

## CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

### STCL Limited

#### 4.1 Irregularities in release of funds to a business associate

**Release of funds without due diligence and based on inaccurate facts and invalid agreement to a business associate to procure yellow peas resulted in non-realisation of ₹ 24.67 crore by the Company.**

STCL Limited (the Company) was approached by R. Piyarelall Foods Private Limited (RPFPL), Kolkata (7 May 2008) to arrange funds of ₹ 45.79 crore to facilitate procurement of 30742 MT of yellow peas for which Letter of Award (LoA) was issued to them by STC Limited (Holding Company) in November, 2007. As per terms of agreement between STC Limited and RPFPL, 85 *per cent* of the payment for the stock valued at ₹ 53.88 crore (i.e. 45.79 crore) was to be remitted by RPFPL within the stipulated time. RPFPL, citing tight financials made (15 May 2008) another request to the Company for additional funds of ₹ 3.63 crore for clearing its own outstanding bills.

The Company concluded an agreement (16 May 2008) with RPFPL (but signed for and on behalf of RPIEL<sup>1</sup>) for the financing of 85 *per cent* of the procurement cost of 30742 MT of yellow peas at an interest of 11.50 *per cent* per annum without approval from the Board. The agreement *inter alia* provided for the following:

- The funds would be released subject to receipt of confirmation by the nominated C&F agent at the port for having received the original shipment documents for taking the delivery of the cargo and storing the same at CWC/Custom bonded warehouse in the name of the Company and stock receipts issued by CWC/SWC in the name of the Company.
- RPFPL was required to discharge its liability by selling the entire procured stock within 180 days from the date of procurement, failing which the Company would dispose balance stock at the cost and risk of RPFPL and collect the difference amount from RPFPL.

Subsequently, a Committee<sup>2</sup> of the Company approved (16-20 May 2008) the proposal for lending of ₹ 49.42 crore (₹ 45.79 crore+₹ 3.63 crore ) for purchase of 30742 MT of yellow peas to RPFPL citing past performance and long term business relation at an interest at 11.75 *per cent* per annum on reducing balance and a profit margin of 1.25 *per cent* of the sale value up to 90 days besides service charge at 0.5 *per cent* for every month or part thereof. The Committee did not reconcile the differences in quantity, rate of interest, variation in crucial dates with the agreement dated 16 May 2008 and the relevant documents available. Approval of the Committee was based on a personal guarantee (16 May 2008) for RPFPL's performance from Shri Siddharth Agarwal, a Director of RPIEL and an undated cheque of RPFPL for ₹ 45.79 crore and letter dated 6 May 2008 from

<sup>1</sup> R. Piyarelall Import and Export Limited, a sister concern of RPFPL

<sup>2</sup> Committee consisting of General Manager (Marketing), General Manager (Finance) and General Manager (P&A)

M/s. Baid Shipping Agency confirming receipt of original shipping documents for taking delivery of 30742 MT of yellow peas and store the same at Kolkata Port sheds in the name of the STCL along with copies of B/L duly endorsed by STC in favour of RPFPL in favour of STCL Ltd. The Committee's decision was ratified (22 May 2008) by the Managing Director and on the same day, the entire amount was released to RPFPL.

After initial repayment of ₹ 4 crore (May 2008) against additional amount released, RPFPL commenced repayment from October 2008 and made a total payment of ₹ 27.83 crore till September 2009 when it stopped repayment when the outstanding payments had aggregated to ₹ 27.62 crore<sup>1</sup>. Consequent to a negotiated settlement (December 2009), RPFPL made additional payment of ₹ 11.00 crore up to April 2010. The Company made a provision for the outstanding amount towards doubtful debt for ₹ 17.17 crore<sup>2</sup>.

Audit observed the following irregularities in processing and approving the business proposal:

- The agreement between the Company and RPFPL dated 16 May 2008 was signed for and on behalf of RPIEL by one Siddharth Agarwal, Director, RPIEL which rendered the agreement invalid. *The Ministry stated that it was an error.*
- The letter dated 6 May 2008 of M/s. Baid Shipping Agency addressed to the Company confirmed receipt of original documents for 22742 MT under one bill of lading no. VCR/SAG-1 dated 19 October 2007. Both the letter dated 7 May 2008 of RPFPL and the Letter of Award of STC Limited enclosed thereto referred to two bills of lading dated 19 October 2007 in No. VCR/SAG-1 for discharge of 22742 at Kolkata and in No. VCR/VIS-1 for discharge of 8000 MT at Vishakhapatnam. But the Committee's approval was based on a confirmation letter dated 6 May 2008 of Baid Shipping Agency for taking delivery of 30742 MT which was a deliberate misrepresentation.
- The fact that previous defaults by RPIEL had resulted in accumulation of dues of ₹ 44.21 crore as of April 2008, duly brought to the notice of RPIEL from GM (Finance) of the Company in letter dated 8 May 2008, was not mentioned in the proposal ratified on 22 May 2008 for extending the above financial assistance to the RPFPL. *The fact was admitted by the Ministry (October, 2011).*
- As per delegation of powers, procurement of commodities for trading with full back to back buying arrangement with the associate buyer required approval of the Board, if the value exceeded ₹ 20 crore. Thus, the financing in the instant case was irregular. *Ministry admitted (October 2011) the irregularity.*
- After defaulting in repayments, RPIEL (not RPFPL, who was the debtor) approached (7 December 2009) the Company for waiver of service charges and reduction in rate of interest to 10 per cent. The Company issued the concession letter (10 December 2009) addressed to RPFPL/RPIEL duly arriving at the outstanding amount, charging only interest, at 27.62 crore, pending ratification by the Board for settlement at ₹ 27.62 crore but could realise only ₹ 11 crore. The Company had only a personal guarantee of Shri Siddharth Agarwal and an

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<sup>1</sup> Principal amount plus interest upto 30 November 2009

<sup>2</sup> Including Principal of ₹16.62 crore

undated cheque of RPFPL for ₹ 45.79 crore which were not invoked to realise the balance dues.

- Physical verification of stock was never done by the Company indicating absence of proper monitoring mechanism to secure the financial interest of the Company. *The fact of non-verification of stocks by the Company was accepted by the Ministry (October 2011).*
- Neither legal action has been taken against RPFPL/RPIEL nor any responsibility fixed for the lapses so far (January 2012).

**Thus, no due diligence was done on the financial integrity of the business associate and on the basic facts of transaction with reference to relevant documents available. The funds were released based on an invalid agreement and in violation of delegation of powers resulting in non-realisation of ₹ 24.67 crore<sup>♦</sup>.**

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<sup>♦</sup> *Including principal, interest and service charges upto March 2011*