹ 1 Crore after remitting ₹ 28,850/- by the loanee to KTDFC. But when KTDFC has directly procured Fresh Encumbrance Certificate dated 10-08-2012 of the above property from 01-04-2007 till 31-07-2012, being the subsequent period after the sanctioning of the loan, from the Sub Registrar's Office, it is found that 18 sales were made by the parties from the above property though NOCs for sale of only 11 flats were so far permitted by KTDFC and hence the same is in violation of terms and agreed conditions. The loanee and the owners of the property viz. Sri. Padmakumar. P.S and Sri. Krishnakumar.P.S have thereby committed breach of terms and agreed conditions by selling 18 flats instead of 11 flats that too without remitting the proportionate value to KTDFC for the remaining 7 flats and corresponding land at the time of sale.</p>

(1)	(2)	(3)
		<p>KTDFC has accordingly lost charge over the said 7 flats also without getting the corresponding value at the time of sale of such flats. This was happened as the original deeds of the property are with the Owners of the property and hence the prospective purchasers may not suspect the existence of loan from KTDFC.</p> <p>On getting information of the above violation, KTDFC has issued a show cause notice No. Loan/OI/CL/IT/TOE/2007-08 dated 10-09-2012 to the loanee. Loanee has submitted a reply dated 19-09-2012 stating that they were unaware about obtaining NOCs for each sale and such other aspects, though the same is not convincing. It is also noted that an enquiry is being conducted by the Vigilance and Anti Corruption Bureau, Thiruvananthapuram regarding this loan and that the original loan file is under the custody of Vigilance and Anti Corruption Bureau, Thiruvananthapuram. In any case, it is to be noted that now the loanee has been remitting EMIs and that, as on 30-04-2013, an amount of ₹ 19,08,195/- including applicable interest is at default relating to 7 EMIs in the loan. There is possibility to</p>

(1)	(2)	(3)
		<p>recover the total balance amount in the above loan account and KTDFC will not sustain any financial loss on the event of closure of the said loan account by the party in accordance with the applicable terms and conditions of the Company.</p> <p>b. So far as the loan sanctioned to. Sri. Mathew Varghese and Sri.Chandramohan.G vide Loan No. 3/CL/IT/CON/2006-07 is concerned, it is to be noted that one of the applicant viz. Sri. Chandramohan is an Indian Resident. Similarly in the case of Loans availed by Sri. M.N Nazir and Smt. Jameela Beevi [Loan Nos. 2/CL/IT/CON/2007-08 & 2(A)/CL/IT/CON/2007-08] , it is noted that the loan was sanctioned for the construction of a multi storied residential cum commercial complex which may not come with in the ambit of the term 'Real Estate', as they are using the same for their own personal requirements and business purposes. Similarly in the matter of loans availed by Dr.S.Ramachandran, Sri. Rajesh Ramachandran, Sri. T.Rajagopal and Dr. M. V. Venkita Subba Reddiar (Seetharukmini Builders) [Loan Nos.1/CL/IT/CON/2008-09, 1(A)/CL/IT/CON/2008-09] it is to be noted that two of the applicants, viz. Sri. Rajesh Ramachandran and Sri.</p>

(1)	(2)	(3)
		<p>T.Rajagopal are Indian Residents. As such, it may be presumed that the conditions stipulated in the Exchange Control Manual of RBI may not be applicable in the case of above loans. Henceforth, Exchange Control Manual of RBI will also be diligently followed by KTDFC while processing new loan applications.</p> <p>Similarly 4 EMIs are pending as on 30-4-2013 in the Loan Nos. 1/CL/IT/CON/2008-09 & 1(A)/CL/IT/CON/2008-09 sanctioned to Dr. S. Ramachandran, Sri. Rajesh Ramachandran, Sri. T. Rajagopal and Dr. M. V. Venkita Subba Reddiar (Seetharukmini Builders) and the total amount at default as on the above date is ₹ 12,14,332/-. So far as the loans availed by Sri. M. N. Nazir and Smt. Jameela Beevi [Loan Nos. 2/CL/IT/CON/2007-08 & 2(A)/CL/IT/CON/2007-08] are concerned, there is no EMIs at default as on 30-04-2013. There is possibility to recover the total balance amount in the above loan accounts and KTDFC will not sustain any financial loss on the event of closure of the said loan accounts by the parties in accordance with the applicable terms and conditions of the Company.</p>

(1)	(2)	(3)
		<p>3.3.Non compliance with conditions of takeover</p> <p>As mentioned earlier, it is to be noted that the general terms and conditions of eligible amount of loan including taking over of loans with enhanced value in Housing Loans will not <i>ipso facto</i> be applicable in Construction / Project Loans. Construction / Project loans by take over are to be sanctioned mainly based on financial viability, cost of project including the balance requirement and credit worthiness of the Applicant/Company and also by considering the land value. Company don't have any specific norms regarding the amount that can be sanctioned in the case of project loan/construction loan by take over from banks/financial institutions, but the same are being decided on the basis of the appraisal of the above mentioned factors. The stipulated limit of 25% of the take over as the limit of enhancement in House Loans as per 'Aiswarya Griha Housing Finance Scheme' cannot be made applicable in the case of Project / Construction Loans. In case of Project / Construction loans, the applicants will consider for a take over only if their further requirement of funds for the completion of the project will be provided by the</p>

(1)	(2)	(3)
		<p>financial institution which is going to take over the existing loan. As such, it is impracticable to insist the condition applicable to House loans in the case of Construction / Project loans.</p> <ul style="list-style-type: none"> • KTDFC sanctioned a take over construction loan vide loan No.1/CL/IT/TOE/2006-07 on 29-05-2006 to M/s Paramount Photographers. At the time of sanctioning of loan, as per the file note, total value of property and the then existing building therein was ₹ 2.15 Crores. It is seen that, considering the repayment capacity, cost of project including the balance requirement and title deed of the property, Company sanctioned loan for ₹ 1,36,86,703/- as the take over loan amount and that ₹ 83,60,213/- was seen sanctioned as the enhancement amount. It is seen from the file that the total amount required by the applicant for the completion of the construction and interior decoration, after deducting the amount already spent for construction as per valuation report, was ₹ 1,59,15,450/- at the time of processing of the request for enhancement and that out of

(1)	(2)	(3)
		<p>the same only ₹ 83,60,213/- was seen sanctioned as the enhancement amount plus insurance premium, as the total amount recommended by the Chartered Accountant at that time as loan was ₹ 2,20,00,000/-. As such, it can be seen that the amount of enhancement was decided on the basis of the further requirement of funds for the completion of the project. It is to be noted that the enhancement amount of ₹ 83,60,213/- was released in 3 instalments. As per the site inspection conducted on 17-3-2012 by Assistant Manager (Civil), the value of construction itself was ₹ 1.63 Crores. It is seen that an amount of ₹ 69,24,018/- is at default as on 30-4-2013 relating to some old EMIs + 1 present EMI in the loans disbursed to the party. However the loanee has been making remittances of present EMIs and requested some more time for clearing the old pending EMIs. There is possibility to recover the total balance amount in the above loan account.</p>

(1)	(2)	(3)
		<ul style="list-style-type: none"> In the case of loan sanctioned to Sri. Venugopal and Smt. Bindu Venugopal on 8-8-2008, the company sanctioned ₹ 5 crores as the first loan (Loan No. 100348) which included take over amount of ₹ 71,76,194/- and the enhancement amount of ₹ 4,27,79,862/- by considering the repayment capacity, cost of project including the balance requirement and value of the property and taking into account the progress of civil construction works. It is to be noted that the enhancement amount of ₹ 4,27,79,862/- was released in 9 instalments. It is also to be noted that at the time of availing the first loan, the loanee have mortgaged the project property (17 Cents of land comprised in Sy No. 394/6-1 of Pattom Village) and another 19 Cents of land and building therein (Sy No. 62 of Sasthamangalam Village) to KTDFC for securing the repayment of the loan. It is seen from the file that the distress value of those properties and the existing buildings therein at the time of application itself was ₹ 342

(1)	(2)	(3)
		<p>lacs (₹ 151 lacs and ₹ 191 lacs respectively). KTDFC has sanctioned Additional (Top Up) project loan for ₹ 2 Crores vide Loan No. 1/CL/IT/CON/2011-12 on 16-5-2011 under full floating rate to the loanees considering the requirement of funds for the completion of the project, after obtaining additional collateral security of 3.56 ares of land comprised in Sy No. 143/45-1 (Old Sy No. 977/A-1) of Peroorkada Village also. It is to be noted that the value of the project (Land+Building), at the time of processing of the Top Up loan Application and the release of the last instalment of the first loan, itself was ₹ 5,74,69,000/- against the then so far released amount of ₹ 4,72,20,138/- in the first loan. At the time of disbursing the top up loan amount and the disbursement of the last instalment of the first loan, the arrears in the fist loan as per the earlier repayment schedule with applicable charges were recovered and only the balance amount was released to the loanees. So it can be found that the</p>

(1)	(2)	(3)
		<p>Company has succeeded in clearing the amount at default in the first loan by taking such prudent steps as mentioned above. Further as per the site inspection conducted by the Chief Engineer (BOT) on 4-11-2011, the value of construction is reported as ₹ 10 crores on rough assessment. This building has been fully completed now and the total project has started functioning. This itself shows that KTDFC has taken prudent decision in the sanctioning of the top up loan thereby enabling the party to complete the project. Thereafter the parties have closed both the loan accounts on 5-1-2013 by way of take over by Indian Overseas Bank by remitting the entire due amount of ₹ 6,83,57,683/-, calculated on the basis of full floating interest rates, in both loan accounts.</p> <p>Hence it may be found, for the reasons mentioned above, that the stipulated limit of 25% of the take over as the limit of enhancement in House Loans as per 'Aiswarya Griha Housing</p>

(1)	(2)	(3)
		<p>Finance Scheme' cannot be made applicable in the case of Project/Construction Loans and that the decision in sanctioning enhancement amounts in accordance with the project requirement was prudent as the applicants will consider for a take over only if their further requirement of funds for the completion of the project will be provided by the financial institution which is going to take over the existing loan.</p> <p>3.4. Failure to ensure Promoter's contribution/repaying capacity</p> <p>KTDFC sanctioned a Construction Loan of Rs.10 Crores on 8-4-2010 to M/s Grandtech Builders and Developers Pvt Ltd vide Loan No. 01/CL/IT/CON/2010-11 for the construction of residential Villas (Green City-Phase I) [120 Nos.) in 2 Hectares 8 ares and 10 Sq. mtrs of property comprised in Re Survey Nos. 302/1-1 and 302/16-1, Block No. 1 of Vilappil Village, Thiruvananthapuram. The total sanctioned amount was released to the loanee and the disbursement details are as follows:</p>

(1)	(2)	(3)
		<p>1st Instalment : 5 Crores disbursed on 8-4-2010 2nd Instalment : 2 Crores disbursed on 27-5-2010 3rd Instalment : 3 Crores disbursed on 28-6-2010</p> <p>Total projected cost of construction was ₹ 17.217 Crores as per the loan application and KTDFC sanctioned ₹ 10 Crores. It is to be noted that site inspections were done by KTDFC in this loan on 7-4-2010,14-2-2011, 18-10-2011, 9-3-2012 and 16-5-2013. As per the site inspection report of the inspection done on 14-2-2011 by Assistant Manager (Civil), 40% to 50% of the work was done till that date. It is to be noted that the total cost of construction was ₹ 17.217 Crores as per the loan application and hence 40% to 50% of the work would come to ₹ 6.886 Crores to ₹ 8.608 Crores. It is to be noted that the amount disbursed before the final instalment would come to only ₹ 7 Crores. As per the inspection done on 9-3-2012, three houses were almost completed and construction of 103 houses were under progress and the construction of remaining 14 houses were yet to be started. As on 9-3-2012, the approximate cost of construction came to ₹ 9.2 Crores. As per the latest site inspection done on 16-5-2013, the</p>

(1)	(2)	(3)
		<p>construction of 105 Villas have reached up to roof level with plastering, fixing of doors and windows frames, shutter including plumbing and electrical works and the construction of 6 Villas have reached up to Lintel Level and the approximate cost of construction, as on 16-5-2013, comes to about ₹ 15.5 Crores. Hence, it can be found that sufficient asset is created for the amounts so far disbursed which may also ensure the recovery of the outstanding amount. The loan can be found secured based on the market value of the land mortgaged and also on the assets created.</p> <p>As per the rules, payment of EMI shall be started by the loanee on the next month after the completion of construction or on the next month after the completion of 18 months from the disbursement of first instalment or on next month after the release of the last instalment of the loan, whichever is earlier. Since the loanee availed last instalment on 28-6-2010, repayment started from 5-8-2010. As such, it can be noted that subsequent site inspections were done on 14-2-2011, 18-10-2011 and 9-3-2012, after the date of disbursement of total loan amount.</p>

(1)	(2)	(3)
		<p>As per the valuation report of the credit appraisal agency viz. M/s Keratech Management Consultants (P) Ltd., the value of the land and structure thereon, at the time of loan application, comes to ₹ 4.06 Crores. The value of the land arrived at by the valuer entrusted by the Credit Appraisal Agency is ₹ 3.64 Crores and the same is seen to be reasonable. [For example, the market value of the property in the second loan availed by M/s Grandtech Builders and Developers Pvt Ltd vide Loan No. 05/CL/IT/CON/2010-11, as per the valuation report dtd 7-8-2010 in the report of M/s Keratech Management Consultants (P) Ltd, was ₹ 4.358 Crores while the market value of the said property assessed subsequently on 13-04-2012 by another valuer directly engaged by KTDFC was ₹ 6.754 Crores, which may show that the value of the land arrived at by the valuer entrusted by M/s Keratech Management Consultants (P) Ltd. in the first loan will also be reasonable]. The value of land mentioned in the corresponding deeds cannot be considered as the market value. Moreover, it is to be noted that the land value was assessed by a professional valuer.</p>

(1)	(2)	(3)
		<p>The first loan is secured primarily by equitable mortgage of 2 hectares 8 ares and 10 sq. meters of land comprised in Re survey Nos. 302/1-1 and 302/16-1 of Vilappil Village in Neyyattinkara Taluk. It is to be noted that M/s Keratech Management Consultants (P) Ltd. has specifically recommended in their Credit Appraisal report for the sanctioning of the loan after analysing the merits and demerits of the project as well as applicants after analysing all aspects including legal, financial, asset valuation and verification of profiles of the applicant company and its directors. Their final opinion after analysing all aspects including legal, financial, asset valuation and verification of profiles of the applicant company and its directors, was to sanction the loan as above mentioned. It is to be noted that the credit appraisal agency is an external professional body. It is on the basis of the recommendation for sanctioning of the loan by the credit appraisal agency and internal verification at various levels within the Company that the loan (Loan No. 01/CL/IT/CON/2010-11) was sanctioned. Similarly, as mentioned earlier,</p>

(1)	(2)	(3)
		<p>Construction loans are to be sanctioned mainly based on financial viability, project cost and credit worthiness of the Applicant / Company and also by considering the land value and not merely on the basis of the Net annual income of the individual directors of the Applicant Company. Regarding the disbursement of instalments, it is true that KTDFC has not fixed any specific stage for the stage disbursement either in the agreement or in the loan sanction letter. It is noted that the Branch Manger, Thiruvananthapuram Branch, KTDFC has initially visited the site and submitted her report regarding the progress in construction and accordingly the Company found that the loanee was proceeding with work and hence the disbursements were done with the sole intention that the project shall be completed very early. Similarly it may be noted that amounts in Construction / Project loans are sanctioned and released in instalments based on the nature of the project and not on the basis of conditions applicable to the normal Housing loans for the purchase / building of land and / or house to the individuals. It is admitted that the loanee has committed default in the repayment of the Loan</p>

(1)	(2)	(3)
		<p>No.01/CL/IT/CON/2010-11. The total amount remitted by the loanee till 17-04-2013 in Loan No.01/CL/IT/CON/2010-11 is ₹ 4,66,90,151/- and that the loanee has committed default in the repayment of 18 EMIs as on 17-4-2013 and the total amount at default including penal interest is ₹ 5,12,56,549/- as on 17-4-2013. KTDFC has already initiated legal actions against the dishonour of EMI cheques by filing cases under section 138 r/w 142 of The Negotiable Instruments Act, 1881 against the loanee. Similarly KTDFC have earlier sent intimation notice dated 18-4-2012 thereby directing the loanee to clear default or otherwise to recall the loan and thereafter to initiate Revenue Recovery actions against the loanee and guarantors for recovering the total outstanding amount in the loan. In the mean time, Loanee has submitted letters showing that SBT RASMECCC has decided to transfer the loan amounts sanctioned/to be sanctioned to the prospective purchasers of villas who have applied for house loans from SBT, directly to the account of KTDFC on behalf of M/s Grandtech Builders and Developers Pvt Ltd. Thereafter KTDFC have</p>

(1)	(2)	(3)
		<p>received a letter dated 23-06-2012 from SBT RASMECC stating that they have agreed to disburse the balance instalments as per the list of 40 loan accounts sanctioned/to be sanctioned to individual clients of M/s Grandtech Builders and Developers Pvt Ltd , directly to KTDFC's account as per the demand notice of M/s Grandtech Builders and Developers Pvt Ltd for further instalments, subject to the satisfactory compliance with the relevant terms and conditions regarding stage of construction, payments of interest, margin, etc.</p> <p>Accordingly the matter was placed before the Board of Directors of KTDFC and it has been decided by the Board in its 123rd meeting held on 01-12-2012 vide Agenda Item No. 7/123 to consider the request of the loanee subject to certain conditions including the condition of execution of a tripartite agreement between KTDFC, SBT and M/s Grandtech Builders and Developers Pvt Ltd. However when the matter was accordingly informed to SBT, they have expressed their unwillingness to execute a tripartite agreement vide their letter received in KTDFC on 21-03-2013</p>

(1)	(2)	(3)
		<p>and as such, M/s Grandtech builders and Developers Pvt Ltd was directed vide letter dated 26-03-2013 to clear the default within 30 days in order to avoid further legal actions including revenue recovery proceedings as per the provisions of the Kerala Revenue Recovery Act. However, the loanee hasn't cleared the total amount at default though an amount of ₹. 2,60,000/- was received on 07-05-2013. The loanee has, till 27-05-2013, remitted ₹.4,67,83,285/- and an amount of ₹ 5,69,53,253/- is at default as on 27-05-2013 in the loan. In the meantime, due to the default in the repayment, KTDFC was constrained to recall the above loan vide letter No. I/CL/IT/CON/2010-11/8377(C) dated 20-05-2013 thereby directing the loanee and guarantors to remit the total outstanding amount within 30 days of the receipt of the letter and further intimated them that KTDFC will otherwise be constrained to take legal actions including actions as per the provisions of the Kerala Revenue Recovery Act, 1968 against them for recovering the amount due and now KTDFC is awaiting for the remittance of the total outstanding amount by the loanee and guarantors.</p>

(1)	(2)	(3)
		<p>If they fail to remit the amount as per the direction in the loan recall notice, KTDFC will be constrained to take legal actions including actions as per the provisions of the Kerala Revenue Recovery Act, 1968 against them for recovering the amount due. In the mean time, loanee has filed a WP(C) No. 12644/2013 before the Hon'ble High Court of Kerala regarding the issue of NOCs and such other aspects and the same is pending.</p> <p>KTDFC has sanctioned the second Construction Loan of ₹.10 Crores on 15-10-2010 to M/s Grandtech Builders and Developers Pvt Ltd vide Loan No.05/CL/IT/CON/2010-11 for the construction of residential flats (Green City – Phase II) in 1 Hectare and 24 ares of property comprised in Re Survey Nos. 302/1, Block No.1 of Vilappil Village, Thiruvananthapuram. At the time of sanctioning of the second loan on 15-10-2011, no dishonour memo was received from the SBT, Puthenchanthai regarding the dishonour of 3rd EMI cheque dated 05-10-2010 in the first loan, instead notice of dishonour of the said cheque was issued to KTDFC by SBT, Puthenchanthai only on 16-10-2010. The first and second EMIs in the first</p>

(1)	(2)	(3)
		<p>loan were already cleared at the time of sanction of the second loan.</p> <p>An amount of Rs. 4,00,00,000/- (Rs. Four Crores only) was disbursed to the Loanee in the matter mentioned below :-</p> <p>1st instalment : 2 Crores disbursed on 15-10-2010 2nd instalment : 2 Crores disbursed on 26-10-2010</p> <p>It may be noted that the 2nd instalment amount of ₹ 2 Crore was released on the basis of a letter dtd.15-10-2010 of the loanee stating that 1st instalment amount of ₹ 2 crores is not adequate to commence the work of such a large scale project. Moreover, KTDFC found that the amounts disbursed in the second loan was not more than the market value of the land arrived at by the valuer. Similarly the market valuer of the said property assessed subsequently on 13-04-2012 by another value directly engaged by KTDFC was ₹ 6.754 Crores.</p> <p>As mentioned earlier, as per the rules, payment of EMI shall be started by the loanee on the next month after the completion of construction or on the next month after the</p>

(1)	(2)	(3)
		<p>completion of 18 months from the disbursement of first instalment or on next month after the release of the last instalment of the loan, whichever is earlier. As such, if a loanee doesn't avail the total sanctioned amount and hasn't completed the construction before 18 months of the first instalment, repayment has to be started on the next month after the completion of 18 months from the disbursement of first instalment. As such, repayment has to be started from the month of May 2012 onwards, in normal circumstances. As no subsequent amounts out of the total sanctioned amount of ₹ 10 Crores was demanded by the loanee in the second loan, there was no urgent necessity for asset verification for the amount disbursed. Yet KTDFC has conducted a general site inspection on 14-02-2011, after conducting the preliminary site verification on 06-10-2010. It was found in the site inspection held on 14-02-2011 that no construction was started in relation with the Second Loan. It was then decided further instalments will be released to the loanee only after showing sufficient progress in the work. The loanee was asked to submit the details of stage and</p>

(1)	(2)	(3)
		<p>progress of the construction along with the photos showing the progress of the same. However the loanee failed to submit the details irrespective of repeated requests. Hence a site inspection was done by Assistant Manager(Civil), KTDFC on 09-03-2012. Thereafter, a joint site inspection was also done by General Manager, Chief Engineer and Chief Manager(Finance), KTDFC on 15-03-2012 and it was found that the loanee hasn't started the construction till that date. It is to be noted that all the above site inspections were done well before the completion of 18 months from the disbursement of first instalment. As such, KTDFC issued a show cause notice on 23-03-2012. As the replies dated 29-03-2012 and 24-04-2012 submitted by the loanee were not satisfactory, KTDFC recalled the loan by issuing a loan recall letter dated 07-05-2012 in Loan No.05/CL/IT/CON/2010-11 thereby directing the loanee and the guarantors to remit the entire loan amount with applicable charges within 30 days and that otherwise KTDFC will be constrained to initiate legal actions including action as per the provisions of the Kerala Revenue Recovery Act, 1968 against</p>

(1)	(2)	(3)
		<p>the loanee and guarantors, for recovering the amount due. Thereafter Loanee submitted letters dated 14-05-2012 and 05-06-2012 requesting for the conversion of project "Green City-Phase II" for which the second loan was availed from KTDFC vide Loan No.05/CL/IT/CON/2010-11, to individual houses as well as flat combined with commercial complex. As such, the request of the loanee in the Second loan was placed before the Board of Directors of KTDFC for taking suitable decision regarding the matter</p> <p>The 122nd meeting of the Board of Directors of KTDFC held on 07-09-2012 vide Agenda Item No. 5/122 has decided that any such proposal for conversion of project can be considered only after the clearing of the existing loan including applicable charges and to instruct the loanee to clear the loan amount with applicable interest and further decided to recall the loan and to take recovery steps if the loanee fails to clear the loan with applicable charges. Accordingly, KTDFC has directed the loanee on 22-10-2012 to remit the loan amount with applicable charges within 30 days of the letter. However the loanee didn't remit</p>

(1)	(2)	(3)
		<p>any amount. Hence KTDFC has initiated Revenue Recovery steps on 4-12-2012 as per the provisions of the Kerala Revenue Recovery Act, 1968 by sending the RR requisition dated 4-12-2012 to the District Collector, Thiruvananthapuram for recovering an amount of ₹ 5,30,74,247/- (Rupees Five Crores Thirty Lacs Seventy Four Thousand Two Hundred and Forty Seven only) with further interest @ 18.5% per annum for the said amount from 23-11-2012 till the date of realisation along with collection charges from (1) M/s Grandtech Builders & Developers Private Limited(Loanee) (2) Sri. Salim M. Kabeer (Guarantor) and (3) Sri. Mohammed Sherief (Guarantor), both jointly and severally. Now, loanee has filed a WP(C) No. 13098/13 before the Hon'ble Court regarding the Revenue Recovery and such other aspects and the same is pending. Hence, for the reasons mentioned above, it can be found that there is no negligence on the part of officials in KTDFC in this regard.</p> <p>Without prejudice to the above, the following aspects are also put forth, in general, for consideration.</p>

(1)	(2)	(3)
		<p>Both of the above loans were sanctioned only after mortgaging the properties as mentioned above. Similarly, the other observations in the Audit Report that the amounts were sanctioned by way of two loans to keep it within the delegated power of MD is not correct. In fact, there is an instance of another loan sanctioned (M/s Marickar Plantations Pvt Ltd) for ₹ 25 Crores on 23-02-2010 after placing the same before the Board of Directors of KTDFC. Similarly there is no rationale in making such observations since one cannot expect at the time of sanctioning of a loan that an applicant, to whom a loan was sanctioned, will apply for another loan in future for a different project. Each loan is seen given not on the basis of the personal profile of the directors of the company, but based on the assets, market value and the project. Similarly the loan amount can be repaid by the loanees also by utilizing the amounts generated by the sale of individual flats/villas. It is also to be noted that the firms will approach for loans only when they require funds for the project, and if they have sufficient funds of their own, there is no need for them to avail loans. It is true</p>

(1)	(2)	(3)
		<p>that there occurred default in the repayment by the loanee. However it may be noted that similar scenario was being faced in some other construction loans also, which may be due to various factors including the recession felt in the field of sale of flats/villas during the recent years. Projects were sanctioned based on the situations present at that point of time. The risks and fluctuations are part and parcel of every business and the same may not be considered as a ground for objecting the sanction of a loan done in the past after project analysis on the basis of the then prevailing conditions.</p> <p>3.5. Sanctioning of loans at interest rate below cost of borrowings</p> <p>The Board of Directors of KTDFC in its 75th meeting held on 18-02-2005 vide Agenda Item No. 1346 has approved the House Loan Scheme viz. 'Aiswarya Griha Housing Finance Scheme'. KTDFC has accordingly launched the scheme in 2005 for providing personal house loans. So far as the sanctioning of Construction/ Project loans are concerned, the same was</p>

(1)	(2)	(3)
		<p>launched by KTDFC in 2006 on the basis of the decision taken by the Board of Directors of KTDFC in its 81st meeting held on 23-02-2006 vide Agenda Item No. 1527 by confirmation of Circular Resolution dated 07-02-2006 with the captioned subject 'Interest Rate of Loan Scheme of the Company other than for personal housing purposes'. Such loans are so far seen sanctioned under 3 kinds of interest rates schemes based on the date of sanction of each loans viz,</p> <ul style="list-style-type: none"> i. Fixed interest rate for the whole period ii. 3 years fixed then floating interest Scheme and iii. the Floating interest rate scheme. <p>House, Construction/Project Loans sanctioned till 15-05-2006 were seen sanctioned with fixed interest rates for the whole period. There after, it was decided in the 84th meeting of Board of Directors held on 09-05-2006 vide Agenda Item No.1605, that for all loans, the interest shall be at fixed rates for first 3 years and thereafter at floating rates. As such, House, Construction/</p>

(1)	(2)	(3)
		<p>Project loans sanctioned from 16-05-2006 till 03-07-2008 are under the above mentioned 3 years fixed then floating Scheme', Under the said Scheme, interest rate will be under the fixed interest rate for the first 3 years of repayment and thereafter the same will automatically converted to floating interest rates prevailing from time to time. There after, it was decided and clarified by the Board of Directors that for loans sanctioned from 04-07-2008 onwards, the interest shall be at floating rates for the whole period. As such, House, Construction/Project loans sanctioned from 04-07-2008 are having floating interest rates for the whole period. So far as the rate of fixed interest made applicable for loans sanctioned from time to time till 15-05-2006 are concerned, the same were seen implemented on the basis of Board Decisions taken from time to time on the basis of the corresponding Agenda Notes. The decisions taken by the Board of Directors are binding upon KTDFC. It is admitted that there were revisions of rates of interest during the above period. But the same were implemented on the basis of the decisions</p>

(1)	(2)	(3)
		<p>of the Board of Directors which are binding upon KTDFC. In any case, KTDFC has already engaged its Internal Auditor viz. M/s Varma & Varma Chartered Accountants to find out the cost of funds of the Company for the previous years precisely.</p> <p>So far as the observations in the Audit Report in the para regarding the wrong application of interest scheme are concerned, on verification of House Loan files of above ₹. 10 Lacs and Construction/Project Loan files by KTDFC, it is now found that overwriting are seen made in the note file of some of the loan files regarding the date of sanction of the loan. It is also found on Verification of House Loan files of above ₹. 10 Lakhs and Construction/Project Loan files that some loans sanctioned on or after 16-05-2006 were charged with full fixed interest rate instead of '3 years fixed then floating interest rates'.</p> <p>9 loan files were identified by KTDFC as having such anomalies in the category of House Loan files of above ₹. 10 Lacs and Construction/Project Loan files. As such, it has been directed to</p>

(1)	(2)	(3)
		<p>verify the House Loan files of above ₹. 10 Lacs and Construction/Project Loan files. As such, it has been directed to verify the House Loan files of below Rs. 10 lacs of all branches also to find out whether there is any similar anomalies in such files. Similarly, the remarks in the Audit Report regarding the sanctioning of 38 loans from 09-05-2006 to 16-05-2006 without complying necessary formalities are also being verified. After obtaining the verification report of such loans also, the matter will be placed before the Board meeting for taking further actions in this regard.</p> <p>3.6 Non-Compliance of Board Decisions</p> <p>The loan (Loan No. 100348) was sanctioned to Sri. Venugopal and Smt. Bindu Venugopal on 08/08/2008. It is noted that the Board of Directors of KTDFC has earlier resolved vide Agenda Item No.6/100 in its 100th meeting held on 04-07-2008 that 'hereafter for all construction, projects and Home loans have floating rates only so that the fluctuating interest rate in the market will not affect the net interest margin of KTDFC' and that the same was made applicable in the Company vide Circular No.30/08 dated 18-08-2008 and that</p>

(1)	(2)	(3)
		<p>the same was subsequently clarified by the Board of Directors in its 109th meeting held on 17-02-2010 vide Agenda Item No. 9/109, in supercession to its earlier resolutions that 'the charging of floating rates of interest as per the decision on Agenda Item No. 6/100 is applicable to all construction, project and House Loans sanctioned on or after the date of Board decision (i.e., on or after 4-07-2008)'. As such, the Loan No. 100348 would come under full floating rate instead of 3 year fixed then floating rate scheme, since the date of sanction is 08-08-2008. In the loan sanction letter dated 08/08/2008 in loan No. 100348, the applicable interest rate for the loan is specified as 14% (floating). Due to the misconception of date of application of floating rate scheme as 18-08-2008 (i.e the date of circular) instead of 04-07-2008 while preparing the repayment schedule in the loan, the branch erroneously applied interest rate scheme as 3 years fixed and then floating at the rate 14% per annum. Now, on the basis of the clarification by the Board of Directors in its 109th meeting held on 17-02-2010 vide Agenda Item No. 9/109, the</p>

(1)	(2)	(3)
		<p>interest rate for the said loan was now reworked on the basis of full floating interest rate scheme and the loanee was intimated to remit the balance amount in accordance with full floating interest rates applicable from the date of starting of repayment. Thereafter the parties have accordingly closed the above loan account as well as the Top Up loan account (Loan No. 1/CL/IT/CON/2011-12], on 05-01-2013 by way of take over by Indian Overseas bank by remitting the entire due amount of ₹. 6,83,57,683/- [₹.4,78,53,021/- in Loan No. 100348 + ₹. 2,05,04,662/- in Loan No calculated on the basis of full floating interest rates in both loan accounts.</p> <p>3.7 Disbursement of Loans</p> <p>The Board of Directors of KTDFC in its 75th meeting held on 18-02-2005 vide Agenda Item No. 1346 has approved the House Loan Scheme viz. 'Aiswarya Griha Housing Finance Scheme'. KTDFC has accordingly launched the scheme in 2005 for providing personal house loans mainly for the following purposes:</p>

(1)	(2)	(3)
		<p>(i) Purchase or construction of house, (ii) Purchase or construction of flat, (iii) Refinance to the existing house which has no liability at all. (iv) Purchase of land/plot and then construction of house/building or purchase of land with building. (v) Take over of house/flat/apartment/building, etc from other financial institutions the security of which loan has been extended by other financial institutions, (vi) Repairs / Renovation / Addition / Alteration/ Upgradation / Improvement to the existing house / building.</p> <p>So far as the sanctioning of Construction loans are concerned, the same was launched by KTDFC in 2006 on the basis of the decision taken by the Board of Directors of KTDFC in its 81st meeting held on 23-02-2006 vide Agenda Item No. 1527 by confirmation of Circular Resolution dated 07-02-2006 with the captioned subject 'Interest Rate of Loan Scheme of the Company other than for personal housing purposes'. The general terms and conditions of disbursement of instalments in Housing Loans</p>

(1)	(2)	(3)
		<p>will not <i>ipso facto</i> be applicable in Construction Loans. For example, in the terms and conditions for house loans under 'Aiswarya Griha Housing Finance Scheme', there is a condition that the second instalment will be released at 40% of the loan amount when the construction of the building reaches the plinth level. It can be seen that such conditions cannot at all be made applicable in construction loans for the construction of multi storied buildings as KTDFC cannot fix the plinth level of first floor for releasing the second instalment. Another instance is that the conditions for release of last 30% of loan in Housing loans that the same can be released on compliance of certain conditions including the conditions that the construction shall reach the stage of completion and that the borrower shall be in a position to complete the construction within one month are also impossible and irrational to be applied in Construction loans and. no loanees will prefer it and there is no point in releasing any amount at the time of completion rather than releasing the same at suitable stages for helping the loanees to complete the construction. There are several other</p>

(1)	(2)	(3)
		<p>provisions in the terms and conditions of 'Aiswarya. Griha Housing Finance Scheme' which cannot be applied <i>mutatis mutandis</i> to the Construction/Project loans. So it can be found that amounts in Construction/Project loans can be released in instalments based on the nature of the project and not on the basis of conditions applicable to the normal Housing loans for the purchase/building of land and/or house to the individuals.' The compliance of the terms and conditions prepared for personal House Loans under 'Aiswarya Griha Housing Finance Scheme' for the purchase/construction of an individual house cannot at all be made applicable in every aspects to high value construction loans for multi storied buildings. So it can undoubtedly be found that amounts in Construction/Project loans can be released in instalments 'based on the nature of the project and not on the basis of conditions applicable to the normal Housing loans for the purchase/construction' of land and/or house to the individuals.</p> <p>Similarly, as mentioned earlier, KTDFC has now entrusted its Internal Auditor viz. M/s Varma</p>

(1)	(2)	(3)
		<p data-bbox="631 338 1399 569">& Varma Chartered Accountants to frame a new comprehensive set of terms and conditions for the sanctioning and disbursement of Construction/Project Loans.</p> <p data-bbox="631 611 854 653">4. Monitoring</p> <p data-bbox="631 695 1399 863">So far as the post disbursement monitoring of high value loans are concerned, the following aspects may be noted.</p> <ul data-bbox="680 884 1399 1887" style="list-style-type: none"> <li data-bbox="680 884 1399 1887">• Company has already formed a loan committee with several functions including the post disbursement monitoring of the progress, both physical and financial, achieved in the loans. Also disbursement details are now clearly mentioned in the sanction letter issued to the loanees at the time of loan sanction. Disbursements will be made based on this. Thus the Company ensure promoters' contribution and asset creation before release of subsequent instalments. Similarly KTDFC has now started periodic site inspection of Construction / Project loans for assessing the stage of construction and asset creation achieved in each projects.

(1)	(2)	(3)
		<p>Sri. Venugopal & Smt. Bindu yenugopal had availed a construction loan vide loan No. 100348 on 08-08-2008) for ₹ 5 Crores and there after a top up loan vide Loan No. 1/CL/IT/CON/2011-12 on 16-05-2011 for ₹ 2 Crores for the construction of Hotel building at Kumarapuram and at the time of availing the first loan, they have created mortgage of the project property (17 Cents of land comprised in Sy No. 394/6-1 of Pattom Village) as Collateral Security as well as another 19 Cents of land and building therein at Palace Garden) (Sy No.62 of Sasthamangalam Village) as Additional Collateral Security, for securing the repayment of the loan. Also they have created mortgage of 3.56 ares of land at Manikanteswaram comprised in Sy No. 143/45-1 (Old Sy No. 977/A-1) of Peroorkada Village as additional collateral security at the time of availing of the top up loan. It is to be noted that KTDFC has insisted additional collateral security at the time of considering the top up loan, since the value of the then existing collateral securities didn't cover the proposed amount. Loanees had submitted a request dated 15-10-2011 to release the two</p>

(1)	(2)	(3)
		<p>additional collateral securities which were mortgaged to KTDFC by them at the time of sanctioning of the primary loan and the top up loan. As per special condition (a) of Annexure-H Agreement, KTDFC has imposed a condition that Additional/Collateral Security(ies) will not be released during the currency of the loan. As such, it can be found that the loanees cannot claim the release of collateral/additional collateral securities as a matter of right, but KTDFC can consider such requests on evaluating the nature and circumstances of each case. It is to be noted that at the time of processing of the above request, loanees were prompt in remitting the EMIs and that the outstanding balance amount in the loans as on 22-10-2011 was ₹. 6.54 Crores and that as per the report of Chief Engineer(BOT), the hotel building is a 9 storied building having about an area of 28,000 Sq.ft completed and furnished in all respects for a star hotel and that on a rough assessment, the cost of construction of the project itself comes to ₹. 10 Crores as on 04-11-2011. Similarly it is also to be noted that the land value of the above project property of 17 Cents was</p>

(1)	(2)	(3)
		<p>₹ 1.53 Crores even as on 15-07-2010 and that of Additional Collateral Security of 3.56 Ares of land at Peroorkada Village was ₹ 16 Lakhs as on 13-09-2010. So the minimum value of the assets under mortgage to KTDFC, excluding the value of the released 19 cents of land, at the time of processing of the request for release of Additional Collateral Security was ₹ 11.69 Crores while the outstanding amount in the both loans availed by the parties as on 22-10-2011 was only ₹ 6.54 Crores, which itself shows that the Company has judiciously exercised its power in releasing the additional collateral security of 19 cents on 24-11-2011. It is also to be noted that only one additional collateral security of 19 cents was released though the request of the loanee was for the release of two additional collateral securities, as a matter of abundant caution, though the value of the project property alone was sufficient to meet the balance outstanding loan amount. As such; there is nothing wrong from the part of KTDFC and such decisions are being taken by other financial institutions also in the ordinary course of business. It is also to be noted that, the parties</p>

(1)	(2)	(3)
		<p>have thereafter closed both loan accounts on 05-01-2013 by way of take over by Indian Overseas Bank by remitting the entire due amount in both loan accounts.</p> <p>5. Recovery</p> <p>KTDFC has sanctioned a Construction Loan (No.1/CL/IT/CON/2007-08) of ₹.2,00,43,774/- on 23-04-2007 with initial interest @ 10.5% under '3 years fixed and then floating scheme' with a repayment period of 5 years to M/s Powerlink Builders (P) Ltd for the Construction of an apartment complex in 18 cents of land comprised in Survey Nos. 824/6, 824/1 and 824/6-1 of Thycaud Village, Thiruvananthapuram Taluk owned by Sri. Padma Kumar P.S and Sri. Krishna Kumar P.S. It is seen that an amount of ₹ 1,00,43,774/- was disbursed in the loan. The repayment of this loan was due to start on 7th November 2008. The repayment schedule was not forwarded to the loanee in time mainly due to inadequate skilled staff in the Branch. It is to be noted that 106 employees of the Corporation were retrenched from the service in 2007 and the same</p>

(1)	(2)	(3)
		<p>might have affected the continuity of the functioning of the Corporation. Similarly the software (IBMSS) being developed by KELTRON-TCS team hasn't so far become fully operational as regards the Project/Construction loans are concerned. After issuing repayment schedule on 19-06-2009, the EMI cheques for the subsequent period are being presented. Now, as on 30-04-2013, an amount of ₹ 19,08,195/- including applicable interest is at default relating to 6 old EMIs + 1 present EMI in the loan disbursed to the party. Similarly cheque case is also now being filed against the dishonour of present EMI cheque. However the loanee has been making remittances of present EMIs and requested some more time for clearing the old pending EMIs.</p> <p style="text-align: center;">KTDFC sanctioned an amount of ₹4,31,32,015/- vide Loan No. 3/CL/IT/CON/06-07 on 4-12-06 to Sri. Mathew Varghese and Sri. G. Chandramohan for the construction of apartment in 18 cents of land comprised in Survey No. 3325/1-3 of Kowdiar Village, Thiruvananthapuram. The repayment of this loan was due to start on</p>

(1)	(2)	(3)
		<p>05-07-2008. However the repayment schedule was not forwarded to the loanee in time mainly due to inadequate skilled staff in the branch. After forwarding repayment schedule, the EMI cheques for the subsequent period are being presented. Similarly cheque cases are also now filed against the dishonour of EMI cheques. Now, as the loan has been closed on 05/06/2013 as KTDFC has received all the outstanding amounts including penal interest and charges as mentioned earlier in this reply.</p> <p>It is also to be noted that the delay in issue of repayment schedules to the loanees in the above two loans as well as in another loan No. 100348 availed Sri. Venugopal & Smt. Bindu Venugopal, were checked by KTDFC and the then Branch Manager, Smt Salini Devi. K.I, has been issued a memo for this lapse and an Enquiry was conducted in this regard. After enquiry, she was severely warned for her acts of Omission/Negligence and it has also been decided to recover from her the financial loss, if any, caused to KTDFC as and when the same is finalized in Audit. It may be noted that if the loanees pay applicable interest</p>

(1)	(2)	(3)
		<p>and other charges voluntary for the period of delay also, then there won't be any financial loss. Sri. Venugopal & Smt. Bindu Venugopal had already closed their loan accounts by remitting the total due amount including the applicable interest and other charges for the period of delay also.</p> <ul style="list-style-type: none"> • KTDFC Ltd began to sanction Construction loans from the year of 2005-06 onwards. Such loans are so far sanctioned under 3 kinds of interest rates schemes based on the date of sanction of each loans viz, fixed interest rate for the whole period, 3 years fixed then floating interest Scheme and the Floating interest rate scheme. Construction Loans sanctioned till 15-05-2006 were sanctioned with fixed interest rates. There after, it was decided in the 84th meeting of Board of Directors of KTDFC held on 09-05-2006 vide Agenda Item No.1605, that for all Construction loans, the interest shall be at fixed rates for first 3 years and thereafter at floating rates. This was the position till 03/07/2008. As such, Construction loans sanctioned from 16-05-2006 till 03-07-2008

(1)	(2)	(3)
		<p>were sanctioned under the above mentioned '3 years fixed then floating Scheme'. Under the said Scheme, interest rate will be under the fixed interest rate for the first 3 years of repayment and thereafter the same will automatically converted to floating interest rates prevailing from time to time. Thereafter the Board of Directors of KTDFC has resolved vide Agenda Item No.6/100 in its 100th meeting held on 04/07/2008 that hereafter for all construction projects and Home loans have floating rates only so that the fluctuating interest rate in the market will not affect the net interest margin of KTDFC' and that the same was made applicable in KTDFC vide Circular No.30/08 dated 18-08-2008 and that the same was subsequently clarified by the Board of Directors in its 109th meeting held on 17-02-2010 vide Agenda Item No. 9/109, in supercession to its earlier resolutions that 'the charging of floating rates of interest as per the decision on Agenda Item No.6/100 is applicable to all construction, project and Home loans</p>

(1)	(2)	(3)
		<p>sanctioned on or after the date of Board decision (ie on or after 4-07-2008). As such, Construction loans sanctioned from 04-07-2008 are being calculated with floating interest rates for the whole period.</p> <p>So far as the matter of revision of interest is concerned, it is seen that the matter of revision of interest in certain construction loans viz. Loan No.1/CL/IT/TOE/2006-07. (M/s Paramount Photographers), 2.Loan No.1/CL/IT/TOEI2005-06 (S.K Hospital) and 3.Loan No.2/CL/IT/TOE/2005-06 (Credence Hospital) was placed before the Board in its 100th meeting held on 4-07-2008 vide Agenda Item No.6/100 The Board of Directors of KTDFC has accordingly considered the revision of interest and after considering various aspects, it was resolved as follows:-</p> <p>a) Authorized the Managing Director to negotiate with the loanees as a first step to enhance the interest rate and bring it to floating interest rate and report the result to the next Board.</p> <p>b) Hereafter for all construction projects and Home loans have floating rates only so that the</p>

(1)	(2)	(3)
		<p>fluctuating interest rate in the market will not affect the net interest margin of KTDFC.</p> <p>On the basis of the latter decision, the Managing Director had issued Circular. No.30/08 dated 18-08-2008 and Note No.KTDFC/Admn/8807/08 dated 18-09-2008 thereby directing to sent notices to all construction project borrowers that KTDFC is going to charge current rate of interest for the project loans w.e.f 1-10-2008, if any loans are still remaining in fixed rates. It would be appropriate to reproduce the relevant portions of the Note No.KTDFC/Admn/8807/08 dated 18-09-2008 of the Managing Director, which are extracted below:-</p> <p><i>"Since the cost of funds of KTDFC has increased due to the increase in Bank PLR rates recently, a notice may be sent to all construction project borrowers referring agreement provisions in the loan agreement that KTDFC is going to charge current rate of interest for the project loans w.e.f. 01-10-2008, if any loans are still remaining in fixed rates. Hence all loan agreements may be verified and action as above may be taken immediately. "</i></p>

(1)	(2)	(3)
		<p data-bbox="631 323 1395 810">It may be noted that so far as revision of fixed rate of interest is concerned, the terms 'fixed interest rate' and 'floating interest rate' and its applications are elaborately mentioned in clause (3) of Annexure B- Arrangement letter, which is a part of our house, construction and project loan Agreements. Fixed and floating rates of interest are explained as follows:-.</p> <p data-bbox="631 898 1395 1892">"Fixed Rate of interest: Interest on the loan will be charged at% p.a. on daily reducing balance at monthly rest. The Corporation may at its discretion stipulate the periodicity of computation of interest. Further, <i>Corporation may at its sole discretion alter the rate of interest suitably and prospectively in the event of major volatility in interest rates during the period of the agreement. Henceforth the rate of interest varies as aforesaid shall be applicable for the loan. KTDFC shall be the sole judge to determine whether such conditions exists or not. If the Borrower is not agreeable to the revised interest rates so fixed, the Borrower shall request KTDFC, within 15 days of receipt of the notice intimating change in interest rates from KTDFC, to</i></p>

(1)	(2)	(3)
		<p><i>terminate the loan and shall repay the Loan and any (other amount due to KTDFC in full and final settlement in accordance with the provisions of this agreement relating to prepayment"</i></p> <p>"Floating Rate of interest: Interest on the loan will be charged at.....% p.a. with monthly rests. <i>The rate of interest is subject to revision from time to time and you shall be deemed to have notice of changes in the rate of interest whenever the changes are displayed/notified at/by the KTDFC/published in newspapers/made through entry of interest charged in the pass book/statement of account sent to you, etc. The Corporation has the option and sole discretion to reduce or increase the EMI or extend the repayment period consequent upon changes in the rate. In the event of a default in payment or any irregularity in account, the Corporation at its sole discretion reserves the right to levy a higher rate of interest for such period, on the entire outstandings or parts thereof, as it deems fit"</i></p> <p>As such, KTDFC can't revise interest rates by unilaterally converting the fixed interest rate to</p>

(1)	(2)	(3)
		<p>floating rate against the originally agreed terms in the absence of an agreement or consent to the contrary and that KTDFC can only prospectively alter the fixed rate of interest, in the manner as afore stated. Hence any letters sent to the contrary for changing the nature of interest from fixed to floating will not be sustainable as regards the period of first three years of fixed rate.</p> <p>The above matter was accordingly again considered by the Board of Directors of KTDFC and it was finally resolved by the Board of Directors in its 109th meeting held on 17-02-2010 vide Agenda Item No. 9/109, in supercession to its earlier resolutions, as follows:</p> <p>"Resolved that the charging of floating rates of interest as per the decision on Agenda Item No.6/100 is applicable to all construction, project and Home loans sanctioned on or after the date of Board decision(i.e., on or after 4-07-2008)"</p> <p>.....</p> <p>.....</p>

(1)	(2)	(3)
		<p data-bbox="631 323 1395 516">"Resolved further that the original terms and conditions of interest rates for all other construction/project loans will remain unchanged"</p> <p data-bbox="631 548 1395 1860">Since the decisions of the Board of Directors are binding upon the Company, KTDFC can't act against the resolutions unless the same is approved by the Board. It is seen that the Board has passed the above resolutions unambiguously thereby making it clear that the Scheme of full floating rates of interest are applicable prospectively to only those construction, project and Home loans sanctioned on or after 4-07-2008 and that the original terms and conditions of interest rates for all other construction/project loans will remain unchanged. Hence, KTDFC has to follow the said decision, till the same is standing, in the calculation of interest in the above mentioned types of Loans. It is a policy decision taken by the Board of Directors vide Agenda Item No.9/109 and hence KTDFC has to follow the same, whether or not loanees have made any suggestions. regarding the rate of interest to be made applicable in their respective loans Policy decisions are to be applied uniformly to all loans in each category.</p>

(1)	(2)	(3)																												
		<p>The actual applicable interest rate in the loans mentioned in the Audit report are as follows:</p>																												
		<table border="1"> <thead> <tr> <th style="text-align: center;">Sl. No.</th> <th style="text-align: center;">Name of Borrower</th> <th style="text-align: center;">Amount released (in Rs)</th> <th style="text-align: center;">Tenure of the loan</th> <th style="text-align: center;">Date of sanction</th> <th style="text-align: center;">Interest rate applicable</th> <th style="text-align: center;">Interest rate</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td style="text-align: center;">Mathew Varghese</td> <td style="text-align: center;">30058015</td> <td style="text-align: center;">6 year</td> <td style="text-align: center;">4/12/06</td> <td>3 years fixed then floating, vide a) Agenda Item No. 1605 of 84th Board Meeting dated 09/05/2006 b) Agenda Item No. 1658(b) of 86th Board Meeting dated 10/7/2006</td> <td style="text-align: center;">10.75% for first 3 years and then floating</td> </tr> <tr> <td style="text-align: center;">2</td> <td style="text-align: center;">Nazimuddin & Shanavas</td> <td style="text-align: center;">25000000</td> <td style="text-align: center;">5 years</td> <td style="text-align: center;">14/3/07</td> <td>a) Agenda Item No. 1605 of 84th Board Meeting dtd 09/05/2006 b) Agenda Item No. 1775 of the 91st Board meeting dated 6-03-07 by confirmation of Circular Restoration dated 19-12-06.</td> <td style="text-align: center;">10.00% for first 3 years and then floating</td> </tr> <tr> <td style="text-align: center;">3</td> <td style="text-align: center;">Nazimuddin & Shanavas (top up)</td> <td style="text-align: center;">25000000</td> <td style="text-align: center;">3 years</td> <td style="text-align: center;">16/4/08</td> <td>a) Agenda Item No. 1605 of 84th Board Meeting dtd 09/05/2006 b) Agenda Item No. 03/08 of 98th Board Meeting dated 15-02-2008</td> <td style="text-align: center;">12.00% fixed for first 3 years and then floating</td> </tr> </tbody> </table>	Sl. No.	Name of Borrower	Amount released (in Rs)	Tenure of the loan	Date of sanction	Interest rate applicable	Interest rate	1	Mathew Varghese	30058015	6 year	4/12/06	3 years fixed then floating, vide a) Agenda Item No. 1605 of 84 th Board Meeting dated 09/05/2006 b) Agenda Item No. 1658(b) of 86 th Board Meeting dated 10/7/2006	10.75% for first 3 years and then floating	2	Nazimuddin & Shanavas	25000000	5 years	14/3/07	a) Agenda Item No. 1605 of 84 th Board Meeting dtd 09/05/2006 b) Agenda Item No. 1775 of the 91 st Board meeting dated 6-03-07 by confirmation of Circular Restoration dated 19-12-06.	10.00% for first 3 years and then floating	3	Nazimuddin & Shanavas (top up)	25000000	3 years	16/4/08	a) Agenda Item No. 1605 of 84 th Board Meeting dtd 09/05/2006 b) Agenda Item No. 03/08 of 98 th Board Meeting dated 15-02-2008	12.00% fixed for first 3 years and then floating
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(1)	(2)	(3)
		<p>Thus it may be seen that the interest rate applied by the company is correct as per the decision taken in the Board Meetings referred above.</p> <ul style="list-style-type: none"> • So far as the release of No Objection Certificates (NOC) in Loan No. 01/CL/IT/CON/2010-11 availed by M/s Grandtech Builders and Developers Pvt Ltd is concerned, KTDFC has, as on 17-04-2013, issued 40 NOCs in this loan, thereby releasing the lien of KTDFC over the Villas and corresponding share of land for enabling the loanee to sell the said 40 Villas and corresponding shares of land to the prospective buyer. It is seen that the proportionate value for the said 40 Villas for which NOCs were issued till 17-04-2013 was ₹.3,42,95,526/- only. It is seen that the said amount was received in the loan account prior to the issue of the said 40 NOCs. Similarly, now, the total EMI amount remitted till 27-05-2013 in the loan account is ₹ 4,44,58,559/-. As such, it can be found that KTDFC hasn't issued any NOCs in this loan without receiving proportionate loan amount for those Villas as observed in the Audit Report.