

## CHAPTER XIV: MINISTRY OF SCIENCE AND TECHNOLOGY

### Department of Science and Technology

#### 14.1 Financial assistance by Technology Development Board

The Technology Development Board did not properly manage the financial assistance extended by it. This resulted in default in repayment of loan and interest amounting to ₹ 66.05 crore in seven selected projects.

##### 14.1.1 Introduction

Government of India constituted the Technology Development Board (TDB) in September 1996, under the provisions of the Technology Development Board Act, 1995 with the objectives of:

- providing equity capital, subject to such conditions as may be determined by regulations, or any other financial assistance to industrial concerns and other agencies attempting commercial application of indigenous technology or adapting imported technology for wider domestic application;
- providing financial assistance to such research and development institutions engaged in developing indigenous technology or adaptation of imported technology for commercial application, as may be recognised by the Central Government;
- performing such other functions as may be entrusted to it by Central Government.

The functions of TDB are managed by a Board. Secretary, Department of Science and Technology (DST) is the Chairperson of the Board. There are 10 other Members<sup>1</sup> in the Board and Secretary, TDB is the Member Secretary.

##### 14.1.2 Financial Management

TDB is mainly financed through grants released by DST. During 2008-09 to 2018-19, TDB received grants of ₹ 378.05 crore and ₹ 478.23 crore as repayment of loan/interest/royalty from borrower companies. TDB disbursed ₹ 1,047.72 crore as loans, grants and towards equity/Venture Capital Funds

<sup>1</sup> Including six Secretaries to the Government of India and four members appointed from persons having experience in technology development and application, banking and finance, company, agriculture and rural development.

during the period and sanctioned 113 projects for financial support of ₹ 1,080.71 crore<sup>2</sup> of which ₹ 783.43 crore<sup>3</sup> was released to the companies as of March 2019. As per the financial statements of TDB ₹ 309.81 crore and ₹ 730.11 crore of loan to industrial concerns was outstanding as of 31 March 2008 and 31 March 2019 respectively, of which an amount of ₹ 70.10 crore and ₹ 225.05 crore respectively was overdue for repayment.

### 14.1.3 Criteria for grant of financial assistance

#### 14.1.3.1 Terms and conditions for granting financial assistance

TDB provides soft loan mainly to industrial concerns at five *per cent* simple interest per annum. The financial assistance is normally in form of loan to the extent of half of the approved outlay of the project or equity subscription, which can be up to 25 *per cent* of the project cost. Evaluation of project proposals, selection of industry partner, sanction, disbursement and monitoring of loans is done in accordance with the provisions given in TDB's Manual of Standing Orders<sup>4</sup>.

#### 14.1.3.2 Scrutiny and approval of project proposals

Application for grant of financial assistance is examined by the Initial Screening Committee (ISC), comprising experts mainly from DST, from the point of view of completeness of the application, objective of the project, status of the technology, track record of the applicant and the total cost. Based on the recommendations of ISC, the application is then evaluated by the Project Evaluation Committee (PEC) for an independent evaluation of the project proposal for its scientific, technological, commercial and financial merits. The delegation of powers to sanction financial assistance to the private companies and actual number of projects and amounts sanctioned during 2008-19 are detailed in **Table No. 1**:

---

<sup>2</sup> Loan : ₹ 1,064.36 crore, Grant : ₹ 15.00 crore and Equity : ₹ 1.35 crore.

<sup>3</sup> Loan : ₹ 768.13 crore, Grant : ₹ 14.20 crore and Equity : ₹ 1.10 crore.

<sup>4</sup> The Manual of Standing Orders consolidates all the orders issued by TDB, provisions of TDB Rules 1996, TDB Regulations 1998 and subsequent amendments, project funding guidelines and legal attorneys' advice.

**Table No. 1: Powers to sanction financial assistance and amount sanctioned**

	Power to sanction financial assistance					
	Chairman		Sub-committee appointed by Board		Board	
Till 09 May 2010	Upto ₹ one crore on the recommendation of PEC		Above ₹ one crore and upto ₹ five crore		Above ₹ five crore	
	<b>Number of projects sanctioned</b>	<b>Amount of financial assistance</b>	<b>Number of projects sanctioned</b>	<b>Amount of financial assistance</b>	<b>Number of projects sanctioned</b>	<b>Amount of financial assistance</b>
	1	₹ 0.75 crore	19	₹ 71.49 crore	6	₹ 66.64 crore
10 May 2010, onwards	Upto ₹ 2.50 crore on the recommendation of PEC		Above ₹ 2.50 crore and upto ₹ 10 crore		Above ₹ 10 crore	
	<b>Number of project sanctioned</b>	<b>Amount of financial assistance</b>	<b>Number of projects sanctioned</b>	<b>Amount of financial assistance</b>	<b>Number of projects sanctioned</b>	<b>Amount of financial assistance</b>
	28	₹ 52.10 crore	48	₹ 298.11 crore	11	₹ 591.62 crore

For every case of loan assistance, the beneficiary is required to enter into a formal agreement with TDB. The repayment of loan together with interest thereon should commence one year after the project is successfully completed and loan along with interest should be recoverable within five years of project completion. Further, royalty is also charged at the rate of 0.5 *per cent* on the total turnover after completion of the project and limited to the period till the loan repaid.

#### 14.1.3.3 Monitoring of the projects

As per the Loan agreement signed with the borrower companies, each project under which loan assistance is released is required to be monitored continuously by the Project Monitoring Committee (PMC) comprising representatives of the Board and other experts. The Borrowers have to submit six-monthly returns indicating details of expenditure incurred, technical progress made, financial position of the company, plant & machinery procured/insured, etc. in the format prescribed for the purpose and have to submit a final project report to TDB at the end of the project.

#### 14.1.4 Audit objectives

Performance Audit on 'Functioning of Technology Development Board' was undertaken for the period 1999-2005. The audit findings were published in Report No. 1 of 2006 of the Comptroller and Auditor General of India and five recommendations were made. A follow up audit was undertaken covering the period 2008-09 to 2018-19 to evaluate the extent to which the recommendations

made in the Audit Report were implemented. This included assessment of whether

- proper due diligence was followed by TDB before providing funding to private companies;
- financial support was extended in accordance with approved terms;
- management of the loans was prompt and efficient in safeguarding the financial interests of the Government; and
- Progress of the projects was monitored adequately by TDB.

#### 14.1.5 Audit scope and methodology

113 projects involving release of financial assistance of ₹ 783.43 crore were sanctioned by TDB during 2008-09 to 2018-19. Audit classified these projects into four categories viz. completed, not completed, abandoned and ongoing. Further, from each category of projects, sample was chosen which included both high as well as low monetary value. Thus, 21 projects were sampled for audit, involving total release of financial assistance of ₹ 337.65 crore. The details are as shown in **Table No. 2**.

**Table No. 2: Status of projects sanctioned and selected projects for audit**

(₹ in crore)

Category	Total number of projects	Proposed Financial assistance	Financial assistance released, as of March 2019	Number of projects selected	Proposed Financial assistance	Financial assistance released, as of March 2019
Completed	50	242.84	227.68	10	65.91	64.05
Not completed <sup>5</sup>	16	81.51	57.64	4	26.32	21.65
Abandoned/Foreclosed	09	43.50	15.98	3	12.55	6.60
Ongoing	38	712.86	482.13	4	359.41	245.35
<b>Total</b>	<b>113</b>	<b>1,080.71</b>	<b>783.43</b>	<b>21</b>	<b>464.19</b>	<b>337.65</b>

The list of selected projects along with sanctioned cost and funds released is given in **Annexe-14.1**.

#### 14.1.6 Follow-up of major observations made in previous Audit Report

The Performance Audit Report (No. 1 of 2006) of the Comptroller and Auditor General of India on 'Functioning of Technology Development Board' highlighted issues relating to sanction of inflated sales projections (para 3.7.2), release of loans without fulfilling required conditions of the Loan Agreement

<sup>5</sup> Project which have not completed its milestone proposed in the project proposal and pending for final decision.

(para 3.7.3), inadequate monitoring (para 3.7.4), default in repayment of loan (para 3.7.5), etc. Audit verified the action taken by TDB on the recommendations made in the Audit Report and found that despite assurance given by DST/TDB for addressing these issues, four of the major audit issues continued to recur during the audit period 2008-19. The gist of pending audit observations, recommendations made, action stated by TDB and the status of the same as of March 2019 are given in **Annexe-14.2**.

The audit findings are discussed in the subsequent paragraphs.

#### **14.1.7 Audit findings**

##### **14.1.7.1 Sanction of financial assistance after relaxing the eligibility conditions**

In four out of the 21 projects scrutinised, dilution of the conditions for grant of loan as approved by the Board were observed. The cases are discussed below:

(i) The Board of TDB approved (March 2010) a project of M/s MIC Electronics Limited, Hyderabad for development and commercialisation of LED based lighting products as Green Energy Solutions. The loan amount of ₹ 15.00 crore was sanctioned with the condition that 50 lakh shares of the company at the rate of ₹ Two, face value of share held by the promoter(s) aggregating ₹ One crore would be pledged to TDB. As the company expressed inability to pledge the requisite number of shares, TDB relaxed this condition and signed the agreement for pledging of only 37.50 lakh shares worth ₹ 75.00 lakh. However, no justification for this relaxation was found on the records of TDB and the full amount of ₹ 15.00 crore was released to the company.

Though the project was declared as completed, the company failed to repay the loan repayment. TDB recalled (January 2014) the loan and referred (March 2014) the case to Arbitrator. The Arbitrator passed (October 2016) an award for ₹ 17.63 crore in favour of TDB. However, the company was declared as insolvent in March 2018 and no recovery proceedings could be initiated.

DST stated (February 2019) that power was delegated to Secretary TDB with approval of Chairperson for effecting changes/allegations in the conditions stipulated in the documents without adversely affecting/diluting the interest of TDB.

Although approval of competent authority was taken for changing the terms and conditions but by reduction in the amount of collateral, the financial security of TDB was diluted and outstanding loans could not be realised from the company.

(ii) Board of TDB sanctioned (February 2017) loan assistance of ₹ 250.00 crore to M/s Grasim Industries Limited, Mumbai for their project 'Birla Excel solvent spun cellulosic fibre plant' with conditions that loan assistance should be secured by way of first charge on fixed assets (movable and immovable) of the company both present and future, located at its Kharach plant on *pari-passu* basis with existing lenders.

While signing (March 2018) the Loan Agreement with the company, TDB did not include the clause of execution of Mortgage Deed for immovable property. TDB also did not obtain the details of either fixed assets in possession of the company at its Kharach plant. Consequently, the financial safeguard for TDB was reduced, as there was no collateral from immovable property as advised by the Board.

DST stated (February 2019) that company did not comply with the condition of mortgage of immovable property due to their policy decision keeping in view of their financial standing. However, the cost of the movable assets available to TDB was ₹ 910.69 crore which was 3.96 times of the loan amount.

The reply is not acceptable, as the Board while recommending the project for funding, stipulated that the loan should be secured by movable as well as immovable assets, which was subsequently diluted.

(iii) The sub-committee of TDB approved (October 2011) loan assistance of ₹ 9.99 crore to M/s Biogenex Life Sciences Pvt. Limited, Hyderabad subject to the conditions that (i) five lakh shares of ₹ 10 each aggregating to ₹ 50.00 lakh would be pledged to TDB and (ii) that loan amount should be secured by mortgaging the property of the company.

The company, however, expressed its inability for pledging the shares. At the time of entering into the agreement, TDB excluded this condition from the agreement. Further, on the request of the company, TDB also relaxed the condition for mortgage by limiting it to production of No Objection Certificate (NOC) issued by Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) in favour of TDB to have right on the land in question. In the agreement, TDB inserted another clause for pledging of shares of the promoter in promoter<sup>6</sup> company, instead of company's own shares having intrinsic value of USD 10.00 lakh in favour of TDB. Accordingly, the company deposited original share certificates held by the promoter along with an NOC issued by APIIC with TDB. No mortgage deed was executed.

---

<sup>6</sup> M/s Bio Genex Laboratories Inc., USA

Audit observed that TDB modified the terms and conditions of the loan agreement without the approval of sub-committee. Further, the value of USD 10.00 lakh reported by the promoter was not verifiable from the share certificates as the face value of each share was not mentioned on the share certificates. TDB also did not verify the actual value of these shares. Audit also noticed that the declaration made on the share certificates deposited by the promoter states that these shares cannot not be sold, offered for sale, pledged or hypothecated, as the same was not registered under Securities Act, 1933<sup>7</sup>. In the absence of a Mortgage Deed, the NOC from APIIC furnished by company did not have any meaning. Further, in the absence of documentary evidence, the value of the shares could not be ascertained. Thus, the effectiveness of the securities obtained by TDB towards the loan of ₹ 9.99 crore remained doubtful.

The company did not complete the project within stipulated time. Therefore, TDB closed (May 2015) the project without achievement of its objectives. The company also did not repay its loan. Consequently, TDB referred (August 2016) the case to Arbitrator, who passed (March 2018) an award of ₹ 12.86 crore along with *pendente lite*<sup>8</sup> interest at the rate of 10 *per cent* per annum on the amount of award in favour of TDB. As of September 2019, dues amounting to ₹ 16.59 crore were pending for recovery from the company.

DST stated (February 2019) that the modified terms and conditions were accepted by TDB after due approval of Chairperson TDB.

Although approval of competent authority was taken for changing the terms and conditions but changes in the terms and conditions of the loan recommended by the Board adversely affected the interest of TDB and the loan amount was yet to be recovered.

(iv) The Board sanctioned (August 2016) the loan to M/s Biological E Limited, Hyderabad for setting up manufacturing facilities for Pneumococcal Conjugate Vaccine with a condition that the royalty at the rate of 0.5 *per cent* on sales turnover of the product, commencing from the date of start of commercialisation to till repayment of entire loan, etc. will be paid by the company to the Board. TDB reduced the rate of royalty to 0.2 *per cent* against the terms sanctioned by the Board. Altering the terms and condition of the loan without obtaining approval of the Board was irregular and defeated the purpose of the oversight functions of the Board.

DST stated (February 2019) that the company requested TDB to reduce the rate of royalty from 0.5 to 0.2 *per cent* and the same was discussed during the 55<sup>th</sup>

---

<sup>7</sup> The Securities Act of 1933 of United States was enacted by the United States Congress on May 27, 1933.

<sup>8</sup> Pending litigation.

Board meeting (5 August 2016) wherein the project was approved and Board had noted the same.

The reply is not tenable as the Board approved (August 2016) the project along with other clauses of TDB. Based on the same draft Letter of Intent was issued in September 2016 to the company which contain the clause of payment of 0.5 *per cent* royalty. This indicates that reduction in rate of royalty did not have the approval of TDB, Board.

#### **14.1.7.2 Non-assessment of the intrinsic value of the pledged shares**

As per para 4.12 of Manual of Standing Orders of TDB, the industrial concern is required to provide collateral to TDB for the loan assistance provided in the form of bank guarantees, corporate guarantees, personal guarantees, pledging of shares, mortgaging of property, etc. In the cases where loan assistance is provided against pledging of shares, the equity/preference shares of the borrowing company are to be pledged in favour of TDB.

Of the 21 projects examined, in 15 cases, the collateral security obtained included pledging of shares by borrower companies to TDB. However, Audit noted that the shares pledged by 13<sup>9</sup> companies were not listed in any Stock exchange of India as of March 2019. In the absence of this, the intrinsic value<sup>10</sup> of the shares pledged by these companies was not known. There were no records on file to indicate that intrinsic value of shares of these companies were assessed before signing of agreement and release of loan. This exposed the loan assistance to a financial risk in the event of recovery of loan through sale of shares.

#### **14.1.7.3 Excess release of first instalment of loan**

In terms of para 4.25 of Manual of Standing Orders of TDB, financial assistance to be disbursed as first instalment was to be fixed between 10 and 25 *per cent* of the total assistance. In case the quantum of first instalment has to be enhanced above 25 *per cent*, specific reasons were to be recorded and approval of Chairperson was to be obtained.

---

<sup>9</sup> M/s Spray Engineering Devices Limited, Chandigarh, M/s SBP Aqua Tech Pvt. Limited, Hyderabad, M/s Ogene Systems (I) Pvt. Limited, Hyderabad, M/s Sahajanand Laser Technology Limited, Gandhi Nagar, M/s Reliance Cellulose Products Limited, Secunderabad, M/s Intelizon Energy Pvt. Limited, Hyderabad, M/s Biogenex Life Sciences Pvt. Limited, Hyderabad, M/s Samics Research Materials Pvt. Limited, Bareilly (UP), M/s Kavvia Carbons (Chennai) Pvt. Limited, Tamil Nadu, M/s Angels Health Pvt. Limited, Navi Mumbai, M/s Forus Health Pvt. Limited, Bangalore, M/s Intemo Systems Limited, Hyderabad, M/s Mobilexion Technologies Pvt. Limited, Trivandrum

<sup>10</sup> Intrinsic value of a stock is its true value. This is calculated on the basis of the monetary benefit investor can expect to receive from it in the future. Further, it is the maximum value at which investor can buy the asset, without making a loss in the future when you sell it.

Audit noted that in five cases<sup>11</sup>, TDB disbursed the first instalment of loan at 30 to 50 *per cent* of the total approved loan assistance. In all of these cases, TDB neither recorded reasons for the higher amounts of first instalment sanctioned nor obtained the approval of Chairperson as stipulated in its guidelines, which was irregular.

DST stated (February 2019) that excess release of first instalment was done only in exceptional cases, such as for short duration projects requiring faster infusion of funds and to support procurement activities.

The reply is not acceptable, as instalments at higher rate were disbursed without recording the specific reasons and approval of the competent authority. Further, two of the five companies mentioned above, viz. M/s Kavia Carbons (Chennai) Pvt. Limited, Chennai and M/s Biogenex Life Sciences Pvt. Limited, Hyderabad had defaulted in repayment of the loan, as discussed in **Para 14.1.7.5**.

#### **14.1.7.4 Release of loan instalments without fulfilment of terms of the agreement**

The loan agreements signed with the borrower companies stipulate that each instalment of loan would be released after accomplishment of prescribed milestones such as pledging of shares, execution of Hypothecation/Mortgage Deed, submission of No Objection Certificate from bankers/financial institutions for execution of hypothecation/mortgage of fixed assets, arrangement of working capital, submission of bank guarantee, submission of copy of registration of charge with Registrar of Companies, etc.

Audit observed that in four projects, TDB released various instalments of loan without ensuring fulfilment of the prescribed milestones by the borrower companies. Release of loan instalments without fulfilment of required conditions and adequate security compromised the financial interests of TDB, as discussed in **Table No. 3**.

**Table No. 3: Release of loan instalments without ensuring fulfilment of terms of the agreement**

Sl. No.	Industry partner	Terms of the loan agreement	Audit observation
1.	M/s Jyoti Limited, Vadodara	As per the terms of the loan agreement entered into (October 2008) for providing financial assistance of ₹ 10	TDB released (January 2013) the third instalment of ₹ three crore without obtaining any documentary evidence for arrangements made by the company for

<sup>11</sup> Companies (quantum of first instalment of loan): M/s Zen Technologies Limited, Hyderabad (30.17 *per cent*), M/s Kavia Carbons (Chennai) Pvt. Limited, Chennai (41 *per cent*), M/s Forus Health Pvt. Limited, Bangalore (31.25 *per cent*), M/s Biogenex Life Sciences Pvt. Limited, Hyderabad (50.06 *per cent*) and M/s Biological E Limited, Hyderabad (40 *per cent*).

		crore, before release of first instalment of ₹ 2.50 crore, TDB was to satisfy itself about arrangement of working capital made by the company. This clause was changed by TDB Board and was made a condition for release of third instalment instead of first instalment of loan.	working capital. Audit found that after one year of release of third instalment of loan, company informed (January 2014) TDB that it approached its bankers and Corporate Debt Restructuring Cell for restructuring the existing debts and to get additional support for working capital and would not draw fourth final instalment of ₹ 50.00 lakh from TDB. Company was ultimately declared as a sick company. The loan including interest, etc. remained unrecovered as of March 2019. DST in its reply (February 2019) had not furnished any reasons for release of third instalment without satisfying itself about arrangement of working capital made by the company.
2.	M/s Kavia Carbons (Chennai) Pvt. Limited, Chennai	As per the Loan Agreement signed with the company for financial assistance of ₹ 6.15 crore, the first <i>pari-passu</i> charge of Immoveable property (Land) of the company was to be created in favour of TDB as security/collateral before release of the first instalment of the loan.	TDB disbursed three tranches of the loan of ₹ 4.25 crore without ensuring that the charge of the land was created in its favour. Subsequently, the company ran out of its resources and came under the purview of SARFAESI <sup>12</sup> . The outstanding loan and interest was pending for recovery as of March 2019. DST accepted (February 2019) that charge on immoveable property in favour of TDB could not be created.
3.	M/s Intemo System Limited, Hyderabad,	According to the terms of the agreement, the Borrowers were required to keep insured the properties up to their replacement value and duly pay the premium and other sums payable for the purpose. The Board was to be made beneficiary of the insurance until the loan amount and interest, etc. have been fully repaid by the borrowers.	TDB did not have any information about whether these companies executed insurance policies of their properties. Further, in seven <sup>13</sup> other projects, TDB did not have latest insurance policies of these projects although entire loan and interest amount has not been repaid to the TDB. DST accepted (February 2019) that insurance policy in respect of two companies mentioned at serial number 3 and 4 are not available with the TDB. Audit further observed that TDB did not have insurance policies from the remaining seven companies also as of September 2019. This indicated that TDB did not take any action to obtain the insurance certificates from the companies.
4.	M/s SBP Aqua Tech Pvt. Limited, Hyderabad		

<sup>12</sup> SARFAESI Act (The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) was enacted to regulate securitization and reconstruction of financial assets and enforcement of security interest created in respect of Financial Assets to enable realisation of such assets.

<sup>13</sup> M/s Biogenex Life Sciences Pvt. Limited, Hyderabad, M/s Jyoti Limited, Vadodara, M/s Kavia Carbon (Chennai) Limited, Chennai, M/s MIC Electronics Limited, Hyderabad, M/s Reliance Cellulose Products Limited, Secunderabad, M/s Zen Technologies Limited, Hyderabad and M/s Siechem Technologies Pvt. Ltd., Chennai,

#### 14.1.7.5 Default in repayment

As per Loan Agreements, in case of defaults in repayment of loan, etc. and/or failure to comply with the provisions of the loan agreement, Board may, by notice in writing to the Borrower, terminate the Loan Agreement. Manual of Standing Orders of TDB has not prescribed any time limit for recall of loan, in the event of default in repayment of loan by the companies.

As per the financial statements of TDB as of 31 March 2019, ₹ 730.11 crore of loan was outstanding from 107 borrower companies, of which an amount of ₹ 225.05 crore was overdue for repayment from 64 borrower companies for periods ranging from eight days to 19 years.

In the 21 projects examined in audit, TDB had sanctioned financial assistance of ₹ 464.19 crore and released ₹ 337.65 crore as of March 2019. Audit found that:

- Full and final payment had been received in 10 projects<sup>14</sup>, while in four<sup>15</sup> projects repayment was not due yet, as of 31 March 2019.
- In remaining seven<sup>16</sup> projects, borrower companies had defaulted in repayment of loans and the cases against five<sup>17</sup> borrower companies were filed in the court of Arbitrators. Further, the repayments of ₹ 66.05 crore become overdue from these seven companies, including interest for periods ranging between eight days and six years.
- Further, out of seven companies, four companies (**Annexe-14.3**) to whom an amount of ₹ 27.00 crore had been released as loan, defaulted in repayment of loan/interest amounting to ₹ 11.87 crore for three successive times, yet TDB took more than a year to recall the loans/interest from the companies. The lack of prompt action by TDB in

---

<sup>14</sup> M/s Spray Engineering Devices Limited, Chandigarh, M/s Siechem Technologies Pvt. Limited, Chennai, M/s Ogene Systems (I) Pvt.Limited, Hyderabad, M/s Sahajanand Laser Technology Limited, Gandhi Nagar, M/s Intelizon Energy Pvt. Limited, Hyderabad, M/s Samics Research Materials Pvt. Limited, Bareilly (UP), M/s Zen Technologies Limited, Hyderabad, M/s Angels Health Pvt. Limited, Navi Mumbai, M/s Forus Health Pvt. Limited, Bangalore and M/s AXIO Biosolutions Pvt. Limited, Ahmedabad.

<sup>15</sup> M/s Biological E Limited, Hyderabad, M/s Grasim Industries Limited, Mumbai, M/s Abilities India Pistons & Rings Limited, Delhi and M/s Mobilexion Technologies Pvt. Limited, Trivandrum.

<sup>16</sup> M/s Intemo Systems Limited, Hyderabad, M/s Jyoti Limited, Vadodara, M/s SBP Aqua Tech Pvt. Limited, Hyderabad, M/s MIC Electronics Limited, Hyderabad, M/s Reliance Cellulose Products Limited, Secundarabad, M/s Biogenex Life Sciences Pvt. Limited, Hyderabad and M/s Kavia Carbons (Chennai) Pvt. Limited, Tamil Nadu.

<sup>17</sup> M/s SBP Aqua Tech Pvt. Limited, Hyderabad, M/s MIC Electronics Limited, Hyderabad, M/s Reliance Cellulose Products Limited, Secundarabad, M/s Biogenex Life Sciences Pvt. Limited, Hyderabad and M/s Kavia Carbons (Chennai) Pvt. Limited, Tamil Nadu.

the cases of default of loan also indicates poor management of loans granted by TDB.

DST provided (February 2019) status of execution of arbitration award in the above cases which have been included in **Annexe-14.3**, however, DST did not comment on the reasons for the delay in recalling the loan in the first instance.

#### **14.1.7.6 Waiver of outstanding loan/interest**

As per Rule 19 (13) of Technology Development Board Rules 1996, in case of project having been declared as a failure in terms of provisions of the agreement, the Board may consider waiving off the recovery of the interest and the loan amount; and in such an eventuality, the unutilised balance amount shall be refunded to the Board and the assets created shall be disposed of in a manner decided by the Board.

During the period 2008-19, TDB waived off the principal amount of loan of ₹ 5.20 crore and interest/royalty of ₹ 36.98 crore outstanding from 14 companies<sup>18</sup> that had defaulted in repayment of loan. Audit observed that there was no provision in the loan agreements defining the circumstances in which the project could be declared as failure. Audit observed that of the 14 cases, in five<sup>19</sup> cases TDB had declared the projects as completed. The waiver of principal amount of loan and interest in these cases by TDB was not authorised under the provisions of the TDB Rules 1996 and was, therefore, irregular.

DST stated (February 2019) that failure of a project could be due to technology failure, marketing failures, commercial failure, insufficient sales/revenue generation, change in market conditions, etc. and that all the cases wherein principal or interest was waived off, was done in accordance with TDB Rules 1996.

The reply is not acceptable, as the TDB Rules 1996 specify that the Board may consider waiving off the outstanding amount of loan/interest where the project has been declared as a failure in terms of provisions of the agreement. The agreements entered into with the companies mentioned above, had no provision

---

<sup>18</sup> National Aerospace Laboratories, Bengaluru, M/s SIDD Life Sciences Pvt. Limited, Tamilnadu, M/s Shripet Industries, M/s Naveen Additives Limited, Hyderabad, M/s Alpha Amins Pvt. Limited, M/s Haryana Biotech Pvt. Limited, Gurugram, M/s Pushkar Chem Limited, Mumbai, M/s Midas Communication Technologies Pvt. Limited, Chennai, M/s Valuepitch e Technologies Pvt. Limited, Mumbai, M/s Angels Health Pvt. Limited, Navi Mumbai, M/s Ogene Systems (I) Pvt. Limited, Hyderabad, M/s Powai Lab Technology Pvt. Limited, Mumbai, M/s ATV Projects and M/s Ind Swift, Chandigarh.

<sup>19</sup> M/s Naveen Additives Limited, Hyderabad, M/s Haryana Biotech Pvt. Limited, Gurugram, M/s Midas Communication Technologies Pvt. Limited, Chennai, M/s Ogene Systems (I) Pvt. Limited, Hyderabad and M/s Ind Swift, Chandigarh.

defining the conditions in which the project could be declared as a failure. TDB needs to incorporate such terms in their loan agreements.

#### **14.1.7.7 Inadequate project monitoring**

As per the Loan Agreements signed with the Borrowers, a Project Monitoring Committee (PMC) comprising representatives of the Board and other experts was to be appointed by the Chairperson to continuously monitor the progress of the projects. The Borrowers also had to submit six-monthly returns indicating details of expenditure incurred, technical progress made, financial position of the company, plant & machinery procured/insured, etc. in the format prescribed for the purpose. At the end of the projects, the Borrowers had to submit a final project report to TDB.

Scrutiny of records revealed the following deficiencies in the monitoring of projects by TDB:

- (i) Although the agreements mentioned the requirement of continuous monitoring of progress of projects by PMC, no periodicity for holding of PMC meetings was prescribed in the agreements in any of the 21 projects. Hence, PMC meetings were held only at the time of release of loan instalments (second instalment onwards). Regular monitoring by the PMC might have provided expert technical oversight and directions for the progress of the projects.
- (ii) In the case of three projects<sup>20</sup>, no meeting of PMC was convened during the sanctioned duration of the projects. Absence of meeting resulted in lack of information on the technical and financial progress of the projects as well as the financial status of the companies. One project though completed, did not culminate in commercialisation of the end products, another project was abandoned by the company and the third project was also closed without being completed. Two of these three companies viz. M/s Intemo System Limited, Hyderabad and M/s SBP Aqua Tech Pvt. Limited, Hyderabad also defaulted in repayment of loan.
- (iii) In the case of six<sup>21</sup> projects, no PMC meetings were held after release of the final/last instalment of loan, resulting in lack of monitoring of

---

<sup>20</sup> M/s Forus Health Pvt. Limited, Bangalore, M/s Intemo System Limited, Hyderabad and M/s SBP Aqua Tech Pvt. Limited, Hyderabad.

<sup>21</sup> M/s Angel Health Pvt. Limited, Navi Mumbai, M/s Biogenex Life Sciences Pvt. Limited, Hyderabad, M/s Intelizon Energy Pvt. Limited, Hyderabad, M/s Jyoti Limited, Vadodara, M/s Kavia Carbons (Chennai) Limited, Chennai and M/s Samics Research Materials Pvt. Limited, Bareilly.

the projects in their advanced stages. Eventually, only two projects were finally completed, whereas two projects were not completed and the remaining two projects were foreclosed.

- (iv) None of the companies submitted prescribed six-monthly progress returns of the projects.

Failure to convene meetings of the PMC resulted in lack of monitoring of the projects and thus defeated the purpose of technical oversight of the projects by TDB and periodic technical guidance of the experts of TDB on the progress of the project and constraints faced, if any. This also resulted in lack of monitoring of financial status of the companies and assessment of their capability to continue with the execution of projects, commercial production of envisaged products and repayment of outstanding loans. Absence of PMC meetings after release of the final instalment of the project also led to lack of information on the status of commercialisation of the projects, as discussed in para 14.1.7.8 below.

DST stated (February 2019) that as per present arrangement, the PMC meeting is held prior to release of loan instalments as indicated in loan agreement. DST added that TDB does not monitor the project on routine basis after it is declared completed as the company carries out other activities related to commercialisation of the TDB supported product/technology. DST also stated that in case of half yearly returns, the companies normally submit the return after substantial amount of work done as per the approved implementation plan.

The reply is not acceptable, as in the absence of a prescribed periodicity for monitoring of the projects, there were instances as mentioned in Sl. No. (ii) above, in which no PMC was held during the sanctioned duration of the projects, which undermined the objective of continuously monitoring the progress of the projects in conformance with the provisions of the agreements. Further, monitoring of projects post-completion was also necessary to ascertain the achievement and extent of commercialisation within the stipulated duration and monitor the accrual and receipt of Royalty. The absence of periodic monitoring after completion of projects resulted in lack of information about the commercialisation of envisaged products, if any, by the companies, as discussed in **Para 14.1.7.8**.

#### **14.1.7.8 Inflated sale projections**

Projects are sanctioned by TDB after considering product, sales and profitability projections given by the companies in their project proposals. As per the agreements entered into, companies are to pay Royalty at the rate of 0.5 *per cent* on sales turnover of the products developed commencing from the date of start of commercialisation until repayment of the entire loan by the companies.

Of the 10 completed projects, five<sup>22</sup> projects involving financial assistance of ₹ 44.75 crore were declared complete by TDB on the basis of the recommendation of the concerned PMC. Audit observed that the projects were declared as completed before verifying whether these companies had actually started commercialisation/production of products envisaged under the projects. Consequently, TDB did not have any information about the commercialisation of envisaged products, if any, by these companies. Audit noticed that no royalty was received from any of these five companies as of March 2019.

In the remaining five projects, although production at commercial scale was undertaken by the companies, the same was far below the projections of production/sales made by them in their project proposals. This consequently resulted in lesser receipt of royalty as projected in the project proposal. Against the receivable amount of royalty of ₹ 3.30 crore from the five projects, royalty aggregating to ₹ 35.17 lakh only was received.

DST stated (February 2019) that in some cases, TDB did not receive any royalty payment due to absence of royalty clause in the loan agreement, projects getting abandoned or foreclosed, failure to generate revenue, deterioration of financial situation, etc. DST further stated that the gap between projections and actual extent of commercialisation was due to change in the technological, financial or regulatory scenarios.

Loan agreements of all the cases mentioned in the para contained the clause for payment of royalty and in any case it was reformulated in a manner suitable to financial interests of the company. In the absence of post completion monitoring, TDB was unaware of the royalty amount due to it. Further, the reply of DST citing change in the technological, financial or regulatory scenarios does not justify the huge gap of 75 to 99 *per cent* in projected sale *vis-à-vis* actual sale in the five completed projects.

#### **14.1.8 Conclusion**

The Technology Development Board was established with the mandate of providing financial assistance to industrial concerns and other agencies for commercialisation of indigenous or imported technologies for wider domestic distribution. The achievement of this mandate fell short largely due to inadequate due diligence in selection of the industrial partners as most of the companies selected in audit sample defaulted in repayment of loans/interest or royalty. Deficient management of the loans sanctioned to them was obvious as

---

<sup>22</sup> M/s MIC Electronics Limited, Hyderabad (₹ 15.00 crore), M/s Ogene Systems (I) Pvt. Limited, Hyderabad (₹ 13.50 crore), M/s SBP Aqua Tech Pvt. Limited, Hyderabad (₹ 25.00 lakh), M/s Reliance Cellulose Products Limited, Secunderabad (₹ 4.40 crore) and M/s Zen Technologies Limited, Hyderabad (₹ 11.60 crore).

the Board failed to fix periodicity of monitoring meetings, non-holding monitoring meeting during currency and after completion of the projects and delayed recall of loans.

Of the 21 projects selected in Audit, only 10 projects were completed. Of these 10 projects, TDB had no information on the status of commercialisation in five projects, whereas in the remaining five projects, the extent of commercialisation was far below the projected figures. This resulted in receipt of lesser amount of royalty as against the projections made by the companies in the project proposals.

Instances of sanction of financial assistance after relaxing the eligibility conditions, excess release of first instalment of loan and release of loan instalments without fulfilment of terms of the agreement were noticed which compromised the financial interest of the Government. Prompt legal action was not taken against defaulting companies for recovery of loan which resulted in outstanding dues of ₹ 66.05 crore from seven companies. An amount of ₹ 42.18 crore outstanding from 14 defaulting companies was waived off leading to loss to the TDB.

In an exit meeting held in October 2019, TDB accepted the audit observations and recommendations and assured that remedial measures would be initiated on the same.

### **Recommendations**

- (i) TDB should review all the loans sanctioned and take definite action to recover the outstanding dues in a time bound manner.
- (ii) In order to secure its interest, TDB should not dilute the amount of collateral security fixed by the Board, without proper and recorded justification.
- (iii) TDB should ensure that loan instalments are released only on fulfilment of the milestones prescribed in the loan agreement.
- (iv) TDB should consider stipulating a prescribed frequency for meetings of the Project Monitoring Committee and ensure that such meetings are duly conducted. The periodic returns, audited annual accounts and insurance policies of assets may be obtained from the companies strictly within the time schedule prescribed in the agreement.
- (v) TDB needs to incorporate in the loan agreements entered into with the companies, the conditions in which the project could be declared as a failure.

## Department of Bio-Technology

### 14.2 Extra expenditure towards grant of allowances to employees

**National Brain Research Centre, Manesar incurred extra expenditure of ₹ 5.15 crore on payment of House Rent Allowance, Non-Practising Allowance, Transport Allowance and Project Allowance to its employees in contravention of extant rules.**

Audit of the records of National Brain Research Centre, Manesar (NBRC)<sup>23</sup> revealed extra expenditure on grant of allowances to employees. The excess payments mentioned below represent only the results of test check and NBRC is required to comprehensively review all such payments for effecting recoveries.

#### 14.2.1 House Rent Allowance

In terms of Ministry of Finance (MoF), Government of India (GoI) order dated 09 December 1986 (applicable to NBRC), employees having their places of duty at Gurgaon Municipal Corporation (presently known as Gurugram Municipal Corporation) are entitled to House Rent Allowance (HRA) at the rates applicable to Delhi.

NBRC had initially commenced its activities from Gurugram, Haryana but thereafter (March 2003) shifted to Manesar, Haryana, which was outside the limits of Gurugram Municipal Corporation.

Audit observed that though NBRC correctly paid HRA at lower rates applicable to Manesar till August 2008, it granted HRA at the higher rates applicable to Delhi from September 2008 onwards. This resulted in extra payment of ₹ 3.22 crore as HRA during 2008-09 to 2017-18 alone.

DBT stated (January 2019) that the payment of higher rate of HRA was approved by the Governing Council (GC) of NBRC with reference to MoF orders dated 27 November 1965 according to which administrative Ministry/Department are authorised to sanction HRA at higher rate to its employees who fulfil certain conditions<sup>24</sup>. While DBT accepted that NBRC did not obtain their approval, they also stated that this was done under the perception that the proposal was approved by a body comprising Secretary, DBT as the Chairman and JS&FA, DBT as a member.

<sup>23</sup> An autonomous body under the Department of Bio-Technology (DBT)

<sup>24</sup> HRA to employees whose place of duty is in the proximity of a qualified city and who, of necessity have reside within the city, may be paid at a rate admissible in that city, subject to the contention that the distance between the place of duty and periphery of the municipal limit of the qualified city does not exceed eight km and the staff concerned have to reside in the qualified city out of necessity i.e. for want of accommodation nearer their place of duty.

The approval of Secretary and JS&FA, DBT as office bearers in the GC of NBRC cannot be construed as the approval of the administrative Department, as the internal control framework in DBT for proper administrative scrutiny of the case, examination, due diligence and approval of the proposal was not exercised. Further, no valid documentary evidence in support of either the distance between periphery of the municipal limit of Gurugram and NBRC, Manesar or the necessity of the staff to reside at the qualified city due to lack of accommodation near the place of duty was found on record. Audit noticed that in the meeting of the Finance Committee of NBRC (April 2019), it was decided that a certificate of the distance between NBRC and municipal limits of Gurugram be obtained from the concerned authority. However, the issue of necessity for the employees to reside at the qualifying city has still not been adhered though it would appear that Manesar was not short of residential accommodation.

#### **14.2.2 Non-Practising Allowance**

In terms of extant orders (March 1971) of MoF, GoI, occupants of clinical medical/public health posts are entitled to Non-Practising Allowance (NPA). Employees of NBRC are not entitled to NPA. Despite this, the GC of NBRC, comprising among others<sup>25</sup> three members from DBT approved (August 2009) payment of NPA to scientists/other officers of NBRC having Medical/Veterinary qualifications. Accordingly, NBRC paid NPA amounting to ₹ 72.06 lakh between 2009-10 and 2017-18 to six Scientists/Veterinarians.

DBT stated (January 2019) that payment of NPA was stopped from September 2017 and action for recovery from concerned employees initiated.

The reply indicates that the recovery was yet to be made even after more than a year after stopping the payment of NPA.

#### **14.2.3 Transport Allowance**

In terms of MoF order (August 2008), Transport Allowance (TA) is not admissible to employees who have been provided with Government transport.

Audit noted that NBRC hired cars to provide pooling facility to 32 employees and also transported approximately 13 employees by bus<sup>26</sup>. During 2014-18

---

<sup>25</sup> NBRC Society; Department of Science and Technology; IVC Bengaluru; Institute of Human Behaviour and Allied Sciences, New Delhi and NBRC..

<sup>26</sup> On nominal payments ranging from ₹ 20 to ₹ 1,000 per month.

alone, NBRC incurred ₹ 1.02 crore on hiring of cars<sup>27</sup>. Audit observed that these employees were paid TA amounting to ₹ 56.36 lakh.

DBT stated (January 2019) that the transport facility provided by NBRC was not meant for journey between residence and office but from certain fixed points in the city and was offered to the employees after recovering monthly charges for availing the said facility. However, DBT also added that NBRC had been directed to withdraw the facility in a phased manner at the earliest.

The justification cannot be accepted as extant Government orders for grant of Transport Allowance do not distinguish between the entire journey between residence and office or a portion thereof. It was also not clear as to why the transport was being provided to a certain point and not beyond nor was any evidence furnished for any such arrangement. There is also no provision in Government rules to provide transport facility to employees on chargeable basis.

#### **14.2.4 Project Allowance**

In terms of MoF Office Memorandum (January 1975) Project Allowance is admissible to staff employed on large scale construction projects<sup>28</sup>. Such allowance is admissible only in those projects that have been declared by special orders by Government and requires approval of MoF.

Though NBRC is not covered under the above orders and without the approval of MoF, the GC of NBRC approved (July 2004) Project Allowance to NBRC employees with effect from April 2003<sup>29</sup> on the ground of remote location of Manesar. The payment of Project Allowance amounted to ₹ 78.34 lakh for the period 2007-08 to 2016-17.

Following the Audit observation, NBRC stopped (April 2017) the Project Allowance and effected partial recovery of ₹ 14.26 lakh for the period January 2016 to March 2017.

DBT stated (January 2019) that NBRC was directed to take appropriate action for recovery of the balance amount of Project Allowance.

The reply indicates that full recovery was yet to be made even after more than a year of stopping the payment.

---

<sup>27</sup> Car-pooling facility was provided to 32 employees of NBRC. Expenditure on hiring of buses has not been included, as these buses were also used by students.

<sup>28</sup> To compensate them for lack of amenities such as housing, schools, markets and dispensaries.

<sup>29</sup> Date of NBRC shifting to its new campus at Manesar.