O/o Comptroller and Auditor General of India

PRESS RELEASE

New Delhi; 21.7.17

CAG Report on Performance audit of Credit Risk Management in IFCI Limited tabled in Parliament;

IFCI having high level of Non Performing Assets (NPAs) of ₹ 3544.54 crore;

Audit reveals loans sanctioned in deviation from the eligibility conditions and due diligence not being exercised during credit appraisal

The Report of Comptroller and Auditor General of India (16 of 2017) on 'Performance audit of Credit Risk Management in IFCI Limited' was tabled in Parliament today.

IFCI Limited (formerly known as Industrial Finance Corporation of India), a Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) is under the regulatory control of the Reserve Bank of India (RBI) and administrative control of the Department of Financial Services (DFS), Ministry of Finance (MoF), Government of India (GoI). It was established as a Statutory Corporation in 1948 and was registered later as a Company under the Companies Act, 1956. It became a deemed Government Company in 2012-13 and a Government Company w.e.f. 7th April 2015. The Company had been providing financial assistance in the form of short, medium or long-term loans or equity participation primarily to manufacturing, service, infrastructure sectors, capital & intermediate goods industry and agro-based industries.

This Performance Audit was taken up due to existence of high level of Non Performing Assets (NPAs) of ₹ 3544.54 crore as on 31 March 2016 corresponding to 13.05 per cent of total outstanding loans. Out of above NPAs, NPAs amounting to ₹ 2794.58 crore (78 *per cent*) originated during the last three years. Further, principal amounting to ₹ 1637.87 crore was written-off from the books of accounts and there was an increase of ₹ 40,638.98 crore in unrealized interest on account of NPAs during the audit period from 2012-13 to 2015-16.

Audit reviewed Company's performance in credit appraisal, sanction and disbursement process, post-sanction monitoring and credit recovery procedures during the period 2012-13 to 2015-16 through an examination of compliance with loan agreements, general lending policy financing guidelines and RBI Guidelines. However, for examination of NPAs, loans sanctioned from 2008-09 onwards were covered.

2. AUDIT FINDINGS

Significant audit findings of the Report are summarised below:

- Audit selected 128 cases of loans sanctioned during the audit period and observed that in respect of 69 cases (54 per cent) the loans were sanctioned in deviation from the eligibility conditions prescribed in the relevant General Lending Policy (GLP). Eligibility criteria that were relaxed pertained to adherence to the stipulated financial ratios, profitability/net worth/credit rating of the Borrower Company and minimum security cover/nature of security.

Further, acceptance of unmarketable securities was also observed apart from instances of overvaluation of security as the valuation method was not in line with the method prescribed in the extant GLP. Loans were also sanctioned to borrowers whose promoters/independent directors appeared in the wilful defaulters list of Credit Information Bureau (India) Limited (CIBIL)/Reserve Bank of India which was in deviation from the GLP.

- Due diligence was not exercised during credit appraisal resulting in the loans being sanctioned to borrowers with poor debt servicing capabilities. The Company sanctioned new credit facilities to other group companies of the borrower for swapping its existing exposure in the borrower company when the borrower defaulted in the repayment of loan / buyback of equity investment.

(Para 3.2 and 3.3)

- There was non-compliance with the guidelines issued by the Reserve Bank of India (RBI) on asset classification and provisioning, conversion of outstanding principal into debt or equity, restructuring norms etc.

(Chapter 4)

- Audit observed that in loan cases where the primary security as per terms of sanction was not created before disbursement of the loan amount, there was high incidence of these loans turning into NPAs. Even after occurrence of defaults and the loans turning into NPA, there was delay in enforcement of security and there were instances of non-enforcement of security especially in sale of pledged equity shares to recover outstanding dues.

- Review of 11 cases of loans written off revealed that the Company had incurred a loss of ₹ 1235.65 crore (including unrealized interest of ₹ 674.51 crore) thereof as the recovery chances were low due to inadequate / unenforceable security cover. Further, the Company had made 100 per cent provision in respect of five cases wherein the entire principal outstanding of ₹296.20 crore was fully provided for and unrealized interest amounted to ₹119.09 crore thereby leading to a loss of ₹ 415.29 crore. In addition, deficiencies were noticed in 18 NPA cases where the recovery of the outstanding amount of ₹ 3799.33 crore including unrealized interest of ₹ 908.13 crore is doubtful.

(Chapters 5 & 6)

- Review of nine cases of equity investments revealed that these have turned into non-performing investments where outstanding amount yet to be recovered was ₹ 1136.28 crore along with returns thereon amounting to ₹ 651.69 crore.

(Chapter 7)

3. RECOMMENDATIONS BY AUDIT

Following recommendations were made by Audit:

- The credit appraisal mechanism should be strengthened;
- The Company should strictly comply with the RBI guidelines applicable to Systemically Important Non-Deposit taking Non-Banking Financial Companies;

- The Company should strictly adhere to its General Lending Policy and should not take recourse to deviations as a matter of routine;
- The Company should assess the financial position of the borrower company along with that of the pledgor Company/buyback entity while sanctioning financial assistance;
- Action for recovery needs to be initiated immediately on default by enforcing the available security.