# Chapter III

# 3. COMPLIANCE AUDIT OBSERVATIONS

# GOVERNMENT COMPANIES

## Telangana State Industrial Infrastructure Corporation Limited

### *3.1 Investments of Telangana State Industrial Infrastructure Corporation Limited in Special Purpose Vehicles (SPVs) and Joint Ventures (JVs)*

#### *3.1.1 Introduction*

Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) was incorporated in September 1973 as a wholly owned undertaking of the Government of Andhra Pradesh (GoAP). The APIIC was bifurcated (02 June 2014) into Andhra Pradesh Industrial Infrastructure Corporation Limited and Telangana State Industrial Infrastructure Corporation Limited as per AP Reorganization Act, 2014. Telangana State Industrial Infrastructure Corporation Limited (TSIIC) (Company) was incorporated on 4 September 2014 with an authorised capital of ₹ 10 crore and paid up capital of ₹ 6.82 crore. The Assets and Liabilities were duly apportioned between Andhra Pradesh and Telangana States as per AP Reorganisation Act, 2014 and the Demerger Scheme was submitted to the Expert Committee of Government of India whose approval is awaited. The accounts of TSIIC for the period from 4 September 2014 are yet to be finalised.

The main objectives of the Company are to provide industrial infrastructure through development of industrial areas and employment generation. The Company converts/ develops the earmarked/ allotted land into industrial plots i.e. builds industrial sheds and provides common facilities like internal roads, water, power, street lighting etc. The Company also undertakes execution of industrial infrastructure projects like sector specific Special Economic Zones (SEZ), Multipurpose SEZs, Information Technology (IT) / Information Technology Enabled Services (ITES) SEZs etc. and projects under Public Private Participation (PPP) model through establishment of Special Purpose Vehicles (SPVs) / Joint Ventures (JVs) on its own, as well as those entrusted to it by the State Government and Government of India.

#### *3.1.2 Organisation Structure*

The Management of the Company is vested with Board of Directors (Board) headed by a Chairman and two Directors including the Vice Chairman & Managing Director (VC&MD). The VC&MD is the Chief Executive of the Company and is assisted by one Executive Director and three functional heads (i) General Manager (Engineering), (ii) General Manager (Asset Management/ Projects) and (iii) General Manager (Personnel & Administration) and Chief Engineer at Head Office with six Zonal Managers at field level.

Audit was conducted to verify whether the objectives of infrastructure creation, industrial development and employment generation were achieved; the investments of ₹ 572.53 crore made by the Company in SPVs/ JVs ***(Annexure-3.1)*** yielded expected return; the rules, regulations and decisions, orders and guidelines of the erstwhile Government of Andhra Pradesh and present Government of Telangana, TSIIC and Government of India were complied with and the terms and conditions of Agreements/ MoUs with developers/ Government were adhered to.

### *3.1.3 Audit Findings*

***Investments in SPVs and JVs***

The Company had invested ₹ 79.27 crore in two JVs (₹ 59.01 crore) and eight SPVs (₹ 20.26 crore) during the period 1994-2015 either in the form of cash or land and expected to receive return in the form of dividends, lease premium and lease rentals. The Company had also made investments of ₹ 493.26 crore in four SPVs (covered in AR (Commercial) No.4 of March 2011). Out of two JVs and eight SPVs as on 31 March 2016, two JVs and three SPVs are working, three SPVs are defunct and two SPVs are incomplete. The details of investment, the status of JVs/ SPVs i.e. working, non-working (defunct) and projects not completed and Return on Investment are given in ***Annexure-3.2***.

The Company had made an investment of ₹ 59.01 crore by way of cash/ land in two JVs. The investment of ₹ 1.98 crore was made in one JV (L&T Infocity Limited) in the form of land in the year 1997 for which the Company received dividend of ₹ 42.80 crore during the period 1997 to 2016 and which yielded a Rate of Return of 113.76 *per cent* per annum. However, in respect of the other JV (K. Raheja IT Park (Hyderabad) Private Limited), though an investment of ₹ 57.03 crore was made by the Company, the Return on Investment was ₹ 2.95 crore (0.43 *per cent* per annum) for the period 2004 to 2016. This is further discussed in Para 3.1.3.1.

The Company had invested a total ₹ 20.26 crore in all eight SPVs by way of cash/ land. The investment in the eight SPVs did not yield any return due to non-implementation of projects, companies becoming defunct and incomplete implementation of projects. The detailed audit observations are given in subsequent paragraphs.

**Investments in JVs**

#### 3.1.3.1 *Unauthorized sale of land to Non-IT sister companies by the JV Company - K. Raheja IT Park (Hyderabad) Private Limited (KRITPL) - Loss of ₹ 73.75 crore*

The erstwhile GoAP had entered (June 2002) into a Memorandum of Understanding (MoU) with a private limited company[49] to develop and construct complexes for development of Information Technology (IT) and IT Enabled Services (ITES) Companies in 115 acres (Approx.) of land, under

[49] K. Raheja Corporation Private Limited, Mumbai

Mindspace Cyberabad Project at Madhapur, Hyderabad with an investment of over ₹ 600 crore.

Subsequently, Memorandum of Agreement (MoA) for development of the above Project in an area of 109.36 acres was entered into (May 2003) between the erstwhile Government of Andhra Pradesh and the private limited company. For this purpose, a Joint Venture company[50] was incorporated on 02 June 2003. The JV partners, K. Raheja Corporation Private Limited and APIIC, contributed to the equity share capital of ₹ 1.00 crore (₹ 89 lakh/- (89 *per cent*) and ₹ 11 lakh (11 *per cent*), respectively). The JV Agreement between APIIC and the JV Company was executed on 23 August 2003 according to which the project was to be completed in 10 years from the date of Agreement.

Apart from equity, the Company contributed 109.36 acres of land valued at ₹ 54.68 crore (₹ 50 lakh per acre) to the JV Company for this project. Four Development Agreements were entered into between December 2003 to June 2004 and the land was transferred to the JV Company. Government of Andhra Pradesh, Department of Information Technology and Communications had directed (11 August 2003) that the development was to be carried out in four phases for which four separate Development Agreements were entered into. On completion of development, the built up area, undivided interest in land and plotted area of land, if any, was to be transferred jointly by APIIC and the JV Company to the final owners.

Subsequently, KRITPL, on the ground of proper implementation, requested the Company (18 October 2006) for permission to demerge the original company into:-

- Raheja IT Park (Hyderabad) Private Limited (M/s KRITPL)
- Sundew Properties Private Limited
- Intime Properties Private Limited

The above proposal of JV Company was submitted by APIIC to the Government (16 November 2006). The Government conveyed (10 January 2007) to APIIC that it had no objection to the proposal of APIIC and advised the Company to suggest a suitable supplementary Memorandum of Agreement to be entered into by Government with the above companies. The Government further stated that the original JV company should be wholly and solely responsible to the Government, irrespective of division of the capital among the three successor companies and also required to comply with other terms and conditions of the main Memorandum of Agreement (19 May 2003).

Audit observed that:

- The erstwhile Government of Andhra Pradesh, without adopting any tender process, had identified M/s K. Raheja Corporation Private Limited, Mumbai to develop and construct complexes for IT and ITES

[50] K. Raheja IT Park (Hyderabad) Private Limited (KRITPL).

Companies on the ground that they had experience and expertise in the construction, retailing and hospitality industry.

- While the Government approved "in principle" the demerger of JV into three companies and directed APIIC to submit draft Supplementary Memorandum of Agreement to the Government which had to be signed by the Government and the three demerged companies, the same was not submitted to the Government by APIIC even after the lapse of nine years. In the absence of supplementary agreement, the Government / APIIC were not in a position to ensure compliance with the terms and conditions envisaged in Memorandum of Agreement and also directions of the Government which would have formed part of the supplementary agreement.

- After demerger, the JV Company transferred 97.21 acres out of 109.36 acres to demerged companies (September 2006 - March 2007) and sold the balance 12.15 acres to Non IT / ITES sister companies of Raheja Group viz., Trion Properties Limited - Inorbit Mall (7.6 acres) and Chalet Hotels Private Limited-Westin Hotel (4.55 acres) at ₹ 1.5 crore per acre, for a total consideration of ₹ 18.23 crore, without consulting the APIIC. However, as per rate fixed by the Price Fixation Committee (PFC), constituted by the VC & MD, the cost of 12.15 acres of land was ₹ 73.75 crore (₹ 6.07 crore per acre) as on 31 March 2007. However, the JV Company had sold the land without the knowledge of the Company and also ignored the rate fixed by the PFC in violation of Government directions (11 August 2003). Further, no money was received by the Company out of the sale proceeds from the JV partner, resulting in loss to the Government/APIIC to the tune of ₹ 73.75 crore. Though the General Administration (Vigilance and Enforcement) Department had conducted enquiry on the irregularities in the execution of the Mind Space Cyberabad Project and submitted its report to Government (28 July 2011), the same was not finalised till the date of audit.

**Investments in SPVs**

### *3.1.3.2 Loss of investment of ₹1.93 crore in HITVEL*

M/s Hyderabad Information Technology Venture Enterprises Limited (HITVEL), an Asset Management Company[51], was started (31 March 1998) as a subsidiary of Andhra Pradesh Industrial Development Corporation Limited (APIDC) with an authorized capital of ₹ 25.00 lakh for managing the Hyderabad Information Technology Venture Capital Fund (HIVE) as per Government directions (31 March 1998). It was later converted into a Joint Sector Company as per Government directions (03 November 1999) with the participation of SIDBI, APIDC and APIIC.

[51] Company that invests in clients' pooled funds into securities with specific financial objectives

Against the proposed corpus for HIVE Fund of ₹ 15.00 crore, contribution of ₹ 13.75 crore was released by SIDBI, APIDC and APIIC collectively (SIDBI ₹ 6.25 crore, APIDC ₹ 5.00 crore and APIIC ₹ 2.50 crore).

Audit observed that:

- Out of ₹ 13.75 crore, HITVEL had invested ₹ 10.05 crore in seven companies during the period from 2001-05 and refunded ₹ 2.27 crore to the contributors[52]. The balance amount of ₹ 1.43 crore was not refunded to the contributors till date (October 2016).

- HITVEL had received offers for buy back of the shares in all seven companies during 2006 to 2014 but no disinvestment was made till date. As per the status report of investment in seven companies available with HITVEL, five out of the seven companies were non-working companies and only two were working. In respect of one company, the promoter was absconding.

- HITVEL had failed to comply with statutory requirements of filing the financial statements for the year 2011-14 with the Registrar of Companies. Despite this, the Board of Directors including the Company had not taken any action to ensure compliance with the provisions of the Companies Act.

Thus, considering the contribution of ₹ 2.50 crore made by the Company and refunded an amount of ₹ 0.57 crore by HITVEL, the balance investment of ₹ 1.93 crore made by the Company did not yield any return and resulted in loss of the investment. The Management of the Company, as a contributor, had also not taken any action to recover its investment of ₹ 1.93 crore.

#### *3.1.3.3 Non-implementation of Project NANO TECH SILICON INDIA (NTSI) - Loss of equity investment and Project Development Cost – ₹ 56.98 lakh*

The Government of Andhra Pradesh had entered into a Memorandum of Understanding (MoU) (06 December 2004) with Intellect Inc, a South Korean firm as a lead promoter for setting up the first semiconductor manufacturing unit in FAB City in Hyderabad.

As per the Government directions (17 March 2005):

- APIIC had to provide 50 acres of land on lease basis for a period of 30 years free of cost, infrastructure support of roads to the site, 40 MW power supply, 10 Million Litres per Day (MLD) of water to the FAB facility and meet the interest costs on loan raised for the construction of FAB facility to a maximum extent of ₹ 35 crore per annum for a period of 10 years.

[52] Refunded to SIDBI ₹ 0.55 crore, APIDC ₹ 1.15 crore, APIIC ₹ 0.57 crore, making the net investment of ₹ 5.77 crore, ₹ 3.85 crore and ₹ 1.93 crore respectively.

- APIIC was nominated as a Nodal Agency with the following conditions:
  - APIIC was to subscribe to equity not exceeding ₹ 50.29 lakh on reimbursement basis from IT&C Department.
  - APIIC was to get a project report prepared by an experienced consultant in the semiconductor industry for an amount not exceeding US $ 21,000 and the same was to be reimbursed by the IT& C Department.

A share subscription agreement was entered (17 March 2005) into between the lead promoter, APIIC and a third party (Mr. D. Jai Ramesh, CMD of M/s Vijai Electricals Limited). The investment pattern was ₹ 1.41 crore by the lead promoter, ₹ 47.08 lakh by the Company and ₹ 47.08 lakh by the third party towards equity capital. A SPV, NANO TECH SILICON INDIA (NTSI) was incorporated on 25 April 2005 with an authorised capital of ₹ 2.50 crore. NTSI failed to attract investors for the proposed unit as it required huge investment and no promoter showed interest in setting up such industries. The SPV did not start its business as envisaged in Share Subscription Agreement (Clause 16.1) and became defunct. The whereabouts of the private promoter was not known to the Company.

The GoAP had directed (August 2009) the Company to cancel the share subscription agreement, MoU and the concessions extended to the SPV and take back the possession of land as the promoter had failed to fulfil his commitment to bring finance[53] (US $ 370 million) and also failed to start its operations.

Audit observed that:

- The Company had made a provision of ₹ 47.08 lakh towards loss of investment in the accounts for the year 2013-14. Hence the investment of ₹ 56.98 lakh made by the Company towards equity (₹ 47.08 lakh) and project development cost (₹ 9.90 lakh) was a loss.
- No efforts were made by the Company to trace the whereabouts of the promoter.
- The Company had no record/details in respect of capital contributed by the private promoters.

Thus, failure of the Company to exercise due diligence while selecting the partners before investment and absence of internal control mechanism to monitor the activities of NTSI for establishment of semiconductor manufacturing unit had resulted in loss of investment of ₹ 56.98 lakh.

The Management in its reply stated (27 February 2016) that the amounts invested were on reimbursement basis as per Government directions (17 March 2005).

[53] US $ 80.00 million of foreign equity, US $ 70.00 million of non-debt financing from captive customers and US $ 220.0 million of debt financing from multinational finance institutes.

The reply should be viewed in the light of the fact that the Company had not submitted (March 2016) its claim even after 11 years for reimbursement of its investment made in 2005, though the Company had incurred a loss of ₹ 56.98 lakh.

### *3.1.3.4 Lack of monitoring resulted in loss of Equity of ₹ 25.00 lakh in SPV- Pattancheru Enviro Tech Limited*

The APIIC had floated Pattancheru Enviro Tech Limited (PETL), a SPV Company in the year 1989 for establishment of a Common Effluent Treatment Plant for treating the industrial effluents emanating from Patancheru industrial belt. The APIIC had invested ₹ 25 lakh towards equity (2,50,000 shares of ₹ 10/- each) in the SPV. The Company had allotted 5.96 acres of land to PETL, constructed sheds and provided necessary infrastructure in the year 1994. The plant had started its operations in 1994 and is functional as on date.

Audit observed that:

- Though the Company had invested equity share of ₹ 25 lakh in the SPV, no physical document such as share certificate etc. was available with the Company.
- Though the Common Effluent Treatment plant had started its operations in 1994, the Company had not received any dividend on the investment of ₹ 25 lakh made in the SPV and no follow up action was taken by the Company for payment of dividend.

**Investments In FAB City**

### *3.1.3.5 Unproductive investment on infrastructure development in FAB City SPV (India) Private Limited resulting in blockage of ₹ 78.56 crore and undue favour to M/s SemIndia FAB City Private Limited of ₹ 22.61 crore due to non collection of lease premium, lease rentals and duties*

The Government of Andhra Pradesh had entered into a MoU with M/s SemIndia Inc., USA, an Anchor Industry[54] on 16 February 2006 to promote the Semiconductor Industry in the earmarked 1200 acres of land for setting up of a manufacturing unit for wafer fabrication etc. and to develop as FAB City (fabrication facility). The MoU stipulated (Clause 1(a)) that the primary obligation of SemIndia was to establish the Project in the FAB City and to arrange finance in the range of US $ 1.5 to US $ 3 billion over a period of four to five years. In pursuance of the MoU, GoAP had issued a GO (28 April 2007) as per which SemIndia was to establish the project in the FAB City, which should house Fab(s) (units) and had investments over a period of five years in Phases as given below:

[54] Anchor Industry means a central source of support and stability. In the present context, it brings entrepreneurs for establishment of units to promote semiconductor industry.

**Phase-I**: US $ 75 million for Assembling, Testing, Marking and Packing (ATMP) with an employment potential of 2000 within 18 months from the date of allotment of land.

**Phase-II**: US $ 750 million, semiconductor chip manufacturing with an employment potential of 1000 within three years from the date of allotment of land.

**Phase-III**: US $ 2.25 billion, for an advanced Semiconductor plant with an employment potential of 5000 within five to seven years from the date of allotment of land.

Accordingly, "FAB City SPV (India) Private Limited" was incorporated on 02 May 2006 under the Companies Act, 1956 with an authorised capital of ₹ 5.00 lakh.

Out of 1200 acres of earmarked land for FAB City, an area of 1,075 acres in Srinagar and Raviryal villages of Ranga Reddy district was notified by Government of India under sector specific SEZ vide Notifications dated 15 January 2007, 13 December 2007 and 10 July 2009 for extension of certain incentives/concessions to M/s SemIndia for implementing the project.

Out of 1,075 acres of land notified for SEZ, APIIC had allotted 401.108 acres to 16 units (284.04 acres to 9 units and 117.068 acres to 7 units) during the period from 2007 to 2011.

However, the land allotted to seven units (117.068 acres) was subsequently cancelled and the possession of the land was taken back by the Company as the units had not come up. Further, GoAP had cancelled/withdrawn the incentives/concessions and other benefits (09 February 2010) given to M/s SemIndia FAB City SPV (India) Private Limited due to poor implementation of the project.

APIIC had also allotted 100 acres (20 June 2007), out of the 1,200 acres, to M/s SemIndia FAB City Private Limited (a unit sponsored by M/s SemIndia Inc., USA the anchor industry) under SEZ. For this, Lease Deed was executed (25 June 2007) between M/s SemIndia FAB Private Limited and M/s FAB City SPV (India) Private Limited. However, the unit (M/s SemIndia FAB Private Limited) had occupied only 22 acres out of 100 acres of land and did not implement the project. Due to non-implementation of the project, GoAP had cancelled (09 February 2010) allotment of unused land of 78 acres in FAB City and permitted APIIC to fix lease rentals at two *per cent* per acre per annum on the remaining land cost.

Audit observed that:

**FAB City SPV (India) Private Limited**

- The project was not implemented as envisaged in MoU. The response from the entrepreneurs was poor. The Company received a return of 32.40 *per cent* between 2007 and 2016. Despite providing all infrastructure by the Company, M/s SemIndia could not attract entrepreneurs against the earmarked land of 1200 acres as envisaged in

MoU. This indicates that investments were made by the Company without due diligence.

- The Company had acquired 1,249.14 acres land at the cost of ₹ 18.25 crore and had incurred ₹ 97.97 crore towards development of infrastructure, electrical works, laying of roads and water supply etc., during the period 2006-07 to 2015-16. Against total investment of ₹ 116.22 crore, the Company received only ₹ 37.67 crore (Lease premium ₹ 36.63 crore, Lease rentals ₹ 1.03 crore) apart from Security Deposit of ₹ 1.63 crore.

**M/s SemIndia FAB City Private Limited**

- The SPV did not fulfill any of the obligations of bringing investment and creating employment in the three Phases as per Clause 1(a) of MoU (February 2006) and as prescribed in GO (April 2007). There was no progress in construction of buildings on the land, except for semi finished construction/ shed on the allotted land.

- A Lease of 66 years was given for ₹ one per acre per annum though the lease period for other allottees was only 33 years. The Company had neither collected the lease premium of ₹ 20 crore and lease rental of ₹ 1.80 crore (2 *per cent* on lease premium for nine years from 2006-07 to 2015-16) on the allotted land of 100 acres nor taken back the possession of land. Non-implementation of the project resulted in undue favour to M/s SemIndia FAB City Private Limited amounting to ₹ 21.80 crore.

- Due to non-implementation of the project, the Development Commissioner, Visakhapatnam SEZ ordered (31 December 2014) M/s SemIndia FAB City Private Limited to pay back the exemptions availed of on the Central excise duties for the goods procured for the project (viz. cement, steel etc.) to the tune of ₹ 66.69 lakh. Due to non-payment of the same within the stipulated period (14 January 2015), the unit was liable to pay ₹ 81.22 lakh including interest of 18 *per cent* on the duty exempted (15 January 2015 to 31 March 2016). Non-payment of the above amount would result in loss to the Government.

- M/s SemIndia FAB City Private Limited had neither submitted details of financial closure for implementation of the project, nor the Company insisted for the same as required in GO (28 April 2007).

- M/s SemIndia FAB City Private Limited had mortgaged 100 acres of land and raised ₹ 100 crore loan from the SBI (June 2009). The SBI initiated e-auction of the land to recover its dues and the matter is subjudice. The Lease Deed (Clause 9) permitted the allottee to obtain loans from the banks and other financial institutions. It was observed that the Company was not aware of the grant of loan of ₹ 100 crore by SBI till the receipt of e-auction notice. The fact that the loan was taken without obtaining No Objection Certificate (NOC) from the Company indicates absence of suitable clause in the Allotment Regulations of the Company for safeguarding its interests. However, the Regulations were suitably amended in the revised Regulations (October 2012) wherein consent of the Company is required.

The Management in its initial reply (December 2015/February 2016) stated that the TSIIC had revised the layout of FAB city and had proposed these lands (part of the FAB city) as E-City for better use. It was also stated that an amount of ₹ 21.93 lakh towards lease rentals was yet to be received from FAB City SPV. Further, it was stated that the Company had filed WP No.16355 of 2015 against the SBI and others and the matter was pending in the Court. However, the reply was silent on the undue benefit extended to M/s SemIndia FAB City Private Limited. The land was entangled in litigation due to non-incorporation of specific clause in the Lease Deed regarding consent of the Company in the form of No Objection Certificate before obtaining loans to safeguard the interest of the Company. Further, the Company had also invested an amount of ₹ 116.22 crore without conducting any proper feasibility study. The reply is also silent on the unproductive expenditure of ₹ 78.56 crore. Besides, lack of internal control and monitoring mechanism had also resulted in loss of ₹ 22.61 crore besides non-achievement of the targeted objective.

### *3.1.3.6 Undue benefit of ₹ 1.32 crore in allotment of land by deviation from guidelines - M/s ILFS Waste Management and Urban Services Limited, in FAB City*

The Company had allotted five acres of land in FAB City SEZ at Raviryal Village, Maheshwaram Mandal, RR District on "as is where is basis" to M/s ILFS Waste Management and Urban Services Limited (ILFS), to establish a Common Effluent Treatment Plant (CETP), on lease basis for a period of 33 years. The Lease Deed was executed on 28 October 2009 between the Company and ILFS. As per prescribed land allotment guidelines (20 May 2008), the Company was to charge lease premium of ₹ 20 lakh per acre and lease rentals of ₹ one lakh per acre per annum.

Audit observed that the Company had allotted five acres of land to ILFS for establishment and operation of CETP on Build Own and Operate (BOO) basis to facilitate the Member Industries of FAB City SEZ without payment of lease premium, which had resulted in loss of ₹ one crore (5 acres x ₹ 20 lakh per acre) to the Company. Similarly, the Company had levied lease rentals of ₹ 10,000 per acre, instead of ₹ one lakh per acre, and received ₹ 3.23 lakh for five acres which had resulted in short recovery of ₹ 32.00 lakh for the period from 2009 to 2016.

The Management in its reply (February 2016) stated that to facilitate a Common Effluent Plant in the park, the proposal of ILFS was considered and land was allotted (five acres) on soft lease terms and there was no loss incurred by the Company.

The reply of the Management was not acceptable as no such “soft lease” term was mentioned either in the Lease Deed or in the allotment regulations. Thus, the Company had incurred loss of revenue of ₹ 1.32 crore due to non-collection of lease premium and short recovery of lease rental in violation of allotment guidelines and extended undue benefit to the ILFS.

### *3.1.3.7 Delay in implementation of Semiconductor project (M/s Embedded IT Solutions (India) Private Limited) in FAB City and non-levy of penalty and non-recovery of lease rentals - Loss of ₹33.50 lakh*

The Company had allotted 10.02 acres of land on lease for 33 years to M/s Embedded IT Solutions (India) Private Limited, for setting up a Semiconductor & PCB manufacturing unit in FAB City and a Lease Deed was executed (14 July 2008). The land was handed over to the allottee on the same day.

As per Clause 3 (i) of the Lease Deed, the allottee was to commence construction on the site within six months, complete the work in not later than 18 months and commence production within 24 months.

Audit observed that:

- Though the project was not set up within 24 months as envisaged in the Lease Deed, the Company did not give notice for non-completion of the project even after the expiry of 24 months (July 2010). The Company granted extension of time till December 2013**,** based on the request of allottee (November 2012)**,** i.e. after expiry of two years from scheduled date of completion. Though the Company had levied penalty of ₹ 28.06 lakh at the rate of seven *per cent* on the prevailing land cost for delay as per the provisions of the allotment rules, the same was not recovered from the allottee, till the date of audit.

- As per terms 1 (c) of the Lease Deed, lease rental at the rate of two *per cent* per annum per acre on 50 *per cent* of the lease premium (₹ 20 lakh per acre per annum) was payable which worked out to ₹ two lakh per annum. Lease rentals were in arrears from July 2013 to March 2016 which worked out to ₹ 5.44 lakh. The Company had not taken action under Revenue Recovery Act, as per Clause 3 (b) of the Lease Deed, to recover the arrears.

### *3.1.3.8 Non-recovery of penalty - FAB City - M/s XL Telecom & Energy Limited - Loss of ₹1.18 crore*

The Government of India had issued Notification (13 December 2007) for setting up and developing Sector Specific Special Economic Zone over the identified area under FAB City and, accordingly, the GoAP, Industries & Commerce Department had also issued orders (21 February 2008 & 01 March 2008).

Based on Government Notifications, the Company had allotted land (Plot No. 36) measuring 50 acres in FAB City SEZ at Raviryal Village, Maheswaram Mandal, RR District to M/s XL Telecom & Energy Limited (XL Telecom) on "as is where is basis" to establish manufacturing unit for Solar Photovoltaic Cells and Solar Photovoltaic Modules on lease. The lease was for a period of 66 years with a lease premium of ₹ 20 lakh per acre. The Company received (13 March 2008) a total lease premium of ₹ 10 crore and Security Deposit of ₹ 30,000, equivalent to six years rent (annual rent of ₹ 100/- per acre per annum). Possession of the land was taken by the XL

Telecom on 13 March 2008 and the Lease Deed was executed on 10 June 2008.

Audit observed that:

- Out of 50 acres of land allotted, the Company had utilised 25 acres. Another 15 acres though developed was lying unutilised. The Board decided to levy penalty for the 15 acres land but M/s XL Telecom had requested the Company for waiver of penalty. The Board agreed to waive the penalty on the developed but not utilised land of 15 acres, based on the recommendations of Extension of Time (EOT) Committee. The decision of waiver of penalty of ₹ 48.03 lakh on 15 acres of land developed and not utilised was not in order as the Company should have levied penalty in view of the delay in implementation of the project as per Allotment Regulations.

- The Board had also decided to levy penalty on 10 acres (proposed to be surrendered by the XL Telecom) at 7.5 *per cent* of land cost which worked out to ₹ 69.97 lakh. The Company had neither initiated any action to recover the penalty of ₹ 69.97 lakh nor taken back the possession of 10 acres of unutilised land.

- The SPV Company had obtained demand loan of ₹ 40 crore (22 November 2007) as project finance by depositing the Lease Deed with Bank of India, as security for the credit facilities sanctioned. Though the Lease Deed was registered on 10 June 2008, the demand loan was sanctioned by the Bank on 22 November 2007 itself, and the amount was disbursed without submission of registered Lease Deed.

- Though the Lease Deed (Clause 8), permitted the allottee to obtain loans from banks and other financial institutions, the Company should have incorporated specific clause regarding prior consent of the Company in the form of No Objection Certificate before obtaining such loans, to safeguard the interests of the Company.

The Company had incurred total revenue loss of ₹ 1.18 crore due to non-collection of penalty for 25 acres of land and extended undue benefit to the allottee.

**Others**

### *3.1.3.9 Irregular appointment of Consultants*

The Company had appointed seven Consultants and sought study reports, Due-diligence Reports, Opinions on financial Impact on Restructuring Plan and Demerger/ Effect on share of IIC for the JVs/SPVs, for which an amount of ₹ 49.50 lakh was paid.

Audit observed that:

- As per CVC guidelines (January 1983), the appointment of Consultants was not to be made arbitrarily or on *adhoc* basis. Each enterprise was to prepare its own instructions and procedure duly approved by Board

for appointment of Consultants. Audit observed that the Company had not prescribed its own instructions or procedures for appointment of Consultants. The appointment of Consultants was done on nomination basis, in violation of CVC guidelines.

- In the absence of any clear clause in the JV/SPV agreement regarding sharing of fees of Consultants, the Company could not recover the expenditure incurred on Consultants from the JV/SPVs and thus had to bear the entire expenditure amounting to ₹ 49.50 lakh.

- Out of the seven Consultants, payments were made to five Consultants. The details of payments were not available with the Company in respect of two Consultants nominated to seek opinion on EMAAR Projects.

- Though the payment was made to the Consultant (M/s Feed Back Ventures) for CBD Towers (Development of Trade Towers and Business Distribution Project), the report of the same was not available with the Company. Thus, apart from bearing the expenditure, the Company was unable to get the benefit of the consultancy service.

**Conclusion**

The objective of the Government was to make use of unutilised/surplus land available in the State to support industrial growth and generate employment through the Company and its JV/SPV partners. However, the intended objective of JV and SPVs for setting up of projects and employment generation could not be achieved due to:

- Non-conducting of feasibility studies on the projects proposed before entering into MoUs with the Developers.

- Absence of monitoring by the Company on industrial growth and employment generation by the respective SPVs as assured in MoUs.

- Non-conducting of periodical review to assess the financial position/ activities/progress made by the SPVs/JVs.

Thus, the investments made by the Company in one JV was low while it was nil in respect of all the eight SPVs.

### *3.2 Loss of revenue of ₹ 4 crore due to non-recovery of the cost of land as per the Allotment Regulations*

**The allotment of land of one acre to Bank of Baroda at concessional rate, ignoring specific provision of the Company's Allotment Regulations, applicable to Scheduled Banks, resulted in loss of revenue of ₹ 4 crore**

Telangana Industrial Infrastructure Corporation Limited (TSIIC) (Company) have prescribed Allotment Regulations for allotment of land. Based on an application from Bank of Baroda (allottee), the allotment of land of one acre (4,000 Sq. meters) in Gachibowli, Hyderabad for establishment of Bank's Disaster Recovery Centre, was approved by the State Level Allotment Committee (7 November 2012), subject to fixation of land cost. The Company

provisionally allotted (27 November 2012) the land to construct building for Bank's Disaster Recovery Centre as the allottee had paid (January 2013) the provisional cost of land of ₹ 8.00 crore, at the rate of ₹ 20,000 per Sq. meter. The Price Fixation & Infrastructure Committee (PF&IC), in their meeting held in February 2013, fixed the cost of land as ₹ 20,000 per Sq. meter. However, as per Clause 15.3 (a) of the APIIC Allotment Regulations, for allotment of land to Scheduled Banks, 1.5 times of the land cost fixed by the PF&IC is to be recovered. Therefore, in this case, the amount to be recovered was ₹ 12.00 crore at the rate of ₹ 30,000 per Sq. meter.

Accordingly, the Company asked the allottee to pay the balance amount of ₹ 4 crore[55]. However, instead of paying the balance amount, the allottee stated that as per the discussions held with the Company earlier, the land cost would be the same as that fixed by the PF&IC. Consequently, the Company entered into an agreement (September 2013) at the rate of ₹ 20,000 per Sq. meter without insisting for difference amount of ₹ 4 crore.

It was observed in Audit that the Company ignored Regulation No. 15.3 (a) of the Allotment Regulations relating to recovery of 1.5 times of land value from Scheduled Banks (April 2013) and agreed to the request of the allottee for a lesser amount. The reasons and the grounds on which the Allotment Regulations were ignored were not on record.

Thus, failure of the Company to allot the land to the allottee without adhering to the provisions of the Allotment Regulations led to loss of ₹ 4 crore.

The Management in its initial reply (October 2014) had stated that since the allottee had proposed utilising the entire allotted area of 4000 Sq. meters for IT purpose i.e., Disaster Recovery Centre, the land cost as fixed by PF&IC was adopted as per the Allotment Regulations, 2012. It was also stated that the action taken by the Company was in accordance with the guidelines and no loss was caused to the Company on allotment of land.

The reply of the Management was not tenable as the principal business of the allottee was banking and not Information Technology. However, the Company treated Bank of Baroda as an IT company and allotted land at concessional rate by ignoring the specific provision in the Allotment Regulations applicable to Scheduled Banks, resulting in a loss of ₹ 4 crore.

## Southern Power Distribution Company of Telangana Limited

### *3.3 Release of Power Connection, Tariff and Billing to Information Technology Firms*

#### *3.3.1 Introduction*

In order to make the State a leading destination for investments in Information & Communications Technology (ICT), the erstwhile Government of Andhra Pradesh had declared its ICT policy in May 1999, later revised in June 2002, March 2005 and August 2010. The policy *inter-alia* included the incentive of

[55] (4,000 Sq. meters x 1.5 times x ₹ 20,000 per Sq. meter minus ₹ 8.00 crore already paid)

concessional power tariff i.e. Industrial power tariff (Category I) to the Information Technology (IT)/ Information Technology Enabled Services (ITES) units, which was less than Commercial tariff (Category II).

The incentives were administered by a High Level Coordination Committee called Consultative Committee on Information Technology Industry (CCITI) which included, among other Members, CMD, Southern Power Distribution Company of Telangana Limited (TSSPDCL) (erstwhile Central Power Distribution Company of Andhra Pradesh Limited (APCPDCL)). The IT Companies, intending to avail of the concessional power, were to apply to the IT&C Department of the GoAP along with copies of Power bills, Memorandum and Articles of Association, Annual Reports etc. The applications were considered and approved by the CCITI after which the IT &C Department issued a certificate stating that the incentives may be given to the IT/ ITES units as per eligibility. The IT companies then claimed the benefit of concessional tariff under Category HT-I from TSSPDCL.

The Management of the Company is vested in Board of Directors (Board) comprising three functional Directors and the Company is headed by a Chairman & Managing Director.

There were 114 IT Parks/ IT Infrastructure/ IT firms under the jurisdiction of TSSPDCL and their category was converted to HT-I. Out of these, a sample of 80 IT Companies was selected for review. The audit methodology included scrutiny of records of Category conversions, electricity bills of IT/ ITES units and websites of the respective services/ consumers.

### *3.3.2 Audit findings*

#### *3.3.2.1 Undue benefit of ₹ 50.35 crore to commercial units located in the premises of I.T. Infrastructure companies and IT/ ITES firms*

The IT Infrastructure Companies/ Software Technology Parks were given a single High Tension (HT) connection initially under HT category-II (Commercial) by the Company. However, on the approval of CCITI and based on certificate issued by IT&C Department, the category was subsequently converted to HT-I (Industrial).

As per the operational guidelines of ICT policies, the notified IT Parks/ IT campuses were to provide 60 *per cent* of the net developable/ usable area for IT activities and 40 *per cent* area for other amenities[56].

As per the SERC tariff orders, the electricity supply to Industries categorized under HT category-I was not to include Shops, Business Houses, Offices, Public Buildings, Hospitals, Hotels, Hostels, Choultries, Restaurants, Clubs, Theatres, Cinemas, Printing Presses, etc., and other similar premises.

Audit observed that eight IT infrastructure companies and six IT/ ITES firms had Hotels, Restaurants, Shops, Hospitals, Banks, ATMs, Recreation Centres

[56] such as housing/ club house/recreation center, shopping center, school and other support activities, service area like water supply system, drainage and sewerage, electric power, other utilities.

etc. in their premises, which fell under non IT activities. The Company had, however, converted ***(Annexures 3.3(a) & 3.3(b))*** these services from HT-II (Commercial) to HT-I (Industrial) category, i.e. the entire premises, without restricting the same to 60 *per cent* prescribed for core IT activity, as per the policy, or verifying the actual consumption of electricity for the purpose of IT activity and non-IT activity.

As a result, the 40 *per cent* area meant for activities other than IT i.e., hotels, restaurants, recreation centres etc. were also extended the concessional tariff, which was not in line with the policy guidelines and the SERC approved Tariff Order. In the absence of clear demarcation and separate billing for non-IT activity, the Company incurred loss of revenue of ₹ 50.35 crore ***(Annexures 3.3(a) & 3.3(b))*** and extended undue benefits to IT Infrastructure Companies/ IT & ITES firms**.** As the Company has not been conducting periodical inspections/ maintaining any record for consumption of power for IT and non-IT purposes, audit worked out the loss of revenue considering 60 *per cent* of consumption for IT purpose and 40 *per cent* for non-IT purpose.

On this being pointed out by audit (February 2016), the Company inspected (18 March 2016) one such service (hotel) and found that the hotel had been availing of the concessional power tariff. The Company reconverted the service back to HT category II (Commercial) (May 2016), duly back billing for an amount of ₹ 51.97 lakh for one year only as permissible as per SERC Tariff Orders, though the back billing was to be made from July 2004 to May 2016 (12 years). Had the Company verified/ examined the activities of the establishments housed in the IT infrastructure Companies before conversion of the category and monitored them effectively from time to time, it would not have foregone the revenue of ₹ 2.84 crore (July 2004 to May 2016) in this case alone.

The Management replied (October 2016) that although as per Tariff Order, Shops, Hotels and Restaurants were mentioned in other than industrial category, it would not be made applicable to the Hotels/ Restaurants/ Recreations centre built in 40 *per cent* area of IT park, as they were meant for use by the staff working in the IT/ITES organisations for their recreation purpose.

The Management's contention was not acceptable as the Government directive did not specify the extension of concessional power tariff to commercial units or amenities established within the IT firms. The certificate only indicated the conversion of category as per eligibility and did not specify that the non-IT activities are eligible for concession tariff under HT-I category. The Company in its own financial interest should have identified the non-IT activities housed in the IT infrastructure/ IT firms and billed them accordingly, as per the approved Tariff Order, which categorically included shops, hotels etc. under HT category II.

While making a comparative study, it was observed that in the Karnataka State IT policy, commercial activities in the IT firms were not allowed concessional tariff.

Further, the ITE&C Department (October 2016) also, while endorsing the views of the Management, agreed to set up an institutional mechanism soon to

ensure usage of electricity in a manner balancing the growth of IT industry and also check the misuse of electricity under concessional category.

### *3.3.2.2 Undue benefit of ₹ 10.96 crore due to extension of power concession to non- IT/ non-ITES companies*

As per the ICT policy, IT Industry means and includes Information Technology (IT), Information Technology Enabled Services (ITES) and Hardware (non-hazardous) Manufacturing (IT Hardware & Electronics) units/ companies. IT/ ITES units/ companies include IT software, IT services and IT Enabled Services/ BPO/Animation & Gaming/ Digital Entertainment and IT Engineering Services companies. However, on scrutiny of records of the Company, it was observed that two firms were extended the concessional power tariff, though not related to IT/ ITES activities as seen from their websites viz., Financial and investment advisory service and registered office resulting in extension of undue benefit of ₹ 10.96 crore **(*Annexure 3.4*)**.

The Management replied (October 2016) that the conversion of these Companies were done on the basis of CCITI certificate.

The ITE&C Department replied (October 2016) that scope of technical services was far beyond the conventional software development. Thus, all these companies were IT companies.

The reply was not acceptable. Satyam Computers Services Limited which housed its registered office in that premises is not involved in any IT activity. Similarly, IQ Information Systems Private Limited, is a financial services company and not an IT Company. Hence, these units should not be solely considered as software development companies for the purpose of concessional tariff. Thus, the Company had extended undue benefit of ₹ 10.96 crore.

### *3.3.2.3 Undue benefit of ₹ 30.17 crore due to Conversion of category of services without obtaining relevant documents*

The Detection of Pilferage of Energy (DPE) wing of the Company visits/inspects consumers' premises to check cases of pilferage, if any. During inspection, DPE had directed (December 2011) eight HT-I**,** IT consumers to submit certain documents/certificates within two and half months, indicating the firms' nature of operations, Annual reports etc., for verification. The IT consumers were also cautioned that if they fail to submit the relevant documents, the concessional power tariff would be withdrawn and duly back billed from the date of release of the service.

Audit observed that the Company had withdrawn the concessional power tariff and re-converted (2012) only one service (HDN-670) to category II, duly back billing for an amount of ₹ 96.27 lakh for one year. There was no document on record to show that the Company had further pursued the matter in respect of the remaining seven cases ***(Annexure 3.5)***. The Company continued to bill these services at concessional power tariff and thereby suffered loss of revenue of ₹ 30.17 crore**.**

The Management replied (October 2016) that the required documents called for were submitted subsequently after which the category was converted.

The reply was not acceptable as the audit observation was on calling for the documents at the time of inspection of the converted services by DPE and not about the documents submitted at the time of initial conversion.

### *3.3.2.4 Undue benefit of ₹ 18.07 crore due to extension of power concession to second and subsequent units though not established 100 KMs away from first unit*

As per ICT policy for 2005-10 (March 2005), the existing IT Industry units in Andhra Pradesh commencing operations at a new location within the State, should be 100 KMs away from the existing location, for being treated as a new unit, to be eligible for the incentives under the policy.

It was observed from the billing address/ locations of the services that in respect of four IT units, though the second and subsequent units were established within the radius of 100 KMs, the Company had extended the benefit of concessional power tariff to these IT units and thereby suffered loss of revenue of ₹ 18.07 crore **(*Annexure 3.6*).**

The Management replied (October 2016) that it was the decision of the IT&C Department to allow the IT Industries within 100 KMs range of its first unit, in view of the advantages of having more IT Companies which would generate employment, revenue etc. to the State Government.

The IT&C Department replied (October 2016) that the then Government's decision to extend power category conversion was to anchor these companies in Hyderabad and ensure seamless operations which would generate employment and contribute to the State economy. Hence, their applications were not considered as separate units but treated as expansion of the same unit.

The reply was not acceptable as the IT policy intended to make available the IT benefits to all the citizens in the State, especially those in rural areas and living in poverty, whereas the Company had extended the concessional power tariff to multiple units of same firm located within 100 KMs radius in deviation of the ICT policy and ignoring its own financial interests, which resulted in loss of revenue of ₹18.07 crore.

### *3.3.2.5 Extension of undue benefit of ₹ 5.55 crore to HT consumers (due to sale) without a fresh CCITI certificate*

As per the CCITI certificate, the concessional power tariff is granted to the Company subject to the condition that the service should be in the name mentioned in the certificate only. However, it was observed that in respect of two cases, the Company had recorded the change of the consumers' names, due to sale/ purchase of the respective premises/ firm, in its records, but had continued the billing at concessional power tariff without obtaining a fresh certificate from CCITI. The improper extension of concession resulted in undue benefit of ₹ 5.55 crore **(*Annexure 3.7*)** to the HT consumer**.**

The Management replied (October 2016) that the Company had changed the name of the consumers based on certificate from the Ministry of Company Affairs (MCA), Government of India.

The reply was not acceptable as the Company had not adhered to the ICT policy wherein concessional tariff was to be granted only to the firm named in the certificate. The Company without insisting for fresh certificate from CCITI extended the concessional tariff to the new occupants of the premises.

The ITE&C Department (October 2016) accepted the audit observation and stated that permission from CCITI should have been obtained by the new occupants.

### *3.3.2.6 Approval of concessional tariff of ₹ 1.98 crore before expiry of one year of operation*

As per the ICT Policy, the CCITI is to consider the applications of all IT companies for concessional power tariff after one year from the date of commencement of commercial operations. However, it was observed that, in nine cases, the CCITI had approved and IT&CD had certified the conversion of category even before completion of one year of release of service. The certificate was accepted by the Company without making any reference to either CCITI or IT&CD. The Company thus incurred loss of revenue of ₹ 1.98 crore **(*Annexure 3.8*).**

The Management replied (October 2016) that the CCITI had got single window power to grant incentives. Hence, reference to either CCITI or IT&CD for conversion of category did not arise.

The IT&C Department replied (October 2016) that in view of job opportunities being created, the then Government might have considered extending all incentives/ subsidies to help these large MNCs to establish their operations and create technology ecosystem in the State.

The above replies were not acceptable as CCITI's power to extend incentives should not be in violation of ICT policy and against the financial interests of the Company.

### *3.3.2.7 Absence of monitoring mechanism*

The Company, after receipt of eligibility certificate, normally conducts a preliminary inspection of the services, before conversion to concessional power tariff. However, it was observed that preliminary inspections were conducted in a routine manner and without specifying the extent of utilization of area for IT as well as non-IT activities in the premises. Once the certificate was issued, the service was converted to HT category I without any time limit[57] and without any periodical inspections to identify cases of change in occupancy, activity etc. Though the concessional power tariff was extended as per the Government policy, the burden of concessional power tariff was borne entirely by the Company without any subsidy from the Government. At

[57] Power subsidy of ₹ 1/- per unit given by the Maharashtra State to IT companies was restricted to three years period only in their IT policy

IT&CD level also there was no monitoring mechanism. Once the certificate for grant of concessional power tariff was issued, it was continued year after year without any periodical verification of the activities of the firm and other commitments such as employment generation etc., made by the IT firms.

The Management replied (October 2016) that the Company was concerned with the eligibility certificate issued by the CCITI of IT&C Department, based on which these firms were billed as per approved tariff. No periodical reports were required as tariff conversion was done on the basis of CCITI certificate.

However, while agreeing with the views of audit, the ITE&C Department (October 2016), stated that the Government, along with TSSPDCL, would set up an institutional mechanism to ensure usage of electricity in a manner balancing the growth of IT Industry and also check the mis-utilisation/ pilferage of electricity under concessional category.

**Conclusion**

The erstwhile GoAP, to attract the investments into IT sector in the State had announced concessional power supply under its ICT policy. However, audit observed that due to lack of coordination and failure to periodically inspect the establishments, some of the ineligible units continued to avail of the benefit of concessional power resulting in loss to the Company. The Company, without verification of relevant documents/ certificates, such as the firms' nature of operations, Annual reports etc., allowed the units to continue to avail of the concessional power. The Company allowed some of the units to avail of concessional power even after sale/ purchase of the unit without obtaining a fresh certificate from CCITI by the new unit, as required in the policy. The second and subsequent units of some of the firms, which were established within 100 KMs of the first unit, were also allowed to avail of concessional power in deviation to the ICT policy. In some cases, the conversion of category was done even before completion of one year of release of service, though as per the policy the same would be considered only after one year of commercial operation.

### *3.4 Extension of undue benefit to M/s Golden Jubilee Hotels Limited - Loss of revenue of ₹ 1.70 crore*

**Deferment of second phase supply of power to M/s Golden Jubilee Hotels Limited (consumer) beyond six months, against the Company's guidelines and without levying minimum charges as specified in the Tariff Order resulted in extension of an undue benefit of ₹ 1.70 crore to the consumer**

Southern Power Distribution Company of Telangana Limited (Company) had sanctioned power supply under HT category II (Commercial Service) to M/s Golden Jubilee Hotels Limited, Hyderabad (consumer), with a Contracted Maximum Demand of 5,000 KVA (July 2011) to be issued in two phases, viz., 2,600 KVA to be released in the first phase while the remaining 2,400 KVA were to be released in December 2013 (second phase). The first phase was released upon conclusion of HT Agreement with the Company (February

2013) with a minimum period of Agreement of two years i.e., up to January 2015. On request of the consumer, the second phase was deferred and later released in December 2015, instead of December 2013.

Audit observed that the General Terms and Conditions of Supply (GTCS) (Clause 5.9.2.1 and 5.9.4.3), as approved by the AP Electricity Regulatory Commission (APERC), specified the procedure to be followed for the commencement of supply of power to the consumers and for release of power in a phased manner, respectively. According to Clause 5.9.2.1, after receipt of development and supervision charges etc. from the consumer and concluding HT agreement, the Company should make arrangements to supply electricity by issuing a notice indicating that it was ready to provide supply. If the consumer failed to avail of supply within the three months' notice period, he should pay monthly minimum charges and fixed charges as specified in Tariff Order from the date of expiry of the three months.

The scheduled second phase supply (December 2013) in this case was within the period of the agreement. As per GTCS Clause 5.9.2.1, as the consumer had failed to avail of second phase supply as per the agreement, the Company should have collected monthly minimum charges and/or fixed charges as per the Tariff Order for the period from January 2014 to November 2015 as the consumer availed of the supply from December 2015. The Company had issued guidelines (September 2009) indicating that in cases where initial supply was released, rescheduling of remaining phases can be considered for a period not exceeding six months for each phase. In the instant case, even considering the Company's guidelines, the Company should have collected monthly minimum charges from July 2014 to November 2015. Non-collection of minimum charges as per the provisions of GTCS had resulted in extension of undue benefit of ₹ 1.70 crore [58] to the consumer.

The Government replied (November 2016) that wherever representation was received for postponement of unreleased phase, the same was considered as per the internal circulars issued by the Company (September 2009).

The reply was not acceptable as the Company had not adhered to its own internal guidelines (September 2009), according to which deferment was allowed for a period not exceeding six months for each phase i.e. up to June 2014 in this case, whereas the extension was granted up to November 2015.

Thus, deferring the phased supply for a period exceeding six months from July 2014 had led to an extension of undue advantage to the consumer which resulted in loss of ₹ 1.70 crore to the Company (calculated as per Tariff Orders for the years 2014-15 and 2015-16 for a period from July 2014 to November 2015).

[58] Demand charges: 80% x 2400 KVA = 1920 x ₹ 350 (Tariff) x 9 months = ₹ 60.48 lakh + Energy charges: 48000 KVAH x ₹ 6.28 (Tariff) x 9 months (July 2014 to March 2015) = ₹ 27.13 lakh. Total (A): ₹ 87.61 lakh

Demand charges: 80% x 2400 KVA=1920 x ₹ 370 (Tariff) x 8 months= ₹ 56.83 lakh + Energy charges 48000 KVAH x ₹ 6.6 (Tariff) x 8 months (April 2015 to November 2015) = ₹ 25.34 lakh. Total (B): ₹ 82.17 lakh

(A)+(B)= ₹ 169.8 lakh i.e. ₹ 1.70 crore

## The Singareni Collieries Company Limited

### 3.5 *Unfruitful expenditure of ₹ 1.16 crore*

**The Company without ensuring the possibility of acquiring the private land, went ahead with the publication of Draft Notification and Draft Declaration for the proposed Indaram Opencast Mine and incurred an expenditure of ₹ 1.16 crore towards publication charges. However, the land acquisition was kept in abeyance due to stiff resistance from the villagers, resulting in avoidable expenditure.**

The Singareni Collieries Company Limited (SCCL) (Company) had proposed to take up Indaram Opencast Mine. The Feasibility Report for the Project was approved by SCCL Board on 23 February 2007 for a rated capacity of 1.2 Million Tonnes per annum at an initial capital investment of ₹ 91.20 crore. For this purpose, the total requirement of land was 798.08 Ha, out of which private land of 726.46 Ha, valued at ₹ 21.79 crore, was to be acquired. As a part of the land acquisition process, the Environmental Public Hearing was held on 3 September 2007 in which the villagers requested the Company to change the dump yard position of the proposed Opencast Mine and refrain from acquiring agricultural fields to the extent possible. The majority of the land owners also opposed setting up of Opencast Mine. The Company accepted (December 2007) their suggestions to shift the over burden dump yard to Company's own land. The Draft Notifications (DN) and Draft Declarations (DD) for the acquisition of land (Tekumatla, Indaram, Kanchanapalli villages) were issued (between 22 May 2008 and 29 May 2009). The Company incurred expenditure of ₹ 1.16 crore towards publication charges. However, the Company decided (December 2009) to keep the land acquisition in abeyance due to stiff resistance from the villagers against Opencast Mine.

It was observed in audit that the Company, without ensuring the possibility of acquiring the private land, went ahead with publishing the DN and DD. As per the Land Acquisition Act, the award of land should be made within a period of two years from the date of publication of declaration and if no award is made within that period, the entire proceedings for acquisition of land shall lapse. In this case, the land acquisition process could not be completed within the stipulated period of two years (ending May 2011). Thus, the decision of the Company to go for publication of DN and DD without ascertaining the possibility of acquiring land led to unfruitful expenditure of ₹ 1.16 crore.

The Government replied (December 2016) that the process of Publication of Draft Notification and Draft Declaration in local newspapers was initiated incurring an expenditure of ₹ 1.16 crore in anticipation of land acquisition and gaining time for early commencement of project. Repeated attempts made by the Company for land acquisition did not yield results and, subsequently, the entire Feasibility Report of Indaram project was redesigned (April 2016) and the land requirement brought down from 798.08 Ha to 617.58 Ha. It was further stated that the project was being scheduled to be grounded at the earliest.

However, the fact remained that the Company went ahead with the publication of DN and DD without ascertaining the possibility of acquiring land, thereby rendering the expenditure of ₹ 1.16 crore unfruitful.

### *3.6 Extra expenditure of ₹ 44.14 crore on diversion of NTR canal under Jalagam Vengala Rao Open Cast project, beyond its requirement.*

**Extra expenditure of ₹ 44.14 crore over the original estimates due to clubbing of NTR canal with Indirasagar-Rudramkota Lift Irrigation Canal, as against the diversion required by the Company for a length of 4.76 KM for its mining activities, which was unrelated and beyond the scope of the project**

The Singareni Collieries Company Limited (SCCL) (Company) took up Sathupally Open Cast (OC) Project (December 2002) to meet the future demand of coal. A part of the NTR canal was passing over the proposed mining operations from Sathupally OC (renamed as Jalagam Vengala Rao Open Cast Project-I (JVR OCP-I and Extension Project)) from KM 8 to KM 12.76. Hence, the canal had to be diverted away from the coal bearing area for a length of 4.76 KM to facilitate an extraction of nearly 11.05 Million Tonnes of coal valued at ₹ 1502.80 crore. Based on the detailed estimate of ₹ 21.69 crore for diversion of the NTR canal, submitted by the Irrigation Department, Government of Andhra Pradesh (GoAP) had accorded administrative sanction for ₹ 21.69 crore (December 2005) for excavation of an alternative canal to NTR canal and requested SCCL to deposit the entire amount to commence the work.

The Government of Andhra Pradesh had subsequently decided (March 2008) to club the proposed alternative canal to NTR canal with Indirasagar–Rudramkota Lift Irrigation Canal (IRLIC) as they were running parallel to each other from KM 28 to KM 56. Considering merger of alternate canal with NTR canal and IRLIC, detailed designs and revision in Schedule of Standard Rates (SSR), the cost estimates were revised by the Irrigation Department several times from December 2005 (₹ 21.69 crore) to October 2013 (₹ 145.52 crore). Out of the estimated amount of ₹ 145.52 crore, SCCL's share was worked out at ₹ 65.83 crore and the same was paid by SCCL (upto March 2014). The Company at no stage contested the increase in cost of the project or obtained any concrete assurance regarding completion of the project.

The work of canal diversion was entrusted by Irrigation Department to a contractor (November 2007) for completion within 24 months and the work was completed in April 2016, after delay of more than six years.

It was observed in audit that:

- The estimated cost of diversion of NTR canal (KM 8 to KM 12.76) was revised several times during the period 2005 to 2013. The increase in cost of project/SCCL share was due to merging of the proposed alternate canal with IRLIC from KM 28 to KM 56. The length of diversion was thus for 28 KMs against the required 4.76 KMs. Further, since the clubbing of canals

was totally unrelated to SCCL and had no bearing on the original work of diversion of NTR canal, payments made by the Company for the additional length was not justified.

➢ The Company also had made an interest free advance amounting to ₹ 48.95 crore (July 2010) to the Irrigation Department as directed by the Government, considering the urgency of the work connected to production of JVR OCP-I Expansion mine. The advance sought by the Irrigation Department was based on the assurance that the work would be completed by March 2011. However, the work was completed after almost six years (23 April 2016) which delayed the extraction of nearly 11.05 Million Tonnes of coal.

Thus, payments made by the Company over and above its requirements resulted in extra expenditure of ₹ 44.14 crore (₹ 65.83 crore - ₹ 21.69 crore).

The Management in reply stated (October 2016) that the work was delayed due to clubbing of canals which necessitated revision of estimates, design, scarcity of sand and delay in getting approval (R&B dept.) for designs for road over-bridge required in the works etc.

The reply of the Management is silent about release of payments by the Company for the extended lengths of the alternate canal which was unrelated to the Company. The NTR canal diversion would have been completed much earlier as per original schedule and well within the funds already paid, had it not been clubbed with other irrigation works. Thus, the Company incurred an avoidable extra expenditure of ₹ 44.14 crore, over and above the original estimate.

## Telangana State Power Generation Corporation Limited

### *3.7 Extension of undue favour to a contractor of Balance of Plant (BOP) works resulted in avoidable additional expenditure of ₹ 2.12 crore*

**Action was not initiated on the contractor for the defect in the TG building (Stage I KTPP), as per the terms and conditions of the contract. The unintended favour to the contractor of BOP works resulted in avoidable additional expenditure to the tune of ₹ 2.12 crore for purchase of crane (Stage II KTPP)**

The erstwhile Andhra Pradesh Power Generation Corporation Limited (Company) placed three Purchase Orders (POs) amounting to ₹ 694.86 crore in November 2006 on M/s BGR Energy Systems Limited (Contractor) for Supply (₹ 458.34 crore), Erection (₹ 18.39 crore) and Balance of Plant (BOP) (₹ 218.13 crore) for execution of Stage-I of Kakatiya Thermal Power Plant (KTPP), (1x500 MW), now under the purview of Telangana State Power Generation Corporation Limited.

On achieving Commercial Operation Date (14 September 2010), the Company took over (20 March 2013) the entire BOP package of Stage-I. As per Clause 14 of the PO for Warranty, the Bank Guarantee for ₹ 69.49 crore (10 *per cent* of the contract price) was obtained from the contractor, which had a validity of

12 months from the date of taking over of the entire BOP packages including a claim period of six months over and above the validity i.e. up to 20 September 2014.

In the meantime, for construction of Stage II of KTPP, adjacent to Stage I, i.e. capacity addition of 1x600 MW, orders were placed on M/s BHEL Limited (October 2008) for Boiler, Turbine and Generator and on M/s Tecpro Systems Limited (October 2010) for BOP works i.e. civil works, erection and installation.

While the Stage-II works were in progress (December 2011), in order to reduce the project cost of Stage-II, the Company planned to extend the Electronically Operated Travelling Type (EOT) crane of Stage I to Stage-II.

The civil drawings relating to the Turbine Generator (TG) building of Stage II were approved by M/s Tecpro from M/s Desein (Consulting Engineers). While taking up the Civil works, it was observed that there was a skew in the TG building axes of Stage-I. The Coordinates provided in the approved drawings (Stage II) and the "as built" Coordinates of Stage I TG building were not matching. The skew did not affect the movement of existing crane in Stage-I, but if extended to Stage-II would lead to a swing in the lifting of main equipments like Turbine, Generator plant etc. Due to this the Company decided and purchased (August 2012) a new EOT crane at a cost of ₹ 2.12 crore for TG Building of Stage II.

Audit observed that though the Company had identified (February 2012) the skew in Stage I, no action was initiated against the contractor as per the terms of the contract. However, the Company called for explanation from the officials and it was concluded that the skew was due to laxity in inspection and failure in monitoring the work in the TG building (KTPP/Stage I).

As per Clause 5 of the terms and conditions of contract of Stage I, balance 10 *per cent* of the contract price was to be made after ascertaining satisfactory performance of civil works and fulfilling all contractual obligations. Despite the defect in workmanship of the contractor, the Company did not invoke the Bank Guarantee (Clause 14), though this was available with it. This resulted in extension of undue benefit to the contractor of BOP works to the tune of ₹ 2.12 crore.

The Management accepted (January 2016) the fact that there was a skew in center line of the TG building and indicated that it had called for explanation (November 2013) from the concerned officials of the Company and, after seeking explanations, imposed punishment of 'Censure' (January 2015). It was further stated that since the variation in the structure had not affected the operation of EOT crane and as the future expansion of KTPP Stage I and utilization of the crane for Stage II was not mentioned in the BOP contract, the contractor could not be held responsible.

However, no action was initiated against the contractor as per the terms and conditions of the contract despite the defect in the construction of Stage I. The reply was silent regarding the reasons for not invoking the BG which was available with the Company, when the defect in the TG building was observed.

## STATUTORY CORPORATION

## Telangana State Road Transport Corporation

### 3.8 *Failure to conduct a periodical census of buses led to extension of undue benefit of ₹ 52.40 lakh to the agent by way of short recovery of license fee towards display of the advertisement on buses*

**Corporation had not conducted periodical census of buses as per the Agreement with the agent for display of advertisement on buses. Due to this, the agent reduced the number of buses for payment of license fee and the same was accepted by the Corporation. This had resulted in undue benefit of ₹ 52.40 lakh to the agent by way of short recovery of license fees**

The Andhra Pradesh State Road Transport Corporation (Corporation) entered into an agreement (July 2012) with M/s Uni Ads Limited (agent) for display of advertisements on all buses, including hired buses (excluding buses purchased under JNNURM Scheme) held by the depots falling under the jurisdiction of Secunderabad Region for a period of five years commencing from 1st June 2012 (now under Telangana State Road Transport Corporation). At the time of the commencement of the agreement, the number of buses was mutually reckoned at 1,145. According to the terms and conditions of the agreement, the agent was to pay (i) license fee at the rate of ₹ 1,250 for 1st and 2nd years, ₹ 1,612 for 3rd year and ₹ 2,015 for 4th and 5th years per bus per month (ii) additional license fee at the agreed rates on the buses newly added after the commencement of the agreement period and (iii) the Corporation was to conduct a census of buses once in every four months and intimate the agent the number of buses and the amount of license fee payable for the next four months.

However, the Corporation did not conduct the periodical census of buses as per agreement. The agent intimated (December 2012) the Corporation of his intention to pay licence fee duly reckoning the number of buses held by depots of Secunderabad Region at 1,145 up to October 2012 and 1,050 buses for a further period, based on their survey. The Corporation, however, neither took any action on the agent's letter nor counted the total number of buses held and accepted payment of license fee on 1,050 buses from November 2012 to till date (March 2016).

Meanwhile, Audit had pointed out (February 2014) that the agent had reduced the number of buses for calculation and remittance of license fees owing to non-conducting of a census by the Corporation which was causing loss of revenue. The Corporation later conducted a census in February 2015 (for the period from June 2012 to February 2014) and in October 2015 (for the period from March 2014 to August 2015), i.e. after a delay of one year after being pointed out by Audit. Based on this census, the Corporation observed that the number of buses were actually more (ranging from 1,121 to 1,201 buses) than the buses for which the contractor had paid the license fee (***Annexure 3.9***). The Corporation accordingly asked the agent to deposit the shortfall amount of ₹ 52.40 lakh (October 2015) but the same was yet to be received.

It was observed that the Corporation did not conduct periodical census as per the agreement. Though the agent had addressed the Corporation (December 2012) on the issue of reduction of buses, the Corporation accepted the license fee on the reduced number of buses without verification.

Thus, failure of the Corporation to conduct periodical census as per the terms of the agreement and acceptance of the licence fee paid by the agent on the lesser number of buses, led to an undue benefit of ₹ 52.40 lakh to the agent (up to March 2016) ***(Annexure 3.9)*** and corresponding loss to the Corporation.

The Government (January 2017), while confirming that reconciliation of buses had to be done at every four months to arrive at the monthly license fee payable for the next four months and communicate the same to the advertisement contractor to pay the revised license fee (Clause 5 of the agreement), stated that this was not done due to lack of awareness in the Regions where advertisement contracts were dealt with subsequent to decentralisation in 2011. It was further stated that now efforts were being made to realise the dues and in case the agent failed to pay the outstanding dues, the same would be adjusted from the Security Deposit available with the Corporation.

Hyderabad
The

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Accountant General
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***Countersigned***

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The

**(SHASHI KANT SHARMA)**
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