FIFTEENTH KERALA LEGISLATIVE ASSEMBLY

COMMITTEE

ON

PUBLIC UNDERTAKINGS
(2021-23)

FIRST REPORT

(Presented on 16th March 2022)

SECRETARIAT OF THE KERALA LEGISLATURE
THIRUVANANTHAPURAM
2022

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The action taken by the Government on the Recommendations contained in the Twenty Second Report of the Committee on Public Undertakings (2016-19) relating to Kerala Financial Corporation, based on the Report of the Comptroller and Auditor General of India for the year ended on 31st March 2006 and 2012

CONTENTS

COMMITTEE ON PUBLIC UNDERTAKINGS (2021-23)

COMPOSITION

Chairman:

Shri. E Chandrasekharan

Members:

Shri A.P.Anilkumar

Shri Anwar Sadath

Shri K .B. Ganesh Kumar

Shri T. V. Ibrahim

Shri P. Mammikutty

Shri K. P. Mohanan

Shri D. K. Murali

Shri P. Nandakumar

Shri Kadakampally Surendran

Shri P. Ubaidulla

Legislature Secretariat:

Shri. S.V. Unnikrishnan Nair, Secretary

Shri. Thrideep. K.G, Joint Secretary

Smt Jayasree. M, Deputy Secretary

Shri. Sajeevan. P. K, Under Secretary

INTRODUCTION

I, the Chairman, Committee on Public Undertakings (2021-23) having been authorised by the Committee to present the Report on their behalf, present this First Report on the Action Taken by Government on the Recommendations contained in the Twenty Second Report of the Committee on Public Undertakings (2016-19) relating to Kerala Financial Corporation, based on the Report of the Comptroller and Auditor General of India for the year ended 31st March, 2006 and 2012.

The Statement of Action Taken by the Government included in this Report was considered by the Committee at its meeting held on 29.09.2021.

This Report was considered and approved by the Committee at its meeting held on 08.02.2022

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

E.CHANDRASEKHARAN,
Chairman,
Committee on Public Undertakings.

Thiruvananthapuram,
16.03. 2022.

REPORT

This Report deals with the action taken by Government on the recommendations contained in the Twenty Second report of the Committee on Public Undertakings (2016-19) relating to Kerala Financial Corporation based on the report of the the Comptroller and Auditor General of India for the year ended 31st March 2006 and 2012.

The Twenty Second Report of the Committee on Public Undertakings (2016-19) was presented to the House on 9th March, 2017.

The Report contained seven recommendations and the Government furnished replies to all the recommendations.

The Committee considered the replies received from the Government at its meeting held on 29.09.2021.

The Committee accepted the replies to the recommendations in Para Nos. 48, 50, 51, 52, 53 & 54 without remarks. These recommendations and the replies furnished by the Government forms Chapter I of this Report.

The Committee accepted the reply to the recommendations in Para No. 49 with remarks. This recommendation, the reply furnished by the Government and remarks of the Committee forms Chapter II of this Report.

CHAPTER – I

REPLIES FURNISHED BY THE GOVERNMENT ON THE RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE COMMITTEE WITHOUT REMARKS

<table>
<tr><th>Sl. No.</th><th>Para No.</th><th>Department Concerned</th><th>Conclusions/Recommendations</th><th>Action Taken by the Government</th></tr>
<tr><td>(1)</td><td>(2)</td><td>(3)</td><td>(4)</td><td>(5)</td></tr>
<tr><td>1</td><td>48</td><td>Finance Department</td><td>The Committee finds that the Corporation had made unrealistic projections inorder to get funds from SIDBI. The Committee strongly disapproves the practice of submitting unrealistic Business Plan and Resource Forecast (BPRF) by the Corporation and emphasizes that the annual BPRF should be prepared only after obtaining the data on actual requirements from the Branch Managers.</td><td>The Corporation makes budgets every year on the basis of past performance and feedbacks from Branch/Zonal managers. An analysis of the Key budget figure for the past years with actual achievements are given below.
(Rs. in crore)
<table>
<tr><th>Year</th><th colspan="3">Budget</th><th colspan="3">Actual</th><th colspan="3">Achievement</th></tr>
<tr><th></th><th>San.</th><th>Disb.</th><th>Rec.</th><th>San.</th><th>Disb.</th><th>Rec.</th><th>San.</th><th>Disb.</th><th>Rec.</th></tr>
<tr><td>2013</td><td>600</td><td>500</td><td>600</td><td>661.39</td><td>475.94</td><td>540.22 %</td><td>110.00 %</td><td>95.00 %</td><td>90.00 %</td></tr>
<tr><td>2014</td><td>800</td><td>600</td><td>620</td><td>989.62</td><td>754.73</td><td>565.13</td><td>124.00 %</td><td>126.00%</td><td>91.00 %</td></tr>
<tr><td>2015</td><td>1050</td><td>880</td><td>700</td><td>947.45</td><td>657.09</td><td>684.27</td><td>90.00 %</td><td>75.00 %</td><td>98.00 %</td></tr>
<tr><td>2016</td><td>1100</td><td>806</td><td>770</td><td>1025.99</td><td>838.36</td><td>758.26</td><td>93.00 %</td><td>104.00%</td><td>98.00 %</td></tr>
</table>
The analysis shows that the Corporation has almost achieved the budget figures in all years. Hence the budgets made by the Corporation are realistic and achievable.</td></tr>
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<table>
<tr><td></td><td></td><td></td><td></td><td>The finance assistance sanctioned/disbursed by SIDBI are 'refinance' of actual disbursements made by the Corporation and not as per the projections made. The details of financial assistance from SIDBI during the above period were as follows. (Rs. in Crore)
<table><tr><th>Year</th><th>Funds</th><th>Rate of interest (%)</th></tr><tr><td>2013</td><td>59</td><td>10.25 and 10.50</td></tr><tr><td>2014</td><td>27.1</td><td>10.5</td></tr><tr><td>2015</td><td>NIL</td><td></td></tr><tr><td>2016</td><td>NIL</td><td></td></tr><tr><td>2017</td><td>NIL</td><td></td></tr></table>
The rate of interest charged by banks during the above period is lower than the rates charged by SIDBI. Now SIDBI has stopped| providing financial assistance to SFCS and are phasing them out. Also the rate of interest charged by them is high compared to commercial banks. Hence the Corporation is not borrowing from SIDBI and the BPRF statement is filed as part of regulatory compliance and not for obtaining funds from SIDBI.</td></tr>
<tr><td>2</td><td>50</td><td>Finance Department</td><td>The Committee realizes that the poor working results prevented the Corporation from accepting public deposits as a result of which the Corporation had to avail funds from Commercial banks to overcome financial crunch. The Committee points out that the pre-closure of loan</td><td>The Corporation has always managed to ensure smooth operations of business with proper financial planning. Being a financial institution, it has also to be ensured that there is no liquidity crunch at any point of time. For fund raising the options available other than plough back from operations are loans from banks, issuing Non SLR Bonds, accepting public deposits. The Corporation could not satisfy the conditions laid down by RBI for accepting</td></tr>
</table>

			availed from HUDCO and the temporary parking of surplus funds in mutual funds are, glaring examples of the Corporation's poor financial planning. Therefore the Committee strongly recommends that the Corporation should follow the guidelines issued by GOI/GOK while investing surplus funds.	deposits during the period mentioned in the report and hence could not go for acceptance of deposits. Since SIDBI had substantially reduced their financial assistance, Corporation had to diversify its source of borrowings and had to resort to borrowings from commercial banks. Steps for issuing Non SLR bonds also were taken up during this period, but the bond issue could be completed only by December 2011, due to various reasons like obtaining Government guarantee, better market conditions, obtaining investment grade credit rating etc. The cost of funds, tenure of funds, ease of availability of funds etc are different for public deposits, LOC from Commercial banks/ SIDBI, Non SLR bonds etc. Hence in the best interest of the Corporation a judicious mix for borrowing was resorted to depending on factors like market conditions, asset liability mismatch, interest rate etc. The Corporation has always tried to ensure adequate line of credit to fulfill its prime aim of sanction and disbursement of loans and for that reason is always scouting for sources of funds and avail LOCS which are considered best at a particular point of time. Since commercial banks and SIDBI had restrictions on financing in CRE sector, corporation approached HUDCO. Accordingly at that time, Rs. 100 crore was sanctioned by HUDCO and Rs. 25.00 crore was availed initially so that the sanction is not lapsed even though government guarantee was pending. Though HUDCO had initially promised LOC at 8.75%, with change in market conditions, they sanctioned the LOC at 10.50% which further

				increased to 12% subsequently as Guarantee given by the State Government was not in the format suggested by HUDCO and hence not accepted by them. KFC has no control over either government or HUDCO and in compelling them to accept the guarantee in a particular format. Since this increased our cost of borrowing, Corporation decided to pre- close the loan account and thus saved extra costs. Sec 34 of SFC Act permits the Corporation to invest in surplus funds in accordance with applicable guidelines and prudential norms and in such securities as the Board may decide from time to time and Corporation has always complied to this in its beşt interest., The Corporation receives funds in lump sum and not on daily basis whereas the outflow for disbursement is on daily basis and other repayment of LOC and borrowings have repayment schedules. If Mutual Fund is not the investment option, then the amount will lie in current account of commercial banks which earns no interest at all. Fixed deposits with banks also have a lock in period of minimum of 7-15 days and no interest is paid if funds are withdrawn before this period. The investment in MFs have given a better return than bank FDs and there was no lock in period. Hence Corporation has earned higher returns as well as liquidity by actively managing its temporary surplus funds. In short the fund management of the Corporation has been done in the best possible and effective manner in the best interest of the Corporation. Presently investments are not made in mutual funds.

3	51	Finance Department	The Committee expresses its concern about the sanctioning of loan without calculating IRR (Internal Rate of Return), disbursement of loan at a very low interest rate in contravention of the Act, disbursement of loan to partnership firms having no professional competence etc. Hence the Committee recommends that the Corporation should ensure that the sanctioning and disbursing of loans are being done in accordance with the provisions of the Act. It is also observed that though RR Act was initiated, the defaulting borrowers were able to prevent the recovery through court orders. The Committee also learns that the Internal Audit lacked professional approach and failed to point out the major deficiencies in disbursement and recovery. Hence the Committee recommends that the Corporation should follow strict recovery mechanism under RR Act as well as Professional Internal Audit system.	While sanctioning loans a realistic view of various ratios like Asset Coverage Ratio (ACR), Debt Equity Ratio (DER), Debt Service Coverage Ratio (DSCR), Break even Point (BEP), Internal Rate of Return (IRR), Projected profitability statements, promoters contribution etc. are taken. For all appraisal cases these ratios are calculated and considered by the sanctioning authority. Emphasis is now given for improving the quality of assets. (ii) Audit system has also been strengthened and post sanction scrutiny and pre-disbursement audit are also done to ensure sanction conditions are complied. Analysis of Quick Mortality cases (Quick Mortality account is an account which turns NPA within a year of its last disbursement) are now done and staff accountability is also being fixed. Periodicity of concurrent audit is now made monthly to find out errors and omissions and audit formats are updated periodically. (iii) The Corporation is following the recovery policy and Loan Monitoring Guidance Note approved by the Board of the Corporation from time to time for the effective recovery mechanism and follow up. RR mechanism is used for the recovery as a last resort. If the party approaches the court against RR, normally it is observed that the court does not give any indefinite stay and ask the defaulting client to remit some portion of the arrears. If the amount as specified by court is not remitted within the stipulated time, Corporation is at its liberty to resurrect RR proceedings against the defaulters and in such cases RR action is immediately resumed. As a result of the follow up in RR

				cases, the total collection through RR has increased from Rs. 18.61 crores for FY 2015-16 to Rs. 37.17 crores for FY 2016-17.
4	52	Finance Department	The Committee further finds that the Corporation sanctioned loan to chronic defaulters without proper assessment of the projects and without ensuring collateral security. The Committee learns that the non-adherence of prescribed norms and procedures for sanction and disbursement of loans led to heavy default and non recovery of loans. Therefore the Committee directs the Corporation to ensure that all the norms are strictly adhered to at the time of disbursement of loans.	The Board of the Corporation, at its sitting on 24.03.2017, resolved to include deviations from norms, if any, in the report on sanctions during the preceding period. This is being included in reports to the Board from now on.
5	53	Finance Department	The Committee criticises the Corporation's adhoc action of disbursement of loans before ensuring the sufficiency of promoters contribution. The Committee recommends that effective procedure should be introduced to ensure the genuineness of documents accepted and to avoid over valuation. The Committee finds that due to adjustment of disbursement against dues the actual purpose of providing	Generally the sanctioned financial assistance is disbursed maintaining the prescribed promoters' contribution and asset coverage ratio. Only in certain cases are relaxations done in these and they are done primarily to speed up implementation of project and thus avoid time and cost overrun. The relaxation in promoters' contribution below the minimum fixed for the scheme is done after proper evaluation by the Branch Level Committee, Zonal Manager and the Managing Director. Most valuations are conducted by the officials of the Corporation and the procedures for the same are spelt out in the Valuation Policy of the Corporation. Only in

			assistance to industrial units was defeated. Such adjustment of loan amounts released against overdue arrears should be avoided.	situations. where there is a temporary non-availability of the valuation personnel in a Branch, valuation through external valuers resorted. The selection of external valuer is guided by the procedures listed out in the Valuation Policy. In most cases the disbursement is made as reimbursement of investment made by the promoters in the project. As such the adjustment of arrears does not affect the implementation of the project. However the suggestion to avoid such adjustment is noted for adoption in the policy documents for the future.
6	54	Finance Department	The Committee further learns that the Corporation had failed to achieve its constitutional objectives due to the lack of sound system of Corporate Governance and absence of a Vigilance cell. Hence it is suggested that necessary steps be taken to strengthen the Corporate Governance and Vigilance setup.	Corporation has strictly following the Loan policy, compromise settlement policy, Valuation policy, Loan monitoring guidelines etc and every year Board of the Corporation reviewing the policies and making necessary amendments to improve the functioning of the system, thereby keeping fairness, responsibility, accountability and transparency in dealing with the customers. Corporation has also got ISO certification and ensuring the compliance of the procedures. Moreover as per RTI Act, Public Information Officers, Asst. Public Information Officers and Appellate Officers are designated in the Head office and Branch offices and prompt action is taken for replying the petitions received under RTI Act. A police officer of the rank of DYSP has been appointed as Vigilance Officer.

<u>**CHAPTER – II**</u>

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

Sl. No.	Para No.	Department Concerned	Conclusions/Recommendations	Action Taken by the Government
(1)	(2)	(3)	(4)	(5)
1	49	Finance Department	The Committee observes the failure of the Corporation in following the guidelines of RBI regarding the rescheduling of loans. The Committee also learns that even after rescheduling, defaults had occurred in respect of 842 borrowings amounting ₹24.78 crore. Hence the Committee recommends that steps should be taken by the Corporation to take over the assets under Section 29 of the State Financial Corporation's Act in respect of defaulters.	Steps have already been taken for taking over of assets under Sec. 29 of SFC Act in respect of defaulters. Now 25 defaulted units are taken over under Sec. 29 of SFC Act.

Remarks:

The Committee expresses its strong dissatisfaction over the reply furnished by the Government that only 25 dafaulted units are taken over as per the Kerala State Financial Corporation Act on the recommendation of the Committee to take over the assets of ₹ 24.78 crore in 842 borrowings. Therefore, the Committee directs to submit a detailed report on the present position of taking over of assets of defaulters in respect of all the 842 borrowings.

E.Chandrasekharan
Chairman
Committee on Public Undertakings

Thiruvananthapuram
16.03.2022