

**MINISTRY OF TEXTILES**

**CHAPTER IX**

**National Textile Corporation Limited**

**Sale of surplus land and buildings**

*Highlights*

**System issues**

The prescribed criterion for fixation of reserve price was followed in 27 cases only out of 79 cases of sale of land examined in audit. This had resulted in fixation of lower reserve price.

*(Para 9.7.2.1)*

Absence of system for vetting of 'Minimum Assured Return' reports resulted in under-fixation of reserve price by Rs.493.46 crore in five cases.

*(Para 9.7.2.1B)*

Defects in the tender documents resulted in the loss of Rs.185.10 crore in three cases.

*(Para 9.7.3)*

**Compliance issues**

The Government of India (GOI) directives of not selling below the prevailing registration/circle rates were not followed resulting in loss of opportunity to earn Rs.10.43 crore in six cases.

*(Para 9.7.5)*

Land and buildings were sold below reserve price in contravention of the GOI directions.

*(Para 9.7.6)*

Land was sold without following the tender process in contravention of guidelines of Board for Industrial and Financial Reconstruction (BIFR).

*(Para 9.7.7)*

Fixation of earnest money deposit (EMD) at a rate lower than that prescribed in the BIFR guidelines resulted in loss of opportunity to earn Rs.89 lakh in case of Aurangabad Textile Mill.

*(Para 9.7.8(a))*

Non-receipt of EMD in demand drafts in contravention to BIFR guidelines resulted in loss of revenue of Rs.57.70 lakh in 19 cases.

*(Para 9.7.8(b))*

Extension of 96 to 1371 days for payment beyond 60 days from the due date of payment resulted in loss of interest of Rs.46.79 crore in four cases. Interest of Rs.1.34 crore was recovered less in six cases while granting extension within 60 days.

(Para 9.7.8(c))

#### *Summary of recommendations*

1. *Specific guidelines, for sale of surplus land and buildings not considered in the revival schemes approved by BIFR, may be framed.*
2. *The valuation by Central Board of Direct Taxes should be obtained in all cases and given due consideration in fixation of reserve price.*
3. *The GOI may lay down guidelines for valuation of building structures/materials and the same may be applied uniformly in all the sub-offices.*
4. *The Company may establish a proper system for verification of all the facts included in tender documents to avoid defects in tender documents.*
5. *The internal controls in accounting system be strengthened.*
6. *All the properties identified should be sold through public tender to fetch the maximum value.*
7. *The Company should adhere to the guidelines prescribed by the BIFR.*
8. *The GOI may consider specifying modalities where the delay in payment exceeds 60 days.*
9. *The schedule of sale of surplus assets should be synchronized with the fund requirements for modernisation. The Management may ensure that fund realised from the sale is accounted for as per BIFR guidelines.*

#### *9.1 Introduction*

National Textile Corporation Limited (Company) was incorporated in April 1968 with the main objective of managing the affairs of sick textile undertakings taken over by the GOI. The Company was managing 119 textile mills through its nine subsidiaries. All these subsidiaries were declared sick (eight between 1992 and 1994 and one in December 2005) under the Sick Industrial Companies (Special Provisions) Act 1985. Revival schemes (2002) and a modified revival scheme (2006) were approved by the Board for Industrial and Financial Reconstruction (BIFR)/GOI which envisaged closure of unviable mills and revival of viable mills. According to these schemes, 77 unviable mills were to be closed, 40 viable mills to be revived (22 through modernisation and 18 through public private partnership) and two mills in Pondicherry<sup>1</sup> to be transferred to the State Government. The scheme was self-financing, the funds realised from sale of surplus assets were to be utilised for revival/modernisation. Asset Sale Committee (ASC) was constituted for each subsidiary to take decisions regarding sale of surplus assets. With effect from 1 April 2006, all the nine subsidiaries were merged into the Company and a single ASC was constituted (July 2008). The erstwhile subsidiaries exist as sub-offices of the Company.

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<sup>1</sup> Now Puducherry.

## **9.2 Scope of Audit**

The performance audit covered the sale of surplus land and buildings from 1 April 2002 to 31 March 2008 in six<sup>2</sup> of the nine sub-offices of the Company. Performance audit on sale of surplus land and buildings by the sub-office (Andhra Pradesh, Kerala, Karnataka and Mahe) was included in C&AG Audit Report No.4 of 2005. Sale of surplus land and buildings by sub-office Uttar Pradesh (17.01 acres) and sub-office Madhya Pradesh (35.33 acres) were not significant and therefore, not included in the performance audit.

The main issues considered in performance audit were identification of surplus land and buildings, fixation of reserve price, tender process, receipt of sale proceeds, internal control system and fund management.

## **9.3 Audit objectives**

The performance audit was conducted to examine:

- the existence and effectiveness of the system for identification of surplus land and buildings, fixation of reserve price, tender process, receipt of sale proceeds, internal control system and fund management (System Issues);
- the extent of compliance of BIFR/GOI guidelines and instructions issued by the Company for sale of land and buildings (Compliance Issues);
- that the whole process of sale, systems and procedures were designed and operated in a manner that promotes transparency and the decisions were taken in the best interests of the Company.

## **9.4 Audit criteria**

The following criteria were adopted to examine whether:

- (i) BIFR/GOI guidelines were followed regarding:
- (a) Fixation of reserve price.
  - (b) Fixation of Earnest Money Deposit and its forfeiture.
  - (c) Drafting of the tender documents.
  - (d) Receipt of sale proceeds and recovery of interest in cases of delayed receipts.
  - (e) Accounting of sale proceeds.
- (ii) Instructions issued by the Company were in compliance with the BIFR/GOI guidelines.

## **9.5 Audit methodology and sample size**

**9.5.1** After a preliminary study and collection of background information, an Entry conference was held with the Management on 28 February 2008 to discuss the audit objectives, scope of audit and audit criteria. Based on the examination of records relating to identification, valuation, tender and sale of surplus land and buildings, a preliminary

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<sup>2</sup> NTC (Delhi, Punjab and Rajasthan), NTC (Maharashtra North), NTC (Maharashtra South), NTC (West Bengal, Assam, Bihar and Orissa), NTC (Tamil Nadu and Pondicherry) and NTC (Gujarat).

report was issued to the Management on 18 August 2008. Exit conference to discuss the audit findings was held on 9 September 2008. The Management's reply to the performance audit report was received in September 2008.

**9.5.2** Total surplus land of 2737.99 acres and buildings of 286.70 acres were identified for sale in the revival scheme. Of this, the Company sold 1354.80 acres of land and 257.85 acres of buildings upto 31 March 2008. In the six sub-offices selected for Audit, there were 110 cases (*Annexure – XXX*) of sale upto March 2008 covering 790.68 acres of land and 100.25 acres of buildings. An amount of Rs.3819.44 crore was realised upto 31 March 2008 by sale of surplus assets. All 110 cases (79 cases of land and 31 cases of buildings) were reviewed in Audit.

### **9.6 Acknowledgement**

Audit acknowledges the cooperation and assistance extended by the Management at various stages of performance audit.

### **9.7 Audit findings and recommendations**

#### **System Issues**

#### **9.7.1 Sale of surplus land and buildings not identified in the revival scheme**

Certain parcels of land which were not identified as surplus in the revival schemes were sold by the Company. A few cases are:

**Table 9.1**

Sl. No.	Name of the property	Land identified (in acres)	Actually sold (in acres)	Difference (in acres )	Remarks
1.	Jyoti Weaving Mills, Kolkata	4.29	4.94	0.65	Increase was due to mutation done at a later date.
2.	Shree Mahalaxmi Cotton Mills, 24 paragana	11.24	11.34	0.10	Reasons for sale of land more than identified were not on record
3.	Model Mill, Nagpur	40.33	42.09	1.76	
4.	Central Cotton Mill, Howrah	11.67	12.06	0.39	
5.	Bungalow of New City Mill, Worli Mumbai	---	0.16	0.16	Approval of BIFR was obtained
	<b>Total</b>			<b>3.06</b>	

There were no specific guidelines for sale of land and buildings beyond those included in the revival schemes approved by BIFR. Approval of BIFR was not obtained for sale of such land and buildings (except in the Sl. No. 5)

**Recommendation No. 9.1**

***Specific guidelines, for sale of surplus land and buildings not considered in the revival schemes approved by BIFR, may be framed.***

**9.7.2 System of valuation of properties and fixation of reserve price**

Out of 110 cases of sale, the reserve price was fixed only in 66 cases of land and 31 cases of buildings. Two mills were transferred to the Government of Pondicherry at the price agreed in the Memorandum of Understanding. In the remaining 11 cases, the sale was made without following the tender process.

**9.7.2.1 System of fixation of reserve price of land**

According to the methodology for fixation of reserve price devised (November 2002) by the Company, reserve price was to be determined on the basis of average of three valuations, namely, valuation in draft revival scheme (DRS) approved by BIFR, valuations given by property consultants and valuation by Central Board of Direct Taxes (CBDT). The GOI further directed (November 2004) that in case of Mumbai, where marketing consultants (consultants) had quoted Minimum Assured Return<sup>3</sup> (MAR), the reserve price should not be less than MAR.

It was observed in Audit (April 2008) that out of 79 cases of sale of land, only in 27 cases all the three valuation factors were considered. In 37 cases either two or only one valuation factors were considered while in 15 cases none of the prescribed valuation factors were considered while fixing the reserve price. Further, in 26 cases out of 79 cases, reserve price fixed was less than 30 *per cent* of the sale value though the GOI had specifically directed (April 2005) that reserve price should be nearer to the market value. It was also noticed that there was wide variation between the actual sale value and valuation done under the three factors used for reserve price fixation.

The Management stated (September 2008) that the reserve price was only an indicative figure for decision making. Moreover, there was no relation between the reserve price fixed and the price bid. In sale of properties in Mumbai, the Company had realised 180 *per cent* to 350 *per cent* higher than the reserve price fixed because of location and demand of the property. Also, in case of no response or less response than the reserve price in three repeated attempts of tender, the Company had confirmed the sale for the value that was best available at that point of time.

The reply of the Management was not convincing. Though the reserve price was only indicative it should not be less than the valuation as per guidelines of the Company. Further, wide variation between reserve price and sale realisation in Mumbai indicates that there was no system to assess the demand and market value of the properties despite the GOI directives in April 2005. Also, the Company should have built the mechanism for change in the methodology for fixation of reserve price in case response was unsatisfactory.

Deficiencies in different factors used for fixing reserve price were as follows:

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<sup>3</sup> *The value of the land was derived from the value of built-up area after deducting cost of construction and development and other ancillary charges.*

**(A) DRS valuation**

In 66 cases of sale of land through tender, valuation in DRS was made upto 2002 whereas the sales were made between April 2002 and March 2008. This had resulted in fixation of lower reserve price due to timing difference between the date of valuation in DRS and the date of fixation of reserve price.

**(B) MAR valuation**

The Company had no system of vetting valuation reports and MAR given by the consultants. Further, the Company had obtained MAR for five land parcels only (sold upto March 2008) against the 25 land parcels identified for sale in Mumbai. While quoting MAR for these five parcels, the consultants had stated (February 2005) that it was not a valuation of the property and the Company may take a conscious decision to fix reserve price on the basis of valuation of the property or on the basis of MAR. A comparative position of MAR *vis-à-vis* reserve price fixed and actual sale value in the five cases is given below:

**Table 9.2**

<i>(Rs. in crore)</i>						
Sl. No.	Name of the mill	Highest MAR quoted by consultant	Valuation of building structures	Reserve price fixed	Sale value	Variance between MAR and sale value (percentage)
1	2	3	4	5	6	7 (Col 6-Col 3)/Col 3 x100
1.	Jupiter Mill	142.32	12.22	155.00	276.60	94.35
2.	Elphinston Mill	120.00	3.51	125.00	441.75	268.12
3.	Kohinoor Mill No.3	111.00	1.15	120.00	421.00	279.28
4.	Mumbai Textile Mill	260.00	5.28	270.00	702.22	170.08
5.	Apollo Textile Mill	90.00	5.99	100.00	180.00	100.00
	Total	723.32	28.15	770.00	2021.57	179.49

It was observed that the variation between sale value realised and MAR quoted by the consultants ranged between 94.35 *per cent* and 279.28 *per cent*. The purpose of obtaining MAR was not achieved as it did not give the realistic market value of the land parcels being offered for sale.

A test check of MAR had revealed the following:

- (i) During valuation of MAR in 2005, market rates of Rs.5400 *per square foot* in one case (Sl. No.1) and Rs.7000 *per square foot* in other cases (Sl. No.2 to 5), prevailing

during 2002-03 in the area where these mills were situated were adopted. The real estate market was sluggish in 2002-03 but had started booming in 2005; as such market rates were much higher in 2005 than in 2002. This deficiency in MAR was not observed by the Company. In case the market rates of 2002 were upgraded by charging the interest at the rate of State Bank of India Prime Lending Rates (SBI PLR) *plus four per cent* for time difference the MAR would have increased by Rs.336.34 crore.

(ii) While calculating saleable floor space index (FSI)<sup>4</sup> for estimating revenue realisation, the consultants had increased the allowable FSI by 20 *per cent* available for lift, stairs, balcony, *etc.*, under the Development Control Regulations for Greater Bombay, 1991 (DCR) but had not considered additional FSI allowable for car parking and basement under Regulation 35 of DCR. Due to this the MAR was understated by Rs.19.77 crore.

(iii) Cost of construction for arriving at MAR was considered as Rs.13,988 *per square metre* in respect of four cases (Sl.No.2 to 5) and Rs.13,450 *per square metre* for one case (Sl.No. 1), whereas ready reckoner rate<sup>5</sup> (2005) for the best construction was Rs.8,500 *per square metre*. There was, thus, over estimation of cost of construction and under estimation of MAR by Rs.137.35 crore.

Thus, absence of any system for vetting MAR reports by the Company had resulted in under fixation of reserve price by Rs.493.46 crore in the above five cases.

The Management while accepting (September 2008) that vetting of MAR was not considered by the Company stated that MAR was obtained to determine the best price/reserve price. Further, price realised was much higher than the reserve price fixed for these land parcels.

The reply of the Management was not acceptable. Best price/reserve price could not be determined from unrealistic MAR reports. Also, high realisation could not be taken as a plea for acceptance for such MAR reports.

### **(C) CBDT valuation**

It was observed in Audit that out of 66 cases of sale of land through tender, CBDT valuation was considered in 29 cases only. In 28 cases CBDT valuation of 1994-95 was considered and in one case valuation of 1998-99 was considered for fixation of reserve price during April 2002 to March 2008. The CBDT valuation was not indexed (based on capital gain index of CBDT) to the year of fixation of reserve price for arriving at realistic value.

The Management stated (September 2008) that the CBDT valuation was done only in 1997 and subsequently CBDT was not willing for any valuation.

The reply of the Management was not tenable. Even the valuation of 1997 was not relevant during the year of fixation of reserve price and should have been indexed to the

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<sup>4</sup> *Floor Space Index (FSI) in Mumbai = Carpet Area x 1.33*

<sup>5</sup> *Ready reckoner is a compilation of prevailing market rates in various areas of Mumbai. This is compiled by a group of government approved valuers and forwarded by the Deputy Inspector General of Registration Mumbai Division.*

year of fixation of reserve price. Further, the Management could not produce any record in support of their reply that CBDT was not willing for any valuation.

The following cases highlight the impact of deficiencies in the system of fixation of reserve price.

**(i) Udaipur Cotton Mill**

The reserve price of land of Udaipur Cotton Mills was initially fixed (October 2002) at Rs.51.97 crore based on DRS valuation. This was reduced to Rs.12.57 crore in July 2005 based on prevailing registration rates in the district whereas, in accordance with the Company's guidelines, the reserve price comes to Rs.32.28 crore<sup>6</sup>. The reserve price fixed was thus, lower by Rs.19.71 crore as compared to the reserve price based on the Company's guidelines. The land was sold at Rs.15.12 crore to private party in October 2005.

The Management stated (May 2008) that values of property had dropped considerably due to slow down of the economy and land could not be used for residential/commercial purpose.

The reply was not tenable. The real estate market was booming in 2005 when reserve price was re-fixed.

**(ii) Rajkot Textile Mill**

The reserve price of land of Rajkot Textile Mills was fixed at Rs.36.00 crore (February 2003) based on DRS valuation. It was re-fixed at Rs.27.68 crore<sup>7</sup> (July 2003) on the basis of Company's guidelines but was further reduced to Rs.23.00 crore in May 2005 at the prevailing registration rate. The land was sold at Rs.18.20 crore (July 2006). The reserve price fixed was thus, lower by Rs.4.68 crore as compared to the reserve price based on the Company's guidelines.

**(iii) Himadri Textile Mill**

The reserve price of Himadri Textile Mill was fixed (January 2007) at Rs.8.80 crore considering the highest value given by the three government approved valuers. Due to revision of registration rates in February 2007, the reserve price was increased to Rs.14.00 crore (April 2007). In contravention of the Company's guidelines, the DRS and CBDT valuations<sup>8</sup> were not considered. The land was sold at Rs.11.20 crore in August 2007.

**Recommendation No. 9.2**

***The valuation by CBDT should be obtained in all cases and given due consideration in fixation of reserve price.***

<sup>6</sup> *The average of DRS valuation (Rs.51.97 crore), indexed CBDT valuation to the year of sale (Rs.18.31 crore) and valuation by government approved valuer (Rs.26.57 crore).*

<sup>7</sup> *The average of DRS valuation (Rs.35.30 crore), CBDT valuation (Rs.30.15 crore) and valuation by valuers (Rs.17.60 crore).*

<sup>8</sup> *DRS valuation (Rs.8.77 crore) and CBDT valuation (not available).*

### 9.7.2.2 System of valuation of building structures/materials

Sub-offices were adopting different methodology for valuation and consequent fixation of reserve price of buildings structures/materials identified for sale. In all the 31 cases of sale of buildings during April 2002 to March 2008 in six sub-offices selected for audit, it was observed that DRS valuation and valuation by the government approved valuers were considered for fixation of the reserve price as given in the table below:

**Table 9.3**

Sub-office	Total cases	Higher of the two	Lower of the two	Above both	Between two
Delhi, Punjab and Rajasthan	2	--	1	1	--
Gujarat	11	5	2	2	2
West Bengal, Assam, Bihar and Orissa	9	1	--	8	--
Tamil Nadu and Pondicherry	8	4*	--	2	2
Maharashtra North	1	--	--	1	--

*\*DRS valuation was not done in three cases. Out of these, in one case reserve price was fixed at the valuation given by the registered valuer and in two cases the same was fixed at above the valuation given by the valuer.*

It was noticed that no uniform system for fixation of reserve price of buildings was adopted.

The Management stated (September 2008) that buildings were always sold on the basis of retrievable items like bricks, wooden items, steel structures, wires, etc. The system was to go by professional experts, which was followed in all cases.

The Management reply was not convincing as the reasons for adopting different criteria for valuation of different buildings were not clarified.

#### **Recommendation No. 9.3**

***The GOI may lay down guidelines for valuation of building structures/materials and the same may be applied uniformly in all the sub-offices.***

### 9.7.3 Defects in the tender documents

It was observed in Audit that in the tender documents issued for sale of land and buildings the information disclosed was either incorrect or ambiguous or vital information was not disclosed. Further, the Company had not established any system for verification of the contents of the tender documents. Due to non-existence of such system, the Company had suffered a loss of Rs.185.10 crore.

The cases in which the Company incurred loss are discussed below.

**(A) *Mumbai Textile Mill, Mumbai***

The tender document for sale of land of Mumbai Textile Mill stated (June 2005) that the mill area consisting of 67,293.17 square metre bearing Cadastral Survey (CS) No.464 and 4/464 was offered for sale. The mill plot consisted of only CS No.464 admeasuring 65,993.17 square metre. The CS No.4/464 admeasuring 1,300 square metre consisted of Marwari chowka chawl. The land was sold for Rs.702.22 crore (July 2005).

It was observed in Audit that the Company had no intention for sale of the land of Marwari chowka chawl (CS No.4/464). It was wrongly included in the tender document. This was evident from the fact that in the layout map enclosed with the tender document, only mill land (CS No.464) was depicted. Also, in the terms and conditions of the tender document there was no mention of providing alternative accommodation to the occupants of Marwari chowka chawl as per Development Control Regulations for Greater Bombay, 1991. Further, the sale deed (October 2005) and the possession letter specified the boundaries of the land sold which did not include area of Marwari chowka chawl.

In September 2006, the purchaser asked for possession of Marwari chowka chawl (CS No.4/464) also since it was included in the tender document. The ASC accepted the fact (October 2006) that this parcel of land of 1,300 square metre was wrongly included in the tender document but decided to rehabilitate the occupants of the chawl to another plot of land. The possession and ownership of 1,300 square metre of land worth Rs.13.56 crore was given to the private party without any consideration besides the liability of about Rs.5.23 crore to rehabilitate 24 occupants of chawl was owned by the Company. This had resulted in loss of Rs.18.79 crore to the Company.

The Management stated (September 2008) that though there was mistake in the tender that information regarding Marwari chowka chawl was not incorporated, however, the land was sold on "as is what is" basis. Further, the responsibility of rehabilitation of 24 occupants of Marwari chowka chawl was on the purchaser and hence any expenditure on that account was to be borne by the purchaser.

The Management had accepted the mistake in the tender document. However, as the liability of rehabilitation was not disclosed in the tender document, the purchaser could not be forced to own the liability. Further, the ASC had decided (October 2006) that the Company may rehabilitate the occupants of the Marwari chowka chawl.

**(B) *Apollo Textile Mill, Mumbai***

Surplus land on rear side of Apollo Textile Mill admeasuring 30073.30 square metre with existing structures and permissible FSI of 39314.58 square metre was sold in July 2005 to the highest bidder at Rs.180 crore. This portion did not have direct access to the main road (N.M. Joshi Marg). Tender document did not disclose about any prospective access to the main road. Instead, it was specified in the tender document that access to Jivraj Boricha Marg (small road on rear side) could be made available. The Jivraj Boricha Marg was heavily encroached and was not motorable. It was observed in Audit that ASC had allowed (October 2006) access of 40 foot approach road to the main road (N.M. Joshi Marg). This had enhanced the value of land (October 2007) to Rs.1,05,448 *per* square metre (based on the valuation done by government approved valuer after the access to the main road was allowed) from Rs.45,784.54 *per* square metre. Normal enhancement due

to timing difference (the Company charged SBI PLR plus four *per cent per annum* for timing difference) worked out to Rs.16,535.09 *per square metre*, the abnormal enhancement due to access to the main road (not disclosed in the tender document) worked out to Rs.43,128.37 *per square metre*. Thus, by not disclosing the feasibility of access to the main road (which was allowed later on) in the tender document, the Company had received lesser amount in tendered bids. This had resulted in loss of Rs.165.80 crore after deducting consideration received for right to access to main road.

The Management stated (September 2008) that due to improper access through Jeevraj Boricha Marg, ASC accepted the proposal of purchaser to grant them right of way on 22 foot (and not the 40 foot) through the retained land of Apollo Mill on payment of appropriate consideration. Subsequently, the DP Road network of 40 foot and 60 foot in and around Apollo and Sitaram mills were incorporated by Municipal Corporation Greater Mumbai (MCGM).

The reply of the Management was not convincing. By giving access from the main road, the value of the land had increased substantially (more than 94 *per cent*). While preparing the tender document, the possibility of access from the main road should have been considered, which was given subsequently.

**(C) *Chalisingaon Textile Mill, Chalisingaon***

Six plots of land of Chalisingaon Textile Mill were sold (December 2002) to the highest bidder at the negotiated price of Rs.3.34 crore. The purchaser did not pay second and final instalment of Rs.2.50 crore which was due in January 2003 on the plea that in the tender document the Company had wrongly mentioned the land to be in residential zone though it was in industrial zone. The purchaser asked (February 2003) for extension for payment till industrial zone was converted into residential Zone. The Company decided (July 2003) that purchaser may be permitted to make payment without interest after change of zone. The payment was received in August 2004. Further, it was decided to retain one plot due to resistance from local people and after adjusting the amount receivable for that plot, the net receivable was worked out to Rs.1.90 crore. Thus, incorrect information in tender document resulted in delay in receipt of sale proceeds amounting to Rs.1.90 crore for 18 months for which no interest was recovered. The Company lost interest of Rs.51 lakh calculated on the basis of 18 *per cent per annum* for the period from 13 February 2003 to 21 August 2004.

The Management stated (September 2008) that the State Government/MCGM were not granting approval for conversion. The sale of land was critical for survival of the Company and implementation of revival scheme. Hence, sale was confirmed before change of zone.

The reply of the Management confirmed the Audit contention.

The other nine cases are discussed in *Annexure – XXXI*.

***Recommendation No. 9.4***

***The Company may establish a proper system for verification of all the facts included in tender documents to avoid defects in tender documents.***

**9.7.4 Weaknesses in internal controls of accounting system**

It was observed in Audit that the Company did not have any Control Register to monitor the receipt and deposit of Demand Drafts (DDs)/Pay Orders (POs) received as Earnest Money Deposit (EMD). The DDs/ POs received with the tenders were kept in Technical Division and DDs/POs of unsuccessful bidders were returned in original without knowledge of Finance Division.

**Recommendation No. 9.5**

***The internal control in accounting system be strengthened.***

The Management had accepted (September 2008) the recommendation.

**Compliance Issues****9.7.5 Sale below registration rates**

The GOI directed (November 2004) that the reserve price fixed (or re-fixed) for any property should not be less than the circle rates/registration rates fixed by the District Collector. It was observed in audit (April 2008) that in contravention of the GOI directions; sale was made below the prevailing registration rates in the following cases.

**Table No 9.4***(Rs. in crore)*

Sl. No.	Name of the mill	Valuation as per registration rates	Reserve price fixed by the Company	Actual Sale price	Loss
1.	Edward Mill	10.55	4.00	5.85	4.70
2.	Shree Bijay Cotton Mill	3.79	1.92	1.95	1.84
3.	Jahangir Textile Mill	26.83	25.00	25.00	1.83
4.	Coimbatore Murugan Mill	3.04	1.73	1.89	1.15
5.	Kishnaveni Textile Mill	5.50	4.80	5.20	0.30
6.	Sri Rangavilas Mill	8.61	3.33	8.00	0.61
Total					10.43

The Company lost an opportunity to earn Rs.10.43 crore due to fixing reserve price and sale below the prevailing registration rates.

**9.7.6 Sale below reserve price**

The GOI directed (November 2004) that no sale should be confirmed where the highest bid falls below the reserve price. In all such cases, the tenders should be called again. It was observed in Audit that in contravention of the GOI directions, sale was made below the reserve price. This could be seen from the sale of building of Om Parasakthi Mills, Kishnaveni Textile Mills and Somasundaram Mill.

The reserve price for demolition of the buildings of Om Parasakthi Mills, Kishnaveni Textile Mills and Somasundaram Mill and carting away of debris was fixed (April 2003) for Rs.54 lakh, Rs.46 lakh and Rs.90 lakh respectively based on the highest of the salvage value (as per valuation done by government approved valuer), six *per cent* of the cost of replacement as assessed by the said valuer and Rs.40 *per* square foot. The highest offers received (June 2003) was Rs.28.25 lakh for Om Parasakthi Mills, Rs.25.20 lakh for Kishnaveni Textile Mills and Rs.52.20 lakh for Somasundaram Mill. Though the bids were lower than the reserve price the ASC approved (June 2003) the sale resulting in loss of potential revenue of Rs.84.35 lakh. The ASC had justified its decision stating that value arrived based on six *per cent* of the cost of replacement would be appropriate for comparison and bids received were more than that criteria. The contention of ASC was not in conformity with the GOI directions.

#### **9.7.7 Sale without following tender process**

As per BIFR guidelines, sale of assets was to be affected by way of sale through public tender.

It was observed in Audit that in case of Apollo Textile Mills, Mumbai, five parcels of land were sold without following the tender process. In addition to the surplus land (39,314.58 square metre of FSI) sold to M/s Macrotech Constructions in July 2005 by following the tender process, 10,105.68 square metre<sup>9</sup> of FSI was also sold to the same party during April 2006 to March 2008 without following the tendering process.

Four other cases are discussed in *Annexure XXXII*.

#### **Recommendation No. 9.6**

***All the properties identified should be sold through public tender to fetch the maximum value.***

#### **9.7.8 Inconsistencies in the guidelines**

In the revival scheme, guidelines to be followed by ASC for the sale of surplus assets were issued by the BIFR and the GOI. Accordingly, the Company laid down (July 2002) the procedure for sale of surplus assets to be adopted by ASC. This was amended in November 2002 and March 2003. It was observed in Audit that there were inconsistencies among the guidelines issued by the BIFR/GOI and the procedures laid down by the Company. Some of the inconsistencies were as follows:

(a) The BIFR guidelines provided that bidders should deposit the EMD equal to 10 *per cent* of the offer so that the reserve price fixed by the Company was not indicated to the intended bidders. However, the Company fixed (July 2002) the amount of EMD equivalent to five *per cent* of the reserve price which was increased to 10 *per cent* in March 2003. Due to this, reserve price became indicative. Besides, wherever offer was more than the reserve price, less EMD was received by the Company and consequent guarantee cover for performance of the sale contract was reduced.

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<sup>9</sup> 242.91 sq. mt + 3850.28 sq. mt. +1932.21 sq. mt. +441.40 sq. mt. +3638.88 sq. mt.

It was observed in Audit that in case of sale of land of Aurangabad Textile Mills, EMD was fixed at Rs. one crore (being 10 *per cent* of the reserve price) by the Company. The highest bid was offered for Rs.18.90 crore. As *per* BIFR guidelines EMD should have been Rs.1.89 crore. The party failed to pay the instalments even within the extended period as such the deal was cancelled and EMD of Rs. one crore only was forfeited. Thus, the Company lost the opportunity to earn Rs.89 lakh due to non-observance of BIFR guidelines.

The Management stated (September 2008) that the Company could not recover more EMD than fixed by ASC.

The reply was not acceptable. The EMD should have been fixed at 10 *per cent* of the offer as *per* BIFR guidelines instead of 10 *per cent* of reserve price.

(b) The BIFR prescribed that the Company should receive Bank Draft for the EMD. However, the Company provided (July 2002) that in case EMD was above Rs. one crore unconditional and irrevocable Bank Guarantee (BG) could be accepted in lieu of the Bank Draft.

It was observed in Audit that in 19 cases of sale, 49 bids (30 unsuccessful and 19 successful) were received with BG as EMD. Amount of Rs.429.85 crore received in BG could not be deposited in the bank. In case the amount was received in bank draft as *per* BIFR guidelines and deposited in the bank, the Company could have earned the interest of Rs.57.70 lakh at the rate of 3.50 *per cent per annum* for 14 days (the time available for refund of EMD after tender opening).

The Management stated (September 2008) that EMD received from the bidders, either by way of bank draft or bank guarantee, was returned to them immediately after opening tender, keeping the EMD of highest bidder in custody. The bank guarantee was immediately converted into bank draft through the highest bidder and the Company received EMD amount by bank draft and deposited the same in Escrow Account.

The Management, however, did not clarify the reasons for deviating from BIFR guidelines

(c) BIFR guidelines provided that the Company should charge interest at the rate of 18 *per cent per annum* on the delayed payments. However, the Company instructed (March 2003) the sub-offices to charge interest at the rate of prevailing SBI PLR plus four *per cent per annum* on delayed payments. It was stipulated in the tender document that if the successful bidder did not pay the balance amount of consideration within the payment schedule, the ASC could forfeit the EMD and any other deposits made and can proceed to resell the property. However, the ASC could extend the payment schedule upto 60 days.

It was observed in Audit that there were deviations from these provisions in 10 cases as discussed below:-

(i) In four cases<sup>10</sup> extension beyond 60 days for instalments receivable of Rs.630.21 crore was granted by ASC. The extension ranged from 96 days to 1371 days, thus, giving undue benefit of the price escalation to the private parties. Besides, interest of Rs.46.79 crore (upto 31 March 2008) leviable on delayed payments as per BIFR guidelines was not charged on different grounds. Further, in one case (bungalow of Apollo Textile Mill at Napean Sea Road, Mumbai), the title was passed (March 2007) without receiving the full consideration of Rs.281.71 crore (including interest), against the BIFR guidelines.

The Management stated (June 2008) that ASC was fully empowered to extend the period beyond 60 days.

The reply of the Management was contrary to the decision of ASC (February 2008) taken in the case of Ahmedabad Jupiter Textile Mill, where it was clearly mentioned that they could not extend the period of payment beyond 60 days.

(ii) In six cases<sup>11</sup> extension upto 60 days was granted by ASC. In two cases (Kohinoor Mill No.3 and Old labour chawl of Model Mill), the interest of Rs.1.20 crore chargeable as per BIFR guidelines was not levied on the delayed payments. In other four cases, the total interest of Rs.1.94 crore was charged against the leviable interest of Rs.2.08 crore. This resulted in non recovery/under recovery of interest on delayed payment by Rs.1.34 crore.

The Management stated (September 2008) that ASC was an empowered body to decide the issues relating to the sale of surplus assets and to decide the guidelines depending upon the situation and circumstances.

The reply was not tenable. ASC was not empowered to take any decision in contravention of BIFR/GOI guidelines. Interest should have been charged on the delayed payments.

(d) As per BIFR guidelines the purchaser was required to pay the purchase consideration after adjusting the EMD received in two instalments of 50 *per cent* before the end of 60 days and 40 *per cent* of the sale value before the end of 90 days from the date of intimation of acceptance of the bid. However, the Company provided (July 2002) that in case sale value was less than Rs.100 crore, the payment should be made in two instalments of 25 *per cent* (after adjusting EMD) within 15 days and 75 *per cent* of the sale value within 60 days from the date of issue of acceptance letter by the Company. For sale value of more than Rs.100 crore, the Company provided that the payment should be made in three instalments of 25 *per cent* (after adjusting EMD) within 15 days, 40 *per cent* within 45 days and 35 *per cent* of the sale value within 90 days respectively from the date of issue of acceptance letter by the Company.

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<sup>10</sup> *Elphinstone Spinning & Weaving Mill, Panipat Woollen Mill, bungalow of Apollo Textile Mill at Napean Sea Road and Tata Textile Mill.*

<sup>11</sup> *Kohinoor Mill No.3, Old labour chawl of Model Mill, Rampuria Cotton Mill, Bengal Fine Spinning & Weaving Mill No.1, Gaya Cotton & Jute Mills, Bangasri Cotton Mill.*

**Recommendation No. 9.7**

- (i) ***The Company should adhere to the guidelines prescribed by the BIFR.***
- (ii) ***The GOI may consider specifying modalities where the delay in payment exceeds 60 days.***

The Management stated (September 2008) that in the light of recommendations made by the Audit, this matter will be placed in the Central ASC meeting for consideration.

**9.7.9 Fund management**

According to the BIFR guidelines, all the funds generated from sale of assets were to be credited to a separate account and all expenses related to Modified Voluntary Retirement Scheme and modernisation were to be debited to that account. As on 31 March 2008, Rs.3819.44 crore was generated by the Company from the sale of surplus assets (including machinery). Surplus fund of Rs.1,452.60 crore was invested in term deposits with Banks and an interest of Rs.430.43 crore was earned as on 31 March 2008.

It was observed in Audit that:

- No separate account was maintained for deposition of sale proceeds of surplus assets and subsequent utilisation of money received which was against BIFR guidelines.
- There was delay of 2 to 25 days in remitting the sale proceeds from one of the sub-offices (West Bengal Assam Bihar and Orissa) to the Corporate office resulted in locking of fund.
- The GOI had provided Rs.1,321.34 crore only for wage support against which the Company had expended Rs.1,362.53 crore for shortfall in wages and Rs.13.00 crore for back wages upto 31 March 2008. This had resulted in irregular expenditure of Rs.54.19 crore from the funds generated from the revival scheme.

**Recommendation No. 9.8**

***The schedule of sale of surplus assets should be synchronized with the fund requirements for modernisation. The Management may ensure that fund realized from the sale is accounted for as per BIFR guidelines.***

**9.8 Conclusion**

After analysing the whole process of sale and disposal of land and buildings, it was observed that:

- The GOI/BIFR guidelines for determination of reserve price were followed in 27 cases only out of 79 cases of sale of land examined.
- Reports of consultants were not evaluated and the tender documents had certain irregularities.

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- Properties were sold below registration/circle rates; below reserve price and without following the tender process.
- No prescribed procedure for valuation of building structures was in existence.
- There were inconsistencies among the guidelines issued by BIFR/GOI and the procedure laid down by the Company.

The matter was reported to the Ministry in December 2008; reply was awaited.

New Delhi  
The

**(A. N. CHATTERJI)**  
**Deputy Comptroller and Auditor General**  
**(Commercial) and Chairman, Audit Board**

**Countersigned**

New Delhi  
The

**(VINOD RAI)**  
**Comptroller and Auditor General of India**