

# **STRESSED ASSETS STABILISATION FUND (SASF)**

**MINISTRY OF FINANCE  
(DEPARTMENT OF FINANCIAL SERVICES)**

**PUBLIC ACCOUNTS COMMITTEE  
(2017-18)**

**SEVENTY-EIGHTH REPORT**

---

**SIXTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

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(2017-18)

SIXTEENTH LOK SABHA

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(DEPARTMENT OF FINANCIAL SERVICES)

Presented to Speaker, Lok Sabha on ..... 6.6.17 .....

Presented to Lok Sabha on: .. 18.7.2017 .....

Laid in Rajya Sabha on: ..... 18.7.2017 .....



LOK SABHA SECRETARIAT  
NEW DELHI

May, 2017/ Jyaishta, 1939 (Saka).

# CONTENTS

|      |   | PAGE NO. |
|------|---|----------|
|      | COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2017-18)  | (iii)    |
|      | COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2016-17)  | (iv)     |
|      | COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2015-16)  | (vii)    |
|      | COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2014-15)  | (ix)     |
|      | INTRODUCTION  | (xi)     |
|      | PART - I  |          |
|      | CHAPTER - I   |          |
|      | INTRODUCTION  |          |
| I    | Introductory  | 1        |
| II   | Scope and Objectives of Audit   | 3        |
| III  | Remitting Recovered Money to the Government of India  | 4        |
| IV   | Audit of Accounts of SASF   | 7        |
| V    | Cost of Administering the Trust   | 9        |
| VI   | Exchange of Assets and Surrender of Securities  | 11       |
| VII  | Deficiencies in obtaining of Personal Guarantees  | 16       |
| VIII | Recovery of Stressed Assets specially NLO cases with more than ₹25 crore                      | 20       |
| IX   | Settlement below NLO  | 21       |
| X    | Organisational set-up and Availability of Staff at SASF                                       | 25       |
| XI   | IDBI Bank's rising Non-Performing Assets (NPAs)   | 28       |
|      |   |          |
|      | PART - II   |          |
|      | Observations/recommendations of the Committee   | 30       |
|      | APPENDICES  |          |
| I.   | Minutes of the Fourth sitting of the Public Accounts Committee (2015-16) held on 17.07.2015.  | 45       |
| II.  | Minutes of the Seventh sitting of the Public Accounts Committee (2016-17) held on 12.07.2016. | 50       |
| III. | Minutes of the Third sitting of the Public Accounts Committee (2017-18) held on 26.05.2017.   | 54       |

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(2017-18)**

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7. Shri Bhartruhari Mahtab
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Neiphiu Rio
10. Shri Dushyant Singh
11. Shri Janardan Singh Sigriwal
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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2014-15).

Prof. K.V. Thomas - Chairperson

MEMBERS

LOK SABHA

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3. Shri Sudip Bandyopadhyay
4. Shri Ranjit Singh Brahmopura
5. Shri Nishikant Dubey
6. Shri Gajanan Kirtikar
7. Shri Bhartruhari Mahtab
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Neiphiu Rio
- 10<sup>†</sup>. *Vacant*
11. Shri Janardan Singh Sigriwal
- 12<sup>‡</sup>. *Vacant*
13. Dr. Kirit Somaiya
14. Shri Anurag Thakur
- 15<sup>§</sup>. *Vacant*

RAJYA SABHA

16. Shri Satyavrat Chaturvedi
17. Shri Vijay Goel
18. Dr. Satyanarayan Jatiya
19. Shri Bhubaneswar Kalita
20. Shri Shantaram Naik
21. Shri Sukhendu Sekhar Roy
22. Shri Ranchandra Prasad Singh

<sup>†</sup> Vacant vice Shri Rajiv Pratap Rudy who has been appointed as Minister w.e.f. 9<sup>th</sup> November, 2014.

<sup>‡</sup> Vacant vice Shri Jayant Sinha who has been appointed as Minister w.e.f. 9<sup>th</sup> November, 2014.

<sup>§</sup> Vacant vice Dr. M. Thambidurai who has been chosen as Hon'ble Deputy Speaker, Lok Sabha and has since resigned from the membership of the Committee.

## INTRODUCTION

1. I, the Chairperson, Public Accounts Committee (2017-18), having been authorised by the Committee, do present this Seventy-eight Report (Sixteenth Lok Sabha) on "Stressed Assets Stabilisation Fund (SASF)" based on C&AG Report No. 5 of 2014 relating to the Ministry of Finance (Department of Financial Services).

2. The Report No. 5 of 2014 of the Comptroller and Auditor General of India was laid on the Table of the House on 18 July, 2014.

3. C&AG Report No. 5 of 2014 on Stressed Assets Stabilisation Fund (SASF) was selected by the Public Accounts Committee (PAC) for examination in 2014-15. The subject was continued for examination by successor PAC during their terms (2015-16) and (2016-17).

4. The Public Accounts Committee (2015-16) and (2016-17) took oral evidences of the representatives of both the Ministry of Finance (Department of Financial Services) and IDBI Bank on 17 July, 2015 and 12 July, 2016 respectively and hitherto, the Public Accounts Committee (2017-18) present a Report based on the evidences taken by the predecessor Committees of PAC. The Committee considered and adopted this Draft Report at their sitting held on 26 May, 2017. The Minutes of the sittings are appended to the Report.

5. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold and form Part II of the Report.

6. The Committee thank the predecessor Committees for taking oral evidence and obtaining information on the subject.

7. The Committee would like to express their thanks to the representatives of the Ministry of Finance (Department of Financial Services) and IDBI Bank for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

8. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

NEW DELHI;

29 May, 2017

8 Jyaistha 1939 (Saka)

Shri Mallikarjun Kharge,

Chairperson,

Public Accounts Committee.



## REPORT

## PART I

## I. INTRODUCTORY

Industrial Development Bank of India (IDBI), a statutory corporation established under the Industrial Development Bank of India Act 1964, was an apex institution to provide long term finance to industrial enterprises, both in public and private sectors. IDBI ceased to exist with effect from 1 October 2004 and in its place IDBI Bank came into being as an entity registered under the Companies Act 1956. The undertaking of IDBI was transferred to and vested in IDBI Bank. As of March 2004, IDBI accumulated non-performing assets (NPA) which stood approximately at ₹ 9,000 crore.

2. In order to acquire by transfer the Stressed Assets of IDBI and for managing these assets with a view to recovering the amounts due, the Government, as settlor, decided to set up a special purpose vehicle in the form of a Trust. It created a "Stressed Assets Stabilisation Fund" (SASF) for the Stressed Assets of IDBI and SASF Trust Deed was executed in September 2004.

3. The Government provided ₹ 9,000 crore in the budget for the financial year 2004-05 for extending loan to the Trust. The amount was to be "invested in non-interest bearing special securities to be issued by Central Government". Consequently, the expenditure in Demand No.34 after netting the credit as in Special Deposits and Accounts ( Major Head 8012) was exhibited therefore Nil.

4. The Trust in turn invested the money in zero interest Government special securities redeemable in 20 years. The Trust assigned these special securities amounting to ₹ 9,000 crore to IDBI (or its successor IDBI Bank) and in return, acquired 636 NPA/ stressed loan assets with a net loan outstanding (NLO) of ₹ 9,004 crore.

5. In June 2006, SASF exchanged with IDBI Bank eight turnaround cases for three fresh NPA / stressed loan assets and after exchange of these cases, there were 631 NPA / stressed loan assets with NLO of ₹ 9,006 crore.

6. SASF is managed by a Board of Trustees (BOT) appointed by the Government of India. The Board consists of one Chairperson, one Executive Trustee and three members. From 1 January 2013 onwards the posts of Chairperson and Executive Trustee have been merged. The Board of Trustees is assisted by one Chief General Manager, one General Manager and 22 other officials.

7. As per the Trust Deed, the Board of Trustees were given powers to recover the stressed assets by restructuring, arriving at settlement with the borrowers, taking legal measures or adopting such measures as they may deem fit including but not limited to their recovery as arrears of land revenue. The BOT brought out (December 2004) a brief policy and procedure for settlement of dues including delegation of powers to Committee of Officers (COO) and Executive Committee (EC) and a detailed recovery policy including delegation of powers to COO and EC was approved by BOT in April 2005. The policy was reviewed and modified in July 2006.

8. The main thrust of the policy was to recover the amounts locked up in the assets within the shortest possible time preferably by resorting to one time settlement (OTS) or negotiated settlement (NS). Restructuring could be considered in potentially viable cases and minimum dues to be restructured might include entire principal and interest. Interest rate on restructured core principal shall not normally be less than a rate equivalent to 200 basis points less than benchmark prime lending rate (BPLR) of IDBI on average yield basis. The basic objective of the recovery policy was to bring about a pragmatic and flexible approach to optimise resolution of the stressed assets and recovery of amounts locked up in these assets in the shortest time possible.

9. The C&AG while bringing out Report No. 5 of 2014 on "Stressed Assets Stabilisation Fund" for the year ended March 2013 carried out the audit of SASF under Section 20 (1) of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and laid the Report before Parliament on 18 July, 2014.

## II Scope and Objectives of Audit

10. The C&AG carried out the Audit of SASF with the following audit objectives and covered period from inception of the Trust to 31 March 2013. The audit objectives, broadly were to assess whether:

- The Trust remitted the amount recovered to the Government as per the Trust Deed and special securities equal to amount so transferred have been liquidated and the loan amount reduced accordingly;
- The SASF Board had established fair and transparent procedure for recovery of stressed assets;
- The Board took steps to recover stressed assets as per the established procedures;
- In case of liquidation of stressed assets, proper valuation was done to ensure optimum realization of the assets;
- The personal guarantees from promoters were available in records with the details of personal assets; the Trust had been collecting copies of the income tax return from them and in the event of failure of other measures, the final measure of invoking the personal guarantees/ attaching and liquidating the stressed assets has been promptly taken; and
- The Trust was on track to achieve the stated objective of realizing stressed assets.

11. The Audit selected a sample of 88 cases out of 631 for examination in a stratified manner. The sample covered 62.77 per cent of total value of stressed assets. All 52 cases with Net Loan Outstanding (NLO) above ₹ 25 crore were selected.

### III REMITTING RECOVERED MONEY TO THE GOVERNMENT OF INDIA

12. As of March 2004, the non-performing assets of IDBI stood at ₹ 9,000 crore approximately. Consequent to transfer of these stressed assets to SASF, NPAs of IDBI declined sharply from 14 per cent during 2002-03 to 2 per cent as of September 2004. The transaction effected by the Government of India in acquiring these assets did not involve any immediate cash outgo. GOI provided a loan of ₹ 9000 crore to the Trust who in turn invested the same amount in zero-interest Government Special Securities floated by Government of India and redeemable in 20 years. These securities in turn were assigned by the Trust to IDBI in lieu of the NPAs of an equivalent amount.

13. This arrangement of transferring NPAs to the Trust was akin to underwriting the non-performing assets of IDBI. As per the present scheme of things, Government of India will have to redeem the Special Securities in 2024 to the extent of the value of the assets which will remain unrecovered. Even though the arrangement did not involve any immediate cash outgo, it has created a liability for the same as and when these securities would be redeemed. Thus effectively, Government of India have taken the burden of NPAs of IDBI by creating a future liability. This apart from helping the defaulting borrowers has also extended benefits to other shareholders of IDBI as at the time of transfer GOI held 58.47 per cent of total shares.

14. As per the Trust Deed, the Trustees shall recover the stressed assets and shall pay the amount recovered to the Government and the Government at the end of February each year pay to IDBI the amount received from the Trust. The special securities shall be redeemed to the extent of payment received from the Government. On perusal of the details regarding targeted recovery, amount recovered, amount remitted and balance amount shown in the accounts of IDBI from 2004-05 to 2012-13, the Audit observed that there was a shortfall in recovery of ₹ 1,528.86 crore as compared to the targeted recovery. Bulk of the recovery was effected in the initial period of the Trust, i.e. between 2005-06 and 2007-08. Thereafter, the recovery

amount declined significantly indicating that the cases left now are more complex and difficult.

15. The Ministry of Finance (Department of Financial Services) in their background note have stated that SASF since October 2004 till FY 2015-16 has recovered and remitted to the GoI ₹ 4514 crore for redemption of the special securities and the balance securities yet to be redeemed as on March 31, 2016 are ₹ 4486 crore as indicated below:

Redemption of GoI Securities

( ₹ Crore)

| Financial Year | Amount Recovered | Government Securities Redeemed |
|----------------|------------------|--------------------------------|
| 2004-05        | 200.50           | 134                            |
| 2005-06        | 723.38           | 637                            |
| 2006-07        | 927.68           | 863                            |
| 2007-08        | 756.73           | 750                            |
| 2008-09        | 281.16           | 475                            |
| 2009-10        | 322.68           | 300                            |
| 2010-11        | 332.53           | 300                            |
| 2011-12        | 224.26           | 300                            |
| 2012-13        | 302.22           | 300                            |
| 2013-14        | 250.00           | 250                            |
| 2014-15        | 105.00           | 105                            |
| 2015-16        |                  | 100                            |

16. The Secretary, Department of Financial Services during the oral evidence held on 17 July 2015 submitted before the Committee as under :-

"From the Budget, a loan was given to the Trust and that money which was given to the Trust was given back to the Government. The Government issued securities in their name; the Government did not give any money physically. So, we got the money back. Actually, so far, we have not lost any money. What we need to see now is there is a remaining gap of ₹ 9,000 crore of which the figure of recovery is ₹ 4,400 crore. Now on the remaining amount the IDBI's view is that as per the agreement it is a non-recourse kind of arrangement which means if there is a gap, the gap would not be taken by IDBI but by the Government. That is their view. The Ministry is still to come out clearly in favour of this. We have not yet taken a view. The Ministry can still ask the legal people. If there is a liability it will have to be met over a period of time by the IDBI."

17. The Secretary, Department of Financial Services during the oral evidence held on 12 July 2016 further submitted before the Committee as under :-

"We have before us two legal documents, a Trust deed, one of the transfer deeds relating to part of the property which was supposed to be covered by SASF arrangement. In terms of the Trust Deed, it is absolutely clear that the accounts of the fund are to be audited by the CAG. It does not require any further interpretation. That is the commitment that the Government has already provided, by being the signatory to this Trust deed. I also draw your attention to Section 18c of the Trust deed, which says, all cost of administering the Trust shall be borne by IDBI or its successor. Therefore, that point is also absolutely clear as far as this document is concerned.

Third point is that the transfer deals actually have complete information about the specific non-performing assets which have been transferred. Once the transfer deeds have been signed and executed, consequent upon the execution of the Trust deed, it is not open to flip that assets around exchanging eight assets or anything like that. The first point is that we stand by all those commitments have been made and those commitments are meant to be honoured and will be honoured.

As far as ₹ 72.86 crore which was cost of administering the Trust has been paid, I am informed by IDBI already. Since the MD is here, he would also confirm the point that I have just made.

Secondly, remaining amount of ₹ 1064.27 crore which has been identified by CAG Office as amount which is due, it has become due on account of the incorrect flipping of assets which is not supported by any legal document and we stand by the commitment that has been made earlier that this amount has to be paid by IDBI. I have had a discussion with MD, IDBI before coming into this meeting, and he has confirmed that this amount will be paid. He will confirm this in his own words shortly.

As far as future losses are concerned, there is already a communication that has been sent to IDBI on account of amounts not recovered or haircuts as they are called in banking parlance, those amounts are the responsibility of IDBI. The Government has actually helped to clear the balance sheet of IDBI by creating an SASF. But it is not that it has taken over the loans at all times therefore also become party to the haircuts. That is the point that is absolutely cleared and has been clarified in writing, and we stand by that.

I would ask the MD, IDBI to confirm the points that I have made."

18. On the above issues, the MD & CEO, IDBI Bank stated as under:-

"I confirm that ₹ 72.86 crore has been paid by IDBI to SESF towards expenditures. I also confirm that the amount which has been pointed out by CAG about ₹ 1,064.27 crore out of the exchange of assets, the Government has actually asked us to refund. We would be doing it shortly. We confirm that yes, we would execute that. In case of future also, out of short recoveries, etc. would be borne by IDBI."

#### IV. Audit of Accounts of SASF

19. Audit observed that Clause 17(a) of the Trust Deed states "the accounts of the fund shall be maintained and audited by the CAG of India". The provision of maintenance of accounts by CAG was mistakenly placed as the responsibility to

prepare the accounts rests with the executives and not with the CAG. CAG was not consulted while preparing the Trust Deed.

20. So far as audit of the Trust is concerned, by quoting the above clause, the Trust had requested (June 2005) CAG to appoint an auditor. CAG informed (July 2005) that since the Trust was an independent legal entity, audit could be undertaken only after such audit was entrusted under section 20(1) of the CAG's (DPC) Act, 1971. The Trust was requested to send their proposal through the Ministry of Finance. The views of the CAG were brought to the notice of the Ministry by the Trust in August 2005. No response was received from the Ministry until Mumbai High Court intervened in February 2013. The Ministry finally entrusted audit of SASF to CAG in May 2013 almost eight years since the inception of the Trust. In the meanwhile the Trust continued to prepare its accounts for the years 2004-05 to 2011-12 and got them audited by M/s. G. P. Kapadia & Company, a Chartered Accountants' firm in Mumbai.

21. On being asked to the Ministry regarding their opinion on delay in audit resulting in carrying on of wrong practices for years, the Ministry replied as under :-

"The audit was related to SASF period and SASF itself had requested CAG to conduct an audit."

22. Audit in continuation of their vetting remarks to the above stated that :-

"\*\*\*\* Ministry finally entrusted audit of SASF to CAG in May 2013 almost eight years since the inception of the Trust and that also for the period from 2004-05 to 2013-14. \*\*\*\* Audit for the subsequent period was not entrusted to CAG despite taking up the matter with the Ministry in January 2014, February 2015, May 2015 and February 2016. SASF vide its letters dated 7 January 2015 and November 2015 has also requested Ministry of Finance for entrusting the audit of SASF to CAG. However, no response has been received from the Ministry so far (April 2016)."



23. The Dy. C&AG and Secretary, Department of Financial Services (DFS) during the oral evidence held on 12 July 2016 exchanged following views on the above matter as under:-

*"Secretary, DFS: \*\*\*\* In terms of the Trust Deed, it is absolutely clear that the accounts of the fund are to be audited by the CAG. It does not require any further interpretation. That is the commitment that the Government has already provided, by being the signatory to this Trust Deed. \*\*\*\*"*

*\*\*\*\**

*"Dy. C&AG: With reference to what Secretary, Financial Services has said, just a small amplification. While the Trust Deed does contain a statement that it should be audited by the CAG, under the DPC Act it is required that a request be made by the Ministry of Finance, which was made subsequently and the audit we had taken up. In fact, for the two years subsequent to that, that is, 2014-15 onwards, a request has to come for which reminders have been sent. So, even though it is mentioned in the Trust Deed, this is a procedure which actually has finally been followed."*

*Secretary, DFS: Is a request required on an annual basis?*

*Dy. C&AG: The request is for a timeframe. So, you can request it even for the next four years."*

24. On being asked why was the Ministry reluctant to entrust audit of SASF to CAG, the Ministry vide their response dated 12 September 2016 stated as under :-

*"Going further, Ministry has requested to C&AG to conduct audit of SASF for the period of 2013-18 vide letter dated 13.07.2016."*

#### V. Cost of Administering the Trust

25. As stated by the Audit in their Report all the costs of administering the Trust have been borne by IDBI as per clause 18(c) of the Trust Deed. - The expenditure of ₹ 72.86 crore (from 2004-05 to 2011-12) incurred on safeguarding borrowers' assets was reimbursed to IDBI from the recoveries made from the borrowers. But for the Trust, the expenditure on safeguarding assets would have been borne by IDBI. Further, there is

no provision in the Trust Deed to recover such amount from the realisation of stressed assets. Rather, clause 18(c) of the Trust Deed categorically mentions that all costs of administering the Trust have to be borne by IDBI. Thus, this amount should also have been transferred to the GOI. By not doing so, the burden of the GOI has gone up to that extent as the full recovery of the stressed assets is unlikely, yet the GOI will have to redeem the outstanding special securities in 2024.

26. Ministry in its reply informed Audit that since clause 18(c) of the Trust Deed provided that IDBI shall meet the expenses of administering the Trust, it had been decided to direct the bank to return the amount to SASF.

27. On the above issue, the then DMD, IDBI Bank during the course of evidence before the Committee held on 17 July 2015 submitted as under :-

"One point has been made that the administrative costs which were supposed to be borne by IDBI, they have been reimbursed by SASF to IDBI Bank. We are willing to pay them back. We would do that shortly. You have asked by when they will be paid. They will be paid within the next few days."

28. On the issue raised in the C&AG Report on expenditure incurred on Trust Administration and the Ministry's take on the present status and likely date by which IDBI would return the amount to SASF, the Ministry of Finance (Department of Financial Services (DFS) in their post-evidence reply submitted as follows:-

"DFS has instructed IDBI vide letter No.8/8/2004-IF-1 (BOA) dated 20.08.2014 to return Rs. 72.86 crore to SASF as this is a part of the expenses to be borne by IDBI Bank. However, IDBI has not yet returned the amount."

29. The Department of Financial Services in their Background note placed for perusal of the Committee's sitting held on 12 July, 2016 submitted that IDBI Bank has deposited ₹ 72.86 crore on 8 July 2016.

30. The Secretary, Department of Financial Services during the sitting of the Committee held on 12 July, 2016 stated that :-

"As far as ₹ 72.86 crore which was cost of administering the Trust has been paid, I am informed by IDBI already. Since the MD is here, he would also confirm the point that I have just made."

## VI. Exchange of Assets and Surrender of Securities

31. Between September 2004 and May 2005, IDBI, by executing six transfer/assignment/transfer of mortgage deeds, assigned 636 stressed assets with net loan outstanding of ₹ 9,004 crore to SASF. However, IDBI Bank submitted (February 2006 / April 2006) proposals to GOI for exchange of turnaround cases for other stressed assets. Exchange of cases was not permissible as the objective of formation of SASF was to take over the NPAs / potential NPAs existing as on 31 March 2004 only. Thus, no subsequent exchange was permissible. The GOI intimated (May 2006) IDBI Bank that the Stressed Assets Stabilisation Fund in existence was created for a specific purpose, i.e., for stressed assets for that point of time and it would not be proper to extend the scope and life of SASF.

32. Despite this, the Board of IDBI Bank decided (June 2006) and Board of Trustees approved (24 June 2006) exchange of eight turnaround cases (Asian Peroxide Limited; Dabhol Power Company; Indian Seamless Steels and Alloys Limited; Pioneer Distilleries Limited; STI India Limited; Sujana Metal Products Limited; Sujana Universal Industries Limited and Ventura Textiles Corporation Limited) with NLO of Rs 1,522.29 crore for three fresh cases (SJK Steels Plant Limited; SPIC Petrochemicals Ltd; and Shri Vishnupriya Industries Ltd). The transfer deed was executed (28 June 2006) between IDBI Bank and SASF for exchange of cases.

33. Audit noticed that in eight cases, which were transferred to IDBI in 2006, against a total NLO of ₹ 1,522.29 crore, the recovery made was ₹ 1,659 crore. On the other hand, only ₹ 360.32 crore could be recovered from the three exchanged cases. This inadmissible exchange which was not approved by the Government of India, benefitted

IDBI. On the assets transferred to IDBI, the recovery was even more than the NLO. On the assets received by the Trust in exchange, the recovery was minimal.

34. The Ministry in their reply to the Audit stated that even though the exchange of assets was not in line with the objective and scope of formation of SASF which was reiterated by the Government of India when the proposal of exchange of assets was received from IDBI in May 2006, the Bank took a business decision in the interest of the Bank and to save some stressed assets in which there was a life for revival. However, since the GOI did not agree with the proposal of the Bank for the exchange of assets, the observations of the Audit was accepted by the Ministry and IDBI Bank was being directed to take all remedial measures including necessary steps such as obtaining approvals from various regulatory authorities, Board, Government etc., if any, and complete the process in the next three to five years starting from financial year 2014-15 to restore the position prior to exchange of assets in 2006-07, as far as possible and consequently redeeming of special securities held by the Bank worth the value of assets taken over by the Bank since SASF at this juncture cannot take back these assets being refinanced by IDBI and their original value and nature altered. Further, the Bank was also being directed to take back the three assets which have been given to SASF in exchange.

35. The then DMD, IDBI Bank during the oral evidence tendered before the Committee on 17 July 2015 submitted as under on the above issue:-

"The exchange of assets which happened in 2006, I would like to submit that this exchange of assets was basically triggered and initiated by the Government of India's directive to rehabilitate Ratnagiri Gas and Power Private limited (RGPP) which was known as Dabhol Power Plant at that point of time. The ₹ 9,004 crore of net assets which were transferred to SASF also included Dabhol power company. It needed for its revival, additional assistance and continuing working capital. That could not have been done by SASF because it was not SASF's mandate. Therefore, this proposal was mooted that this be taken out of SASF, brought into IDBI's main books and, since IDBI was the lead institution, together

with other participants, efforts be made to revive it. That account is still continuing with us. We have pumped in additional money into that together with other lenders also. The banks have been trying to revive this plant again with the help of the Government and various other stakeholders so that the net stock of assets remains intact at the same level as was originally planned with SASF, in lieu of RGPPL and one or two more assets, the assets were transferred back to SASF also. That was the basic intent. Those assets then have been dealt with respectively and with IDBI and SASF in normal course, recovery methods have been pursued. Part recovery has happened. In some cases, recovery process is on."

36. The Secretary, DFS during the same sitting of the Committee submitted as under:-

"Regarding Ratnagiri project, I would say that perhaps the then Government had decided though the government had not formally approved the exchange of assets between the SASF and IDBI. But I was told the reason for giving the Ratnagiri asset back was it was not a junk value asset; it was possible to be rehabilitated by some support and the Government wanted to support it by giving some additional package or restructuring. That is why it was given back to IDBI. The discussions are going on for the revival of this project; even the hon. Members know about it.

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There was a meeting at the highest level on the project. All the banks were there; all the Ministries were there; the Maharashtra Government was also there. We are trying to sort out and see that instead of an NPA it becomes an operational asset; only if this asset alone can give us all the losses. If after five years we are able to recover this one asset also, it can make good all the other losses.

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In respect of those projects which are exchanged because the Government has not approved the exchange of projects, the Government can also take a view that whatever is the recovery out of those projects that will come back to SASF. We

can also take that view. One of those projects is the Ratnagiri project. If it earns some money, that can come back to SASF and after that could be replaced.

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37. On being asked how would the IDBI justify the loss incurred by SASF to the tune of ₹ 975.83 crore due to inadmissible exchange / transfer of cases in 2006 in violation of GOI orders, the Ministry in their reply stated as under :-

"IDBI Bank has advised that an EGOM was set up by GoI in October, 2014 to facilitate early resolution of issues related to the Dabhol Power Company or Rathagiri Gas and Power Pvt. Ltd. (RGPPPL). A restructuring framework was developed and approved by EGOM which was to be implemented by all the stakeholders. The restructuring was not possible with account remaining with SASF as it had no mandate or capacity to provide the required additional funds or to carry out day-to-day monitoring of the operation of the accounts. The transfer of equivalent amount of stressed assets to SASF was done to bring about parity in the exchange.

Transfer of assets back to IDBI Bank now for rectifying inadmissible transfer may lead to borrowers raising legal objections regarding validity of action taken by SASF so far. This will delay the recovery and jeopardize the recovery prospects which are already weak."

38. On being asked further why the Ministry did not take immediate action at the time when SASF and IDBI exchanged assets in violation of the GOI orders, the reply furnished by the Ministry is as under :-

"The exchange of assets took place in 2006 and the Ministry came to know about it from the CAG Report only."

39. The Ministry in their background note for the sitting of the Committee on 12 July 2016 stated as under :-

"In continuation of CAG audit, the Department directed IDBI Bank on 17.04.2014 that it shall surrender the securities worth ₹ 1,137.13 crore (Rs. 1,064.27 crore + ₹ 72.86 crore) over a period of three years starting from FY15. No instructions have been issued to the contrary since then. IDBI Bank has deposited ₹ 72.86 crore on 8<sup>th</sup> July 2016."

40. Subsequently, during the sitting of the Committee held on 12 July 2016, the Secretary, DFS submitted as under :-

"Third point is that the transfer deals actually have complete information about the specific non-performing assets which have been transferred. Once the transfer deeds have been signed and executed, consequent upon the execution of the Trust Deed, it is not open to flip that assets around exchanging eight assets or anything like that. The first point is that we stand by all those commitments have been made and those commitments are meant to be honoured and will be honoured.

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Secondly, remaining amount of ₹ 1064.27 crore which has been identified by CAG Office as amount which is due, it has become due on account of the incorrect flipping of assets which is not supported by any legal document and we stand by the commitment that has been made earlier that this amount has to be paid by IDBI. I have had a discussion with MD, IDBI before coming into this meeting, and he has confirmed that this amount will be paid. He will confirm this in his own words shortly."

41. The MD. &CEO, IDBI Bank during the above mentioned sitting submitted to the Committee as under :-

"I confirm that ₹ 72.86 crore has been paid by IDBI to SESF towards expenditures. I also confirm that the amount which has been pointed out by CAG about ₹ 1,064.27 crore out of the exchange of assets, the Government has actually asked us to refund. We would be doing it shortly. We confirm that yes,

we would execute that. In case of future also, out of short recoveries, etc. would be borne by IDBI."

42. The MD & CEO, IDBI Bank vide letter dated 14 March 2017 addressed to the Chairperson, Public Accounts Committee (2016-17) inter-alia requested as under:-

" \*\*\*\*                      \*\*\*\*                      \*\*\*\* In this regard, considering the weak financial position of the Bank, we made representations to the Government of India (GoI), Ministry of Finance (MoF) for permitting us to surrender securities worth Rs.1064.72 crore over a period of three years. The Bank therein had proposed to provide for the same evenly over eleven quarters beginning with the quarter ended September 30, 2016. Accordingly, the Bank has already made provision of ₹ 193.50 crore in the two quarters upto December 31, 2016.

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In this connection, we submit our request to permit Bank to surrender securities worth ₹ 1064.72 crore over a period of three years. Bank has already provided to surrender securities worth ₹ 198.50 crore over last two quarters. The remaining securities worth ₹ 870.77 crore also would be provided for Bank in following nine quarters. Since the financial position of the Bank at present is weak, this request is submitted humbly for your kind consideration "

#### VII. Deficiencies in obtaining of Personal Guarantees

43. Audit examined 88 cases on a stratified random sampling basis, the summary of which is given below:

| Particulars      | No. of cases | NLO             | Rs. in crore     |
|------------------|--------------|-----------------|------------------|
|                  |              |                 | Amount recovered |
| Settled cases    | 34           | 1391.01         | 967.16           |
| Resolved cases   | 15           | 2326.60         | 686.03           |
| Unresolved cases | 39           | 1935.97         | 208.56           |
| <b>TOTAL</b>     | <b>88</b>    | <b>5,653.58</b> | <b>1,861.75</b>  |



44. Out of 88 cases test checked by the audit, in respect of eight cases with NLO of Rs 1,061.85 crore, no personal guarantees were obtained by IDBI at the time of loan disbursement. In respect of the remaining 80 cases, the Trust could produce copies of personal guarantees for 53 cases only. Scrutiny of 53 personal guarantees revealed that only in the following six cases property details were available. In the remaining 47 cases no property details were available. Thus, obtaining personal guarantees became a fruitless exercise. As subsequent events indicated, the personal guarantees did not help at all in recovering dues. Only in one case, ₹ 4.99 crore could be recovered from Delta Innovative Enterprises Limited by invoking guarantees.

- Though the Personal Guarantees (PGs) contained various clauses including obligation to repay the dues by the guarantor on demand made by the lenders due to default of the borrowers and fixed the liability of the guarantors up to the full value of the loan, the same was not backed up by property details like location, value, etc. Thus, IDBI had no means to judge the capability and competence of guarantors to give such guarantees in the absence of these details. PG can be said to be complete only after disclosure by the guarantor about property description and their values, proof of their ownership and undertaking not to dispose of the properties without consent of the lenders.

- Only in one case relating to M/s. Delta Innovative Enterprises Limited, SASF could recover ₹ 4.99 crore by invoking the PG.

- There was no system of obtaining copies of annual Income Tax return and property details from the guarantors.

45. Above position indicated that obtaining of personal guarantees became a meaningless exercise in the absence of the property and income details of the guarantors. Initially IDBI and subsequently the SASF Trust failed to demonstrate required due diligence. Only ₹ 4.99 crore could be recovered by invoking PG. Thus, according to Audit, an important instrument of PG for safeguarding the financial interests was rendered ineffective. Further, had IDBI/SASF gathered these details, they

would have been in a better position to further improve the settlement terms during negotiations with the borrowers. This could have increased the quantum of recovery.

46. In reply to the Audit, the Trust stated (August 2013) that:

- At the time of creation of guarantee, details of assets of guarantors were not obtained as per the practice prevalent in IDBI and since all the accounts acquired by SASF were from IDBI, this lacuna persisted in the system.
- While considering settlement of accounts and release of personal guarantee by SASF, certified net worth certificate of guarantors was being obtained.
- In order to have a full picture of the means of the guarantors vis-a-vis settlement, the Trust revised the policy and would be obtaining Income Tax returns, affidavit of assets filed by the guarantors in the Courts / DRTs besides net worth certificate by a Chartered Accountant, to arrive at the value of guarantees.

47. As per Audit, the fact remains that the new policy would be applicable only for the cases which are yet to be settled. For the cases already settled, the Trust lost the opportunity for a better settlement. The Ministry in its reply to the Audit stated that the SASF had taken various steps to mitigate the flaw relating to personal guarantees.

48. On being asked on the issue of Personal Guarantee, whether obtained or not obtained without property/income details of the guarantor during loan disbursement and what has been the practice and discretion to wave-off the personal guarantees, the then DMD, IDBI apprised the Committee during the sitting held on 17 July, 2015 as follows:-

"One mention was made about personal guarantee not having been obtained in some cases, and in some cases where personal guarantee is there, details are not being available. I would be frank to admit that in the erstwhile development financing era in the DFI, in all cases the personal guarantee was not insisted upon and where it was taken – because the main purpose was to develop

industry and it was all sizes of industry -- many people were not willing to come forward to set up projects if personal guarantee was insisted upon. So, in the interest of setting up those projects, it was not insisted upon in all cases if otherwise the project was viable and support-worthy and where the people were really very shy to give their details. So, we actually used that instrument as a moral pressure on the entrepreneur to keep the unit going viable and to repay the money to us. So, I would admit that the policy at that point of time did not envisage getting all the details or getting personal guarantee in all the cases.

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49. The DMD, IDBI further stated that :

"Sir, if I may clarify, and I should not be misunderstood. The obtaining of personal guarantee is not mandatory. It is not a policy to obtain personal guarantee in each case, but in each case when a banker negotiates a security package, personal guarantee is an essential part. We discuss with each and every item of security, and personal guarantee is definitely discussed. Now when you are actually setting up a new project, we, as bankers, are also interested in promoting those projects, in assisting and supporting those projects. If the project is otherwise viable, it is going to catalyse investment in the country, whether it is middle level project, large project or small project, it is going to promote employment, it is bringing in some capital from outside or it is being invested by entrepreneur, on overall consideration, if a promoter insists that he is not in a position to give personal guarantee, we many times let it go. This discretion is with the sanctioning authority, whether the sanctioning authority is the management committee or the Board. Whosoever is the sanctioning authority, it decides on what terms the loan is to be sanctioned."

50. When asked about the guidelines of Reserve Bank of India on obtaining personal guarantees, the Committee were apprised the following:

"Sir, in the case of normal lending which banks do, it is a commercial decision and the RBI has no specific guidelines as far as personal guarantees on general lending goes. But the moment, an account shows a sign of stress and when borrowers do come for restructuring or any other request, it has become mandatory to obtain personal guarantee at that stage."

51. On being asked to provide details of the procedure for ascertaining net worth /income of promoters of firms who gave personal guarantees at the time of giving loan and whether the Ministry agree that due to loopholes in the said procedure, complete recovery of dues could not be made by SASF, the Ministry in their reply stated as under:-

"There is no specific procedure in this regard. However, as a step towards general prudence, the details of all movable and immovable assets along with the details of liabilities, if any, of a borrower/guarantor are noted by the lender, in order to arrive at the net worth. The details of the assets are verified to the extent possible. Value of unverified assets is excluded from net worth. Absence of such information makes it difficult to assess possible extent of recovery from the Borrower / Guarantor."

#### **VIII. Recovery of Stressed Assets specially NLO cases with more than ₹25 crore**

52. As per Audit, at the time of transfer of the cases to SASF by IDBI, the cases were classified as normal cases, suit filed cases and decree cases. Over a period of 9 years, the Trust was able to settle 319 cases, resolve 101 cases and there were 211 unresolved cases.

53. Further Audit analysis in their Report indicated that out of 52 cases with NLO of more than ₹ 25 crore, 19 cases were settled, nine cases were resolved and 24 cases remained unresolved. Further, out of the 319 settled cases, 300 cases were with NLO less than ₹ 25 crore indicating that the Trust was able to settle small cases and a large number of big cases remained unsettled. Further in the unresolved category, in 79

cases with NLO of ₹ 625.32 crore, the Trust could not recover any amount and from the balance 132 cases it could recover only ₹ 396.75 crore against NLO of ₹ 2,380.37 crore.

54. The Ministry in their Background Note submitted for the Committee's sitting on 12 July 2016 stated that during the period from October 2004 to March 31, 2014, 319 accounts have been settled out of total 631 accounts. Further, during the period April 1, 2014 to March 31, 2016, 13 cases were settled. The Trust has been able to settle these accounts by way of settlement/assignment of dues/sale of assets. The remaining accounts consist of chronic NPAs for more than at least a decade and are under various stages of litigation in Courts / Debt Recovery Tribunals.

#### IX. Settlement below NLO

55. As per Audit, the recovery policy stipulated that valuation of the secured assets of the borrower should be carried out by a valuer engaged by SASF / other secured lender/Court. The policy also provided that value of security including collaterals available (on pro rata basis) as also amount of statutory liabilities and workers' dues shall form the basis for settlement amount. Fresh valuation could be sought if circumstances such as vintage of existing valuation, volatility of asset value, etc. so warranted. Where the value of securities was sufficient to cover the dues, the endeavour was to recover the maximum amount.

56. Out of the 34 settled cases examined by the audit, in 13 cases the settled amount was more than the NLO by ₹ 163.63 crore and in 21 cases the settled amount was lower by ₹ 587.47 crore as compared to NLO of ₹ 1,144.64 crore as shown below:

Rs. in crore

| Particulars            | No. of cases | NLO     | Amount recovered upto 31 March 2013 | Settlement by way of shares etc. | Total settlement (4 + 5) | Excess (+) / additional (-) recovery (6 - 3) |
|------------------------|--------------|---------|-------------------------------------|----------------------------------|--------------------------|--|
| 1                      | 2            | 3       | 4                                   | 5                                | 6                        | 7  |
| Recovery more than NLO | 13           | 246.37  | 409.40                              | 0.60                             | 410.00                   | (+) 163.63                                   |
| Recovery less than NLO | 21           | 1144.64 | 540.69                              | 16.48                            | 557.17                   | (-) 587.47                                   |
| Total                  | 34           | 1391.01 | 950.09                              | 17.08                            | 967.17                   | (-) 423.84                                   |

57. Substantial short recovery (below NLO) occurred on large NLO accounts such as Mideast Integrated, Krishna Filaments, Pasupati Spinning and Weaving Mills, I.G. Petrochemicals and Shree Rama Multitech Ltd. The personal guarantees of some of the promoters of these firms were available with the Trust. However, the Trust did not make efforts to ascertain the net worth / income of the promoters before arriving at the settlement amount. Such settlements below NLO, without due regard to the financial capacity of the promoters, can be said to have actually benefitted the promoters.

58. Out of the 21 cases, in 20 cases (except in the case of Krishna Vinyl Limited) personal guarantees were taken from the promoters / borrowers. However, no property details were available on records of the Trust. The Trust also did not collect the income tax returns from the guarantors.

59. The Ministry, while replying to the Audit, stated that the SASF had accepted the violation of policy in certain cases. However, since settlement had been sanctioned and amount received, there was no way to improve the settlement amount further. The SASF, the Ministry assured in its reply, had noted the observations for compliance in future.

60. As per Audit, out of 15 resolved cases selected by audit for examination, in 10 cases the settlement amount / amount recovered was below the NLO amount, aggregating to short recovery of ₹ 1,590.49 crore. Out of 10 cases, in one case (SIV Industries Limited) valuation of assets was not done and consequently the share of the Trust was also not available. In the case of SJK Steels Plant Limited pro-rata share of the Trust was not available. Since the policy provided that value of security including collaterals available (on pro-rata basis) as also amount of statutory liabilities and workers' dues was the basis for settlement amount, it was essential to carry out valuation to know the potential for recovery. The steel sector companies are the major defaulters and the Trust has taken substantial hit. For instance, in respect of Malavika Steel Limited and Usha Ispat Limited promoted by Shri Vinay Rai and Shri Anil Rai of Usha Group, the settlement amount is only ₹ 41.78 crore (7.03 per cent) and ₹ 48.07 crore (14.94 per cent) as against the NLO of ₹ 594.54 crore and ₹ 321.80 crore respectively. The Trust, in spite of having personal guarantees from the promoters of various borrowing companies did not try to ascertain the net worth of the promoters so as to realise optimum sum.

61. Out of 10 cases discussed by the Audit in their Report at para 6.3, in one case viz. SIV Industries Limited no personal guarantees were obtained. Out of the remaining nine cases, only in one case (SJK Steels Plant Limited) personal guarantees with property details were available. In the remaining eight cases, though personal guarantees were obtained, property details were not available on the records of the Trust. The Trust also did not collect the income tax returns from the guarantors.

62. The Ministry in its reply to the Audit have stated that the SASF had submitted that remedial measures were being taken wherever possible.

63. Further out of 39 unresolved cases selected by audit for examination, in three cases (Triveni Glass Limited, Ag Foods Limited and Dynamic Logistics Limited), the Trust recovered ₹ 58.21 crore against NLO of ₹ 47.28 crore. In the remaining 36 cases the Trust could recover only ₹ 150.54 crore against NLO of ₹ 1,888.69 crore. The short recovery in these cases was ₹ 1,738.14 crore.

64. At the time of transfer of these 39 cases to SASF, in four cases decree was awarded and in 13 cases suits were filed. Out of 13 suits filed cases, only in two cases settlement could be reached (one through OTS and other through sale of asset by court) and the remaining 11 cases were still pending with the Courts / Tribunals. Out of the balance 22 cases which were not under 'suit filed' or 'decreed' category at the time of transfer, nine cases are pending with Debt Recovery Tribunals / High Courts, nine cases have been referred to BIFR, in two cases SARFAESI Act initiated and in one case SFC Act invoked. In the remaining one case, though compromise settlement was approved, the same was not complied with by the borrowers.

65. The SASF's web-portal *inter-alia* has stated as under:-

" SASF has adopted a three pronged resolution strategy:

- Debt Restructuring in respect of units, which are potentially viable under and outside CDR mechanism.
- Compromise settlement viz. One time/negotiated settlement of dues where units have lost viability.
- Legal measures by way of filing recovery suit against the promoter/companies in DRT and taking over the units under the provisions of SARFAESI Act 2002.

A fast tract system for resolution of assets has been put in place by SASF."



# X. Organisational set-up and Availability of Staff at SASF

66. SASF is managed by a Board of Trustees (BOT) appointed by the Government of India. The Board consists of one Chairperson, one Executive Trustee and three members. From 1 January 2013 onwards the posts of Chairperson and Executive Trustee have been merged. The Board of Trustees is assisted by one Chief General Manager, one General Manager and 22 other officials.

67. Audit observed that from inception of the Trust till December 2012, the posts of Chairman and Executive Trustee of the Trust were held by Chairman and Managing Director and Executive Trustee respectively of IDBI Bank Limited. In addition, Deputy Managing Director of IDBI Bank Limited was the alternate Chairman and Trustee of the BOT from 9 June 2011 to 31 December 2012. Thus for all practical purposes, the BOT of SASF in one way or the other was related to IDBI and that reflected a "revolving door" policy. Incidentally, it was also noticed that Shri Shailesh Haribhakti, partner of M/s. Haribhakti & Co., Chartered Accountants, who verified / certified the stressed assets and loan documents of IDBI before transfer to the Trust was also a Trustee of the BOT of SASF from 27 October 2004 to 8 June 2011.

68. As per Clause 18(a) of the Trust Deed, IDBI at the request of SASF would make available adequate number of staff with requisite skill for administering the Trust towards the fulfilment of the purpose for which it was created. The salary and other perquisites were borne by IDBI.

69. In this regard, Audit observed that:

- The Trust (2004) had not made any need based assessment of the employee requirements.
- Number of officials deployed was 50 in 2005 which came down to 24 in 2013.
- The Trust made proposals (July 2012, October 2012, March 2013 and April 2013) for additional manpower on *ad-hoc* basis. The specific number of staff

requirement was not mentioned in the proposals sent. There was no written proposal prior to July 2012.

- During 2005 to 2013, 121 employees of the parent body IDBI were deputed at some point of time or the other to serve the Trust.
- 62 out of the 121 (51 per cent) employees had worked for less than two years with SASF and out of the 62 employees, 25 had worked for less than one year.
- Only 16 out of 121 employees possessed recovery experience.
- Staff deputed to SASF included four officials against whom there were disciplinary cases.

70. As per Audit, as the recovery process of SASF also involves negotiations and settlement of stressed assets, there was scope for discretion. Further, these being stressed and difficult loans, staff with recovery experience needed to be deployed by IDBI to the Trust. However, only 16 out of 121 employees possessed the recovery experience.

71. It was noticed in audit that even though the Trust was expected to perform the onerous task of recovering doubtful debts of ₹ 9000 crore, there was never any formal manpower planning and deployment. Apart from absence of stability of tenure of personnel, manpower management was mostly done on an informal basis, drawing personnel from IDBI in an *ad hoc* manner. According to the Audit, it could be said judging from the management structure that the Trust acted almost as an extension of IDBI.

72. The Trust stated (August 2013) to the Audit that they had taken up the matter with Ministry of Finance, Government of India as well as with IDBI Bank Limited and IDBI Bank Limited had already posted seven officers.

73. When enquired about why the manpower requirement of SASF was not scientifically assessed and adequate manpower deployed, the Ministry in their reply (December 2014) replied as under:-

"The staff requirement at SASF had been assessed scientifically taking into account the number of cases handled by SASF at various levels i.e., resolved, unresolved and chronic NPA cases. Also HRD Administration, Legal Supervision, Statutory Matters, Accounts, MIS and Coordination work, etc. was also taken into account for assessment of staff requirement by IDBI. SASF is currently posted with 1 CGM, 1 GM, and 5 DGMs, 9 AGMs, 8 Managers and 4 AMs. As such, adequate manpower has been posted to SASF at various levels on proper assessment."

74. On being asked whether a neutral management with recovery experience would have done a better job, the Ministry while furnishing year-wise recovery by SASF inter-alia has stated that :-

"The general management of affairs and business of the SASF Trust is vested with the Board of Trustees which consists of three eminent professionals and two representatives of IDBI. IDBI is in corporate lending and has had long experience in both rehabilitation and recovery. Further, the assets transferred to SASF were earlier dealt by IDBI and knowledge of industry in general, of the asset specifically and continuity of management is essential for recovery of such stressed assets."

75. Further, on being asked if the Management of IDBI were competent to look after the NPAs then why was SASF created, the Ministry replies to this as under:-

"Initially it was thought that the full amount may be realized if a separate organisation looks after recoveries as IDBI Bank management would be busy in running of the Bank. However, post C&AG Audit, a considered view has been taken that as losses are to be borne by IDBI Bank, they may look after SASF."

76. On being asked what do the Ministry think on the aspect that an independent team trained in realization of NPAs would have been a better choice for taking care of the interests of the Government instead of the staff of IDBI Bank and did the SASF

provided any training to the staff provided by the IDBI Bank, the Ministry replied as under :-

"At the time of formation of SASF, it was considered that IDBI was better placed in terms of skill sets, experience and understanding the intricacies involved in lending, restructuring and recovering from industrial units/sick companies. Therefore the services of deputed staff of IDBI was being utilized for recovery of SASF accounts."

77. On being further asked as to why was SASF repeatedly making staff proposals when IDBI Bank had provided the staff scientifically and further why the details of recovery experiences of 67 officers not provided to the audit, the Ministry in their reply have submitted as under:-

"SASF has informed that IDBI has been providing sufficient staff to SASF since beginning. The requests for staff are sent from time to time for replenishment upon retirement, repatriation etc. The service records of all IDBI staff working with SASF were/are available for audit."

78. Further on being posed with the query as to why did not SASF instead of IDBI Bank interview the candidates as per their requirements, the Ministry in their reply furnished as under:-

"The responsibility of providing staff of SASF was given to IDBI Bank and it was not specified in the arrangement that SASF would interview the candidates. Accordingly, prior to the modification in Deputation Policy of the Bank in Sept 2011, officers were directly posted to SASF by the Bank after seeing requisite qualification and experience required by an officer for deputing to SASF."

## **XI. IDBI Bank's rising Non-Performing Assets (NPAs)**

79. On being asked the veracity of IDBI Bank's surge in bad loans and other related issues, the Reserve Bank of India *inter-alia* stated as under:-

"It is a fact that IDBI Bank Ltd. has been placed under Prompt Corrective Action (PCA) on the basis of its financial position as on December 31, 2016.

PCA was initiated for IDBI Bank Ltd. in view of breach of two thresholds namely high Net NPA and negative Return on Assets (RoA) as on December 31, 2016, as per the revised framework on PCA and based on the analysis that bank was not likely to improve the position in March 2017 as well. The Net NPA at the end of December 2016 at ₹20949 crore constituted 9.61% of the net advances and was in the second threshold of the PCA framework. As per the audit financial published by IDBI Bank Ltd. Gross NPA and Net NPA of the bank has been reported at ₹44752 crore (21.25%) and ₹25206 crore (13.21%) respectively, as on March 31, 2017 compared to Gross NPA of ₹24875 crore (10.98%) and Net NPA of ₹14643 crore (6.78%) as on March 31, 2016. Further, the Common Equity Tier 1 (CET1) at the end of December 2016 was at 7.42% and as per the published financials of the bank as on March 31, 2017, the CET 1 at 5.64% is breaching the thresholds set for CET 1 also. The bank has incurred losses at the end of the FY 2015-16 and 2016-17."

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## PART II

### OBSERVATIONS AND RECOMMENDATIONS

#### INTRODUCTION

The Report No.5 of 2014 of the C&AG contains the results of audit of Stressed Assets Stabilisation Fund (SASF), a Trust created by the Government of India (GoI) to acquire by transfer the Stressed Assets of Industrial Development Bank of India (IDBI) and for managing these assets with a view to recovering the amounts due on these assets. As of March 2004, IDBI accumulated Non-Performing Assets (NPA) stood approximately at ₹ 9000 crore. The IDBI ceased to exist with effect from 1 October, 2004 and in its place IDBI Bank came into being as an entity registered under the Companies Act, 1956. The Government, as settlor, set up a special purpose vehicle in the form of a Trust and created the SASF for Stressed Assets of IDBI in September 2004. The Government invested ₹ 9,000 crore in SASF in the form of Non-Interest bearing Government of India IDBI Special Securities 2004 redeemable in 20 years. SASF assigned these Special Securities of ₹ 9,000 crore to IDBI Bank, which in turn transferred NPAs with Net Loan Outstanding (NLO) of ₹ 9,000 crore to SASF. In terms of the provisions of the Trust Deed, SASF is required to remit the amounts recovered out of the Stressed and Non-Performing Assets to the GoI, and GoI at the end of February / March every year to pay IDBI Bank the amount received from SASF against surrender (for redemption) of Special Securities of equivalent amount. SASF since October 2004 till Financial Year 2015-16 has recovered and remitted to the GoI ₹ 4,514 crore for redemption of the special securities and the balance securities that are yet to be redeemed are ₹ 4,486 crore (as on March 31, 2016).

The Committee note that audit of SASF was entrusted to the CAG of India by the Ministry of Finance in May, 2013 almost eight years after the setting up of the Trust. Audit has pointed out a number of deficiencies in managing the Trust including delay in entrusting the Audit of SASF to C&AG, inadmissible exchange of cases between SASF and IDBI and ineffective personal guarantees owing to

absence of income and property details, not ascertaining the net worth/ income of the promoters for settling the accounts and short recoveries etc.. The examination of the subject by the Committee brought out several shortcomings which have been dealt with in the succeeding paragraphs.

## 2. Expeditious recovery of Net Loan Outstanding (NLO):

The Committee note that SASF was created as a special purpose vehicle to acquire the stressed assets of IDBI Bank and recover the NLO dues against these assets. At first, 636 Non Performing Assets (NPA)/ stressed loan assets with a net loan outstanding (NLO) of ₹ 9,004 crore of IDBI Bank was transferred to SASF. The Government then provided ₹ 9,000 crore to SASF which in turn was invested in Government securities, redeemable in 20 years and pledged back the securities with IDBI. In this regard Government securities amounting to only ₹ 4514 crore have been redeemed (FY 2015-16) against a balance of ₹ 4486 crore. Further noting that the bulk of recovery (₹ 2608.29 crore) was effected in the initial period of the Trust i.e. during 2005-06, 2006-07 and 2007-08 (with highest recovery of ₹ 927.68 crore in 2006-07) and the recovery amount thereafter declined significantly since then indicate that the cases left now are more complex and difficult. The Committee are of the opinion that with the declining pace, the prospect for recovery of remaining NLOs seems to be bleak. The Committee, therefore, recommend that SASF make all-out efforts on cases pending recovery, engage specialized and experienced professionals/staff to facilitate expeditious settlement of all NLO cases within the maturity term of the Government securities. More importantly, the Government needs to monitor the progress made by SASF and speed-track the recovery of balance NLO and make timely intervention for any lapses noticed in the process. The Committee further recommend that the Ministry may form a high level Monitoring Cell which may be entrusted with the responsibility to review on monthly, quarterly and annual basis every aspect related to SASF towards meeting its stated objective.

### 3. Delay in entrusting Audit of SASF accounts to C&AG:

The Committee note that the Trust had requested C&AG in June 2005 to appoint an auditor in pursuance of the provisions of the Trust Deed. Since the provisions of C&AG's Duties, Powers and Conditions of Service (DPC) Act 1971 stipulate that the C&AG would undertake audit only after receipt of a formal proposal from the Ministry, SASF was advised to forward a proposal through the Ministry and the audit of SASF was entrusted to CAG by the Ministry, for the period 2004-05 to 2013-14, only in May 2013, that too, after the intervention of the Mumbai High Court in February 2013. Moreover, subsequent Audit of the SASF from 2014-15 onwards was not entrusted to C&AG despite their taking up the matter with the Ministry in January, 2014, February, 2015, May 2015 and February, 2016. The Committee are aghast to observe that in spite of the request from the Trust in June, 2005, the Ministry deliberately did not pay any attention to make a formal request to the C&AG for the audit of SASF. The Ministry arose from its pretentious slumber after long eight years in 2013, only when the Mumbai High Court directed them to do so. The conscious attitude of the Ministry is vividly clear from the fact that they ignored similar requests of the C&AG repeatedly in January, 2014, February, 2015, May, 2015 and February, 2016 to entrust the audit of SASF. The Committee took serious note of the lackadaisical attitude of the Ministry during the evidence and now as per the Ministry's submission the audit of SASF for the period of 2013-18 has been entrusted to the C&AG. The Committee are of the considered view that the conspicuous delay to entrust timely Audit of SASF to the C&AG directly puts responsibility of the lapses made by SASF during these years on the Ministry. The Committee desire that the Ministry may ascertain the reasons for the deliberate delays, on both occasions, in entrusting the Audit of SASF to C&AG and fix responsibility on erring officials in both the cases. The Committee also note that Clause 17(a) of the Trust Deed states that "the accounts of the fund shall be maintained and audited by the C&AG of India". The Committee note from the C&AG's observation in this regard that the provision of maintenance of accounts by the C&AG has been mistakenly



placed as the C&AG only audits the accounts prepared by the Executive. The Committee desire that necessary amendments may be incorporated in the Trust deed and may clearly provide for vivid and concise provisions in the clause so that no further mis-interpretation may be read in future. The Committee further desire that the Ministry in order to secure the interests of the Government take prompt and timely action in entrusting the audit to the C&AG, taking remedial action on their observations and apprise the position within six months of the presentation of this Report.

#### 4. Expenditure incurred on Trust administration

The Committee note that as per Clause 18C of the Trust Deed, all the costs of administering the Trust are to be borne by the IDBI. However, the expenditure of ₹ 72.86 crore for the period from 2004-05 to 2011-12 pertaining to safeguarding the borrowers assets was reimbursed to IDBI from the recoveries made from the borrowers. The Committee are of the view that had the Trust been not established, the expenditure on safeguarding the asset would have been borne by the IDBI and moreover, there is no provision in the Trust Deed to recover such amount from the realization of stressed assets. The Committee observe that the Clause 18(c) of the Trust Deed categorically mentions that all costs of administering the Trust have to be borne by IDBI or its successors. The Committee further find that the Ministry had accepted the audit finding and issued direction to IDBI in August 2014 itself to return the amount to SASF. However, IDBI only agreed to reimburse the amount only when the matter was raised during the evidence of the Committee held on 17.7.2015 and finally reimbursed the amount on 8.7.2016. The Committee are dismayed to note that IDBI took almost two years after the Ministry's directive and one year after their own commitment to the Committee for reimbursing ₹ 72.86 crore just before the second evidence was to be taken by the Committee. The Committee feel that IDBI had deliberately ignored the explicit provisions in the Trust Deed for bearing the

cost of administering the Trust. It is further surprising that, the Ministry also took more than 10 years in deciding that IDBI Bank has to bear all the expenses incurred on administering the Trust. The Committee view with disappointment the apathy of the Ministry, SASF and the IDBI Bank towards the interests of the Government of India and earnestly desire that the Ministry be prompt in its approach and clear instructions be issued to the IDBI Bank that all the expenses incurred on safeguarding borrowers assets may be borne by the Bank.

##### 5. Inadmissible Exchange of Assets and surrendering of securities for the losses on Exchanged cases:

The Committee note that between September 2004 and May 2005, IDBI, by executing six transfer/assignment/transfer of mortgage deeds, assigned 636 stressed assets with NLO of ₹9004 crore to SASF. IDBI Bank submitted (February 2006/April 2006) proposals to GoI for exchange of turnaround cases for other stressed assets. Exchange of cases was not permissible as the objective of formation of SASF was to take over the NPAs/potential NPAs existing as on March 2004 only. The GoI intimated (May 2006) IDBI Bank that the Stressed Assets Stabilisation Fund was created for a specific purpose, i.e., for stressed assets for that point of time and it would not be proper to extend the scope and life of SASF. Despite this, the Board of IDBI Bank decided (June 2006) and Board of Trustees approved (24 June 2006) exchange of eight turnaround cases with NLO of ₹1522 crore for three fresh cases with NLO of ₹1335.29 crore. The transfer deed was executed between IDBI Bank and SASF for exchange of cases. Audit noticed that in eight cases, which were transferred to IDBI in 2006, against a total NLO of ₹1522.29 crore, the recovery made was ₹1659 crore. On the other hand, the position of the three cases transferred to the Trust against a total NLO of ₹1335.29 crore, the recovery made was just ₹360.32 crore. Thus, this inadmissible exchange which was not approved by the Government of India, benefitted IDBI. On the assets transferred to IDBI, the recovery was even more

than the NLO and on the assets received by the Trust in exchange, the recovery was minimal.

The Ministry in their reply to the Audit observation have stated that the exchange of assets was not in line with the objective and scope of formation of SASF and the Bank took a business decision in the interest of the Bank to save some stressed assets in which there was a scope for revival. The Committee note from the submission made by the IDBI Bank that Ratnagiri Gas & Power Pvt. Ltd. (RGPPL) was set up to take over and revive the assets of Dabhol Power Company Project on the direction of Government of India. Further, the Ministry submitted that the restructuring would not have been possible with account remaining with SASF as it had no mandate or capacity to provide additional funds to carry out day-to-day monitoring of the operation of the accounts. The transfer of equivalent amount of stressed assets to SASF was done to bring about parity of exchange. The Committee are dismayed to know that the Ministry did not take immediate appropriate action at the time when SASF and IDBI exchanged assets in violation of the GoI orders. The Committee note from the reply of Ministry to their specific query regarding the exchange of assets that Ministry came to know about exchange of Assets only from the C&AG Report (i.e., exactly 8 years from the date of execution of transfer deed in June 2006 and the C&AG Report on the subject tabled in July 2014). However, the Ministry in their written submission in the same document has justified the exchange stating that SASF did not have mandate other than recovering the amounts due on the assets. The Committee are shocked to note the confusing statements made by the Ministry on the issue of inadmissible exchange. The Committee while taking serious view of the decision of IDBI Bank and SASF to execute the transfer deed in contravention of the Ministry's direction feel that the lackadaisical approach of the Ministry to monitor the progress made by the SASF and failure to follow-up on its own direction resulted in loss to the SASF. The Committee are of the view that SASF should have insisted on redeeming equal amount of bonds in exchange of stressed assets in case of RGPPL, which was restructured. The Committee also took serious note of the inadmissible exchange. The MD & CEO, IDBI during the

sitting of the Committee held on 12 July, 2016 committed that securities worth ₹1064.27 crore would be surrendered to the Gol. The Committee find that the IDBI Bank has provided to surrender securities worth ₹ 198.50 crore in last two quarters upto December 31, 2016 and has assured that the remaining securities worth ₹870.77 crore would be provided in the following 9 quarters. The Committee are dismayed to note that despite repeated requests made by the Committee Secretariat to provide specific information and their views of the matter of surrender of securities, the Ministry has failed to respond. This shows the utter non-serious attitude of the Ministry towards managing the affairs of SASF with due diligence and promptness. In view of lack of any inputs from the Ministry on the matter, the Committee are of the considered view that the above request of IDBI Bank for surrender of securities in installments may be considered by the Ministry after reviewing the financial position of the IDBI Bank and the Committee may be apprised of the same at the earliest. The Committee desire the Ministry to initiate an independent investigation into the matter and take penal action against the officials of the Ministry/ IDBI Bank/ SASF responsible for taking action in violation of the directions of Gol resulting in huge financial losses to the exchequer. The Committee further reprimand the Ministry towards their non-serious attitude in non-furnishing of desired information to the Committee and desire that recurrence of such instances be strictly avoided and fix the responsibility against the concerned officials in the matter.

#### 6. Need for transparent guidelines on obtaining of Personal Guarantees for loans:

The Committee note that no personal guarantees were obtained by IDBI in eight cases, in 27 cases, copies of personal guarantee were not produced and in 47 cases, property details were not available against the loans. Further, there was no system of obtaining copies of the income-tax returns and property details of the guarantors. The Committee further note that there was no mechanism to

check the capability and competence of the guarantors to give such guarantee in the absence of relevant details or documents. The Committee feel that in absence of the property and income details of the guarantors the personal guarantee obtained are of no use which is evident from the failure of the Trust in enforcing these guarantees while making recoveries. The Committee further note that no specific guidelines were issued by the Trust for treatment of personal guarantees. In many cases, the Trust did not collect the details of assets of the guarantors or copies of their income-tax returns. The Committee observe that obtaining personal guarantee is not mandatory and RBI have no specific guidelines as far as personal guarantees on general lending is concerned as it is individual Bank's commercial decision. The Committee further understand from the submission made during the evidence by the representative of the IDBI Bank that the policy at that time did not envisage getting all the details or getting personal guarantee in all the cases. The Committee are of the considered opinion that the instrument of personal guarantee is an effective tool to prevent loans from becoming NPAs/bad loans as it acts as a deterrent for those taking advantage of limited liability entities. The Committee exhort that IDBI should have initially taken adequate precautionary measures to safeguard its interests for recovery of loans thereby protecting the commercial interest of the Bank. The Committee are of the opinion that had the SASF not failed in obtaining details of assets of guarantors, net worth of the borrowers, Income Tax returns, affidavit of assets filed by the guarantors in the Courts / DRTs besides net worth certificate by a Chartered Accountant and liability statements, maximum recovery would have been assured without any complexities. The Committee note that the Trust has revised the policy and stipulated the requirement for furnishing full details of the means of guarantors and desire that disciplinary action be taken against officials responsible for lack of seriousness in collecting the required collaterals and guarantees while sanctioning the loans resulting in huge loss to the exchequer.

## 7. Recovery of NLO cases with more than ₹25 crore:

The Committee note that during the period from 1 October 2004 to 31 March, 2014, out of the total 631 cases, 319 accounts were settled, 101 cases resolved and 211 cases were unresolved. Subsequently, as per the information received from the Ministry, during the period from 1 April 2014 to 31 March 2016, 13 more cases were resolved and the Trust has been able to settle these accounts by way of settlement/assignment of dues/sale of assets. Further, Audit analysis indicated that out of 52 cases with NLO of more than ₹ 25 crore, 19 cases were settled, nine cases were resolved and 24 cases remained unresolved. Further, out of the 319 settled cases, 300 cases were with NLO less than ₹ 25 crore indicating that the Trust was able to settle small cases and a large number of big cases remained unsettled. The Committee also observe that in 79 unresolved cases, SASF have failed to recover any amount. The Committee have serious doubt that full recovery of stressed assets is unlikely as the remaining accounts consist of chronic NPAs for more than at least a decade and are under various stages of litigation in Courts/Debt Recovery Tribunals. The Committee, therefore, impress upon the Ministry to revisit these cases and make proper valuation of the assets and explore all possibilities for maximum recovery of NLO.

## 8. Settlement below NLO and need for proper valuation of assets, securities and liabilities:

The Committee observe that as per the recovery policy, valuation of the secured assets of the borrower should be carried out by a valuer engaged by SASF / other secured lender/Court. The policy also provided that value of security including collaterals available (on pro rata basis) and also amount of statutory liabilities and workers' dues shall form the basis for settlement amount. Fresh valuation could be sought if circumstances such as vintage of existing valuation, volatility of asset value, etc. so warranted. Where the value of securities was sufficient to cover the dues, the endeavour should be to recover

the maximum amount. The Committee while taking note of the 21 settled cases examined by Audit where settlement amount was lower by ₹587.47 crore as compared to NLO of ₹1144.64 crore, observe that substantial short recovery (below NLO) occurred on large NLO accounts. Although, personal guarantees of some of the promoters of the firms were available with the Trust, the Trust did not make efforts to ascertain the net worth/income of the promoters before arriving at the settlement amount. Thus such settlements below NLO, without assessing the financial capability of the promoters actually benefitted the promoters. At the same time in 20 out of the 21 settled cases, personal guarantees were taken from the promoters/borrowers, however, no property details were available on record of the Trust. The Committee are dismayed to note that in such cases the Trust also did not bother to collect the income tax returns from the guarantors.

In 15 resolved cases selected by Audit for examination, in 10 cases the settlement amount/amount received was below the NLO amount, aggregating to short recovery of ₹1590.49 crore as compared to NLO of ₹2171.92 crore. In these 10 cases, only in one case personal guarantees with property details were available and in another one case no personal guarantees were obtained. Further, in the remaining eight cases, though personal guarantees were obtained, property details were not available on the records of the Trust. The Trust also did not collect the income tax returns from the guarantors. It is particularly noticed that in this category, the steel sector companies are the major defaulters and the Trust has taken a substantial hit. In respect of Malviya Steel Ltd. and Usha Ispat Ltd. the settlement amount is only ₹41.78 crore and ₹48.07 crore as against the NLO of ₹594.54 crore and ₹321.80 crore respectively. It is really surprising that in both the cases, the Trust, inspite of having personal guarantees from the promoters of various borrowing companies did not try to ascertain the net worth of the promoters to realize optimum amount.

In 36 out of the 39 unresolved cases selected by Audit for examination, the Trust could recover only ₹150.54 crore against NLO of ₹1888.69 crore. The short recovery in these cases was to the tune of ₹1738.14 crore. The Audit analysis of

the shortlisted 39 cases reveal that in 11 cases personal guarantees were taken from the promoters/borrowers and only in four cases property details were available and the Trust also did not collect the income tax returns from the guarantors. Further, the Committee note that most of these cases may be *sub judice*, referred to BIFR or initiated/invoked under SARFAESI Act/ SFC Act.

The Committee, while looking at the cases take note of the fact that there are substantial number of cases where recovery has been made below NLO. The Committee express strong displeasure and direct the Ministry to look into all such cases where settlement below NLOs have been approved and fix responsibility of the officers responsible for the same. The Committee also desire to know whether the Trust's guidelines were in consonance of GoI/RBI guidelines laid from time to time and whether any provision for settlement below NLO was placed before and overseen by the Ministry. The Committee desire that the Ministry may investigate and ascertain whether Trust officials, involved in the cases, settled without determining the value of assets, are in connivance with the borrowers/ promoters and if so, take stringent action against the erring officials. The Committee further desire that CBI enquiry may be instituted to go into the entire gamut of events with a view to unearth criminality in the lapses on the part of the officials where short recovery was accepted.

The Committee further recommend that since the remaining cases are more complicated in nature, the Ministry may, under its aegis, directly oversee the progress made in those cases by forming a Coordination Committee. The new appointments to the Trust also may be made only after ascertaining their past record and that the official has no affiliation with the borrowers. The Committee further recommend that although the focus should entirely remain towards full recovery from every asset, considered view may be taken in genuine cases. The Committee further desire that the SASF's stated three pronged resolution strategy of Debt Restructuring, Compromise settlement and Legal measures along-with fast-track system may be timely monitored and reviewed by the Ministry.



9. Organisational set-up, Manpower planning and deployment of staff in SASF:

The Committee note that SASF is managed by a Board of Trustees (BOT) appointed by the Central Government. The Board has one Chairperson, one Executive Trustee and three Members. Since 1 January 2013, the posts of Chairperson and Executive Trustee were merged. The Board of Trustees is also assisted by one Chief General Manager, one General Manager and 22 officials. It is seen that from the inception of the Trust till December 2012, the posts of Chairman and Executive Trustee of the Trust were held by Chairman and Managing Director and Executive Trustee respectively of IDBI Bank Limited. Besides, Deputy Managing Director of IDBI Bank Limited was the Alternate Chairman and Trustee of the Board of Directors from June 2011 and December 2012. It is, thus, evident that for all purposes, the Board of Trustees of SASF, in one way or the other, was related to IDBI which reflected a "revolving door" policy. The Committee is also surprised to observe that a partner of the Chartered Accountants firm, who certified the stressed assets and loan documents of IDBI before transfer to the Trust, was also the Trustee of Board of Trustees of SASF from October 2004 to June 2011.

The Committee note from the reply of the Ministry that the BOT entrusted with general management of affairs and business had 3 eminent professionals and 2 representatives of IDBI. According to the Ministry, since IDBI had long experience in both rehabilitation and recovery and the stressed assets transferred to SASF were earlier dealt with by IDBI, it was felt that continuity of management is essential for recovery of such stressed assets having long experience in both rehabilitation and recovery. The Ministry in their further submission have stated that initially it was thought that the full amount may be realized if separate organization looks after recoveries as IDBI Bank management would be busy in running of the Bank. However, post C&AG Audit, a considered

view has been taken by the Ministry that as losses are to be borne by IDBI Bank, they may look after SASF.

The Committee are of the considered view that the IDBI has an over-riding presence in management of SASF and that a neutral and professionally managed SASF would have been able to achieve better results. Further, the powers delegated to the Committee of Officers (COO), Executive Committee (EC), Board of Trustees (BOT) and Screening Committee (SC) may be thoroughly revamped by the Ministry keeping in mind that the cases left with recovery are more complex and tricky and need to be dealt with more focused attention. Also, before appointing a partner of the Chartered Accountants Firm which verified and certified the stressed assets, as Trustee of SASF, the Ministry may look into the issue of conflict of interest, any financial consequences considering their earlier involvement with IDBI, complicity in its appointment and take appropriate disciplinary action against the responsible officials of the Ministry/IDBI.

The Committee further note that the Trust did not make any realistic and scientific assessment of requirement of manpower for its functions. The number of officials deployed was 50 in 2005 and came down to 24 in 2013. The Trust made proposals during different periods for additional manpower on *ad-hoc* basis, though there was no written proposal. During 2005 to 2013, 121 officials of the parent body, IDBI, were deputed at some point of time or other to serve the Trust. 62 out of 121 employees worked in less than two years with SASF. Similarly, out of 62 officials, 25 worked for less than one year. Interestingly, only 16 out of 121 officials possessed recovery experience and four officials who have been deputed by IDBI were facing disciplinary proceedings.

The Ministry submitted that the SASF had scientifically assessed the staff requirement at SASF taking into account the number of cases handled at various levels i.e., resolved, unresolved and chronic NPA cases. The response of the Ministry needs to be seen in the light of frequent proposals for manpower requirement indicating that the assessment was inadequate and unscientific and

there were no written proposals prior to July 2012 indicating that the proposals made by SASF were on *ad-hoc* basis.

The Committee further deplore the appointment of staff who were inexperienced and untrained in corporate banking and recovery of stressed assets. The Committee also note that the interviews for deputation in SASF were conducted by the IDBI and not by the SASF. The response of the Ministry that the responsibility of providing staff to SASF was given to IDBI Bank and it was not specified in the arrangement that SASF would interview the candidates. Further, the officers were directly posted in SASF by the Bank after seeing requisite qualification and experience required by an officer for deputing to SASF. The Committee are of the firm view that the staff with SASF were not scientifically placed as frequent staff proposals were made. The Committee are of the view that an independent team trained in realization of NPAs would have been a better choice for taking care of the interests of the Government. The Committee feel that the non-realisation of balance NPAs may be seen as non-performance of SASF owing to the temporary organizational set-up and inadequate manpower deployment at the SASF. The Committee opine that the recoveries are majorly dependant on the efficiency of the officials deployed for recoveries and therefore incentives should be given for good performances. The Committee desire that the existing manpower deployment may be reviewed in a scientific manner and staff with dynamic experience and expertise in recovery of unresolved and chronic NPAs be placed/engaged at the disposal of SASF for optimum recovery of balance NPAs.

#### 10. IDBI Bank's rising Non-Performing Assets (NPAs)

The Committee note that the RBI has placed IDBI Bank under Prompt Corrective Action (PCA) on the basis of the IDBI Bank's financial position as on December 31, 2016. The Committee further note that as on December 2016 the Net NPA at ₹20949 constitute 9.61 per cent of the net advance of IDBI Bank. Further the increasing Gross NPA and Net NPA of IDBI Bank at ₹44752 crore

(21.25 per cent) and ₹25206 crore (13.21 per cent) respectively as on March 2017 as compared to Gross NPA of ₹24875 crore (10.98 per cent) and Net NPA of ₹14643 (6.78 per cent) as on March 2016, are indeed alarming. The Committee are shocked to note that in less than 20 years after the Government cleared the Balance Sheet of IDBI, it has again fallen into the debt trap of NPA. The Committee are of the considered opinion that the huge NPAs of the Public Sector Banks point towards their faulty lending policies. The Committee observe that the creation of SASF, mergers, capital infusions are not able to address the problem of rising NPAs and now the Government would have to think innovatively for a long- term solution. The Committee, therefore, desire that after analyzing the sectors where NPAs are rampant, insurance of the loans may be made mandatory for those sectors and since personal guarantees and securities are also not yielding desired results professional bodies may be engaged for underwriting the loans and the collaterals should be mandatorily insured. The Committee while acknowledging that this will increase the cost of loans, desire that incentives may be offered, at the time of payment of last installment, for the borrowers who pay off their loans timely. The Committee exhort that exemplary punishments should be awarded to the officials who work in tandem with big corporate and siphon off the money of public exchequer without adequate collaterals or personal guarantees.

NEW DELHI;

29 May, 2017

8 Jyaishta, 1939 (Saka)

SHRI MALLIKARJUN KHARGE

Chairperson,

Public Accounts Committee.

Confidential**MINUTES OF THE FOURTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2015-16) HELD ON 17 JULY, 2015.**

The Committee sat on Friday the 17 July, 2015 from 1130 hrs. to 1400 hrs. in Committee Room 'D', Parliament House Annex, New Delhi.

**PRESENT**

Prof. K. V. Thomas

- Chairperson

**MEMBERS****LOK SABHA**

2. Shri Gajanan Kirtikar
3. Shri Bhartruhari Mahtab
4. Shri Dushyant Singh
5. Shri Janardan Singh Sigriwal
6. Dr. Kirit Somaiya
7. Shri Anurag Thakur
8. Dr. P. Venugopal

**RAJYA SABHA**

9. Shri Vijay Goel
10. Shri Bhubaneswar Kalita
11. Shri Sukhendu Sekhar Roy

**LOK SABHA SECRETARIAT**

- |                       |                        |
|-----------------------|------------------------|
| 1. Shri A. K. Singh   | - Additional Secretary |
| 2. Smt Anita B. Panda | - Director             |
| 3. Shri T. Jaya Kumar | - Additional Director  |

### **REPRESENTATIVES FROM THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA**

- |    |                   |   |                               |
|----|-------------------|---|-------------------------------|
| 1. | Shri P. Mukherjee | - | Dy. CAG                       |
| 2. | Shri P.K. Mishra  | - | Director General (Commercial) |
| 3. | Ms. Shubha Kumar  | - | Director General (RC)         |
| 4. | Shri A.M. Bajaj   | - | Principal Director (ESM)      |
| 5. | Ms. Roop Rashi    | - | Member Audit Board            |

### **REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)**

- |    |                          |   |   |
|----|--------------------------|---|---|
| 1. | Dr. Hasmukh Adhia        | - | Secretary, Department of Financial Services |
| 2. | Smt. Snehlata Srivastava | - | AS, Department of Financial Services        |
| 3. | Mohd. Mustafa            | - | JS, Department of Financial Services        |
| 4. | Shri Rajesh Aggarwal     | - | JS, Department of Financial Services        |

### **REPRESENTATIVES OF VARIOUS BANKS**

- |    |                             |   |                               |
|----|-----------------------------|---|-------------------------------|
| 1. | Shri B. P. Sharma           | - | MD&CEO, Bank of India         |
| 2. | Shri Ranjan Dhawan          | - | MD&CEO, Bank of Baroda        |
| 3. | Smt. Arundhati Bhattacharya | - | Chairman, State Bank of India |
| 4. | Shri Gauri Shankar          | - | MD, Punjab National Bank      |
| 5. | Shri B.K. Batra             | - | DMD, IDBI                     |
| 6. | Smt. Meena Hemchandra       | - | ED, Reserve Bank of India     |
| 7. | Shri S.C. Mishra            | - | CGM, Reserve Bank of India    |

2. At the outset, the Hon'ble Chairperson welcomed the members of the Committee followed by a briefing by the C&AG officials to the members of the Committee on the subject 'Stressed Assets Stabilization Fund (SASF) regarding IDBI Bank and Non

Performing Assets in other Banks' based on Audit Report No. 5 of 2014 and issues involved therein.

3. After the briefing, the witnesses were called in. The Hon'ble Chairperson welcomed the representatives of the Ministry of Finance (Department of Financial Services), the IDBI Bank, State Bank of India, Punjab National Bank, Bank of India and Bank of Baroda and made the following observations:

- (i) Revolving door policy adopted in the SASF as Board of Trustees of SASF was related to the IDBI in one way or another.
- (ii) Non assessment of manpower requirements, deployment of staff on adhoc basis majority of whom did not have recovery experience and deputation of officials facing disciplinary proceedings.
- (iii) No formal manpower planning and deployment of officials of IDBI responsible for the NPAs.
- (iv) Gross negligence while invoking personal guarantees given by the promoters/ borrowers and non collection of the supporting documents such as income tax returns at the time of accepting personal guarantees.
- (v) Action taken by the IDBI against officials responsible for not obtaining personal guarantees at the time of loan disbursement.
- (vi) Norms applied by various Public Sector Banks for obtaining and invoking personal guarantees.
- (vii) Present status of the reimbursement of the administrative expenses and the likely date by which the IDBI would reimburse the expenses.
- (viii) Indirectly enriching the IDBI Bank through exchange of eight turn around cases for three fresh cases in violation of both the Trust deed and Government's orders eventually resulting in a loss of ₹ 973.68 crores to the SASF.
- (ix) Present status and clarification whether the IDBI has taken back the three exchanged assets which were given by them to the SASF in exchange.
- (x) Substantial short recovery on large NLO accounts as the net worth of the promoters/ borrowers was not ascertained.
- (xi) Retention of ₹ 66.04 crores by IFCI without any justification thereby putting SASF at loss.
- (xii) No action by the Trust against ARCIL for non payment of balance amount to the tune of ₹ 5.39 crores.

- (xiii) Inordinate delay in auctioning of the property by SASF.
- (xiv) Allegation by Debt Recovery Tribunal that the Trust was not pursuing the recovery proceedings with required seriousness and was entailing a notional loss of ₹ 30 lakhs every month on account of interest.
- (xv) Clarification whether the loopholes in invoking personal guarantees, valuation of assets, ascertainment of net-worth of promoters etc can be plugged at this stage.
- (xvi) Discreet investigation by the appropriate authorities for ascertaining motive of officers in protecting the interests of the promoters.
- (xvii) Investigation by the CVO of the Ministry to rule out the possibility of the officers working in connivance with the promoters.

|    |      |      |      |      |
|----|------|------|------|------|
| 4. | **** | **** | **** | **** |
| 5. | **** | **** | **** | **** |

6. Thereafter, the Secretary, Department of Financial Services, introduced himself and his colleagues and briefed the Committee about the efforts made by them on the issue. The members then sought clarification from the representatives of the Ministry and various Banks on some important aspects of the issue including invoking personal guarantees, lack of recovery experience in the employees, RBI guidelines in respect of personal guarantees, practices followed by other Banks, discretion of the banks in obtaining personal guarantees, officials responsible for waiving off the personal guarantees, incorrect appraisal of the listed companies, present status of exchanged assets particularly Ratnagiri project, recovery percentage of other asset management companies, increase in GNPA ratio of the PSBs, potential stress in banking sector, weakened core operations of the banks and treatment of willful defaulters.

7. The officials of the IDBI Bank gave clarification on few of the points raised by the members and stated that the IDBI would be reimbursing the administrative expenses within next few days, the IFCI is being pursued to reimburse the costs and that the exchange of assets was triggered by the Government of India's directive to rehabilitate Ratnagiri Gas and Power Private Limited. The CMD, State Bank of India discussed at length the reasons for the increase in the NPAs of the PSBs. The Secretary stated that the Ministry has not yet taken a view on the IDBI's contention that as per the agreement the gap in recovery would not be taken by the IDBI.



8. The Hon'ble Chairperson then thanked the representatives of the Ministry and the Banks for the free and frank discussion and asked them to furnish replies to the questionnaire that would be sent to them shortly.

The witnesses then withdrew.

A copy of the verbatim proceedings of the Sitting was kept on record

*The Committee then adjourned.*

**MINUTES OF THE SEVENTH SITTING OF THE PUBLIC ACCOUNTS  
COMMITTEE (2016-17) HELD ON 12 JULY, 2016.**

The Public Accounts Committee sat on Tuesday, the 12 July, 2016 from 1630 hrs. to 1730 hrs in Committee Room 'C', Parliament House Annexe, New Delhi.

**PRESENT**

Prof. K.V. Thomas

Chairperson

**MEMBERS**

**LOK SABHA**

2. Shri Prem Singh Chandumajra
3. Shri Nishikant Dubey
4. Prof. Richard Hay
5. Shri Bhartruhari Mahtab
6. Shri Janardan Singh Sighwal
7. Shri Abhishek Singh
8. Shri Anurag Singh Thakur
9. Dr. P. Venugopal

**RAJYA SABHA**

1. Shri Naresh Agarwal
2. Shri Bhubaneswar Kalita
3. Shri Shantaram Naik
4. Shri Sukhendu Sekhar Roy

**LOK SABHA SECRETARIAT**

- |    |                            |                        |
|----|----------------------------|------------------------|
| 1. | Shri A. K. Singh           | - Additional Secretary |
| 2. | Shri Sukhi Chand Chaudhary | - Joint Secretary      |
| 3. | Shri T. Jayakumar          | - Director             |
| 4. | Smt Bharti Tuteja          | - Deputy Secretary     |

**REPRESENTATIVES FROM THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA**

- |    |                     |                                      |
|----|---------------------|--------------------------------------|
| 1. | Shri H. Pradeep Rao | - Dy. C&AG cum Chairman (Commercial) |
| 2. | Shri V. Kurien      | - Director General (Commercial)      |
| 3. | Smt Parma Sen       | - Principal Director (Commercial)    |
| 4. | Ms. Roop Rashi      | - Principal Director (Commercial)    |

**REPRESENTATIVES FROM MINISTRY OF FINANCE (DEPT OF FINANCIAL SERVICES) AND IDBI Bank**

- |    |                           |                     |
|----|---------------------------|---------------------|
| 1. | Smt. Anjuly Chib Duggal   | - Secretary, DFS    |
| 2. | Shri Girish Chandra Murmu | - AS                |
| 3. | Mohammad Mustafa          | - JS                |
| 4. | Shri Kishor Kharat        | - MD&CEO, IDBI Bank |
| 5. | Shri Aloke Sengupta       | - CGM, IDBI Bank    |

2. At the outset, the Hon'ble Chairperson welcomed the Members, the Comptroller and Auditor-General of India, the Secretary, Ministry of Finance (Department of Financial Services), the MD&CEO, IDBI Bank and other representatives of the Ministry and IDBI

Bank to the sitting of the Committee, apprising that the sitting has been convened to hear the views of the Ministry of Finance and IDBI Bank subsequent to their furnishing of the action taken replies on the points raised by the Committee in its sitting of 17 July, 2015 on the subject "Stressed Assets Stabilisation Fund (SASF)" based on C&AG Report No. 5 of 2014. In the opening remarks, drawing the attention of the Secretary, Department of Financial Services (DFS) and IDBI Bank to the Audit scrutiny of the subject, the Chairperson highlighted glaring issues which *inter-alia* revealed number of deficiencies in the functioning of the Bank including (i) incongruous provision of maintaining of accounts by C&AG despite it being relieved of the function of compilation of accounts since 1976; (ii) the Mumbai High Court's intervention in May, 2013 on the delay of eight years to entrust the audit of SASF to C&AG and on subsequent delay in forwarding formal proposal to C&AG despite issuance of reminders and sought explanation from the Secretary, DFS thereon; (iii) issue related to cost of administering the Trust that was to be borne by the IDBI Bank; (iv) present status on inadmissible exchange of assets as raised in para 3.1 of the Report; (v) cases where no settlement was reached with the borrowers and dues still pending recovery; (vi) specific enquiry on 101 resolved and 211 unresolved cases involving Net Loan Outstanding (NLO) of Rs.2,498.83 crores and Rs.3005.69 crores respectively and scrutinizing of selective personal guarantees wherein no-system was evolved for obtaining copies of income-tax returns and property details of the guarantors. On this, the Chairperson asked the copy of the para to be extracted and sent the same to the Ministry of Finance for appropriate action; (vii) issue of quoted/unquoted shares under the provisions of the SASF Trust Deed; (viii) scrutiny of the 88 cases selected by the audit wherein explanation was sought from the

Secretary, DFS on reasons for allowing acquisition of equity in settlement of dues. Thereafter, the Chairperson asked the Secretary, DFS to give a brief account of the latest status of the follow-up remedial action taken on the Audit findings and improvements effected so far.

3. The Secretary, DFS, thereafter, briefed the Committee about the efforts made by them on the issues raised by the Audit in the Report. The Secretary affirmed that an amount of Rs.72.86 crore towards cost of administering the Trust has been paid by the IDBI and the remaining amount of Rs.1064.67 crore on account of exchange of assets would also be paid by the latter. The same was also confirmed by the MD&CEO, IDBI Bank in executing the directions issued to them by the Ministry on these amounts.

4. The Secretary, DFS and MD&CEO, IDBI-Bank, thereafter, responded to various queries and clarifications sought by the Members on issues specific to the Audit findings on the Report.

5. The Chairperson also asked the Secretary, DFS to furnish written replies to the points/issues which could not be answered within 10 days as the Report on the subject is likely to be presented in the ensuing Monsoon session of Parliament.

6. The Hon'ble Chairperson then thanked the representatives of the Ministry and IDBI Bank for appearing before the Committee and furnishing the valuable information on several issues on the subject.

*The witnesses, then, withdrew.*

A verbatim copy of the proceedings has been kept on record.

*The Committee, then, adjourned.*

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Confidential**MINUTES OF THE THIRD SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2017-18) HELD ON 26 MAY, 2017.**

The Committee sat from 1100 hrs. to 1240 hrs. on 26 May, 2017 in Room No. '53', Parliament House, New Delhi.

**PRESENT**

Shri Mallikarjun Kharge - Chairperson

**MEMBERS****LOK SABHA**

1. Shri Subhash Chandra Baheria
2. Shri Prem Singh Chandumajra
3. Shri Nishikant Dubey
4. Shri Bhartruhari Mahtab
5. Dr. Kirit Somaiya
6. Dr. P. Venugopal

**RAJYA SABHA**

7. Shri Naresh Agrawal
8. Shri Satyavrat Chaturvedi
9. Shri Bhubaneswar Kalita
10. Shri Shantaram Naik
11. Shri Sukhendu Sekhar Roy
12. Shri Ajay Sancheti
13. Shri Bhupender Yadav

**LOK SABHA SECRETARIAT**

1. Shri A. K. Singh - Additional Secretary
2. Shri Sukhi Chand Choudhary - Joint Secretary
3. Shri T. Jayakumar - Director

**REPRESENTATIVES FROM THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA**

1. Shri H. Pradeep Rao - Dy. CAG
2. Shri Parmasen - Principal Director
3. Ms. Rooprashi - Principal Director
4. Shri Manish Kumar - Principal Director

PART-I

2. Hon'ble Chairperson welcomed the Members and stated that the draft report on "Stressed Assets Stabilization Fund based on C&AG Report No. 5 of 2014" which was circulated in advance may be taken up for consideration and adoption. Members suggested certain changes to be incorporated in the report. The Committee then authorized Hon'ble Chairperson to present the report to Hon'ble Speaker, Lok Sabha after incorporating the amendments suggested by them.

PART-II

3. The Committee then took up for examination of Para 12.1, Chapter XII of Report No. 11 of 2016 relating to Ministry of Micro, Small and Medium Enterprises for examination.

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A copy of the verbatim proceedings of the Sitting was kept on record

*The Committee then adjourned.*