CHAPTER VIII: DEPARTMENT OF FERTILIZERS

Rashtriya Chemicals and Fertilisers Limited

8.1 Improper estimation of cost in bidding

Improper estimation of cost in bidding for the contract of handling and sale of imported urea resulting in loss of ₹ 44.81 crore

Department of Fertilizers (DoF) appointed (May 2007/November 2007) Rashtriya Chemicals and Fertilisers Limited (the Company) as Handling Agents (HA) for handling of vessels, bagging, standardisation and distribution of imported urea in various States/Union Territories during the year 2007-08 in Kandla, Tuticorin and Dharamtar ports for the years 2007-08 to 2009-10 at ₹ 690 per metric tonne (PMT), ₹ 674 PMT ₹ 960 PMT[♣] at their quoted rate on the basis of Notice Inviting Tender (NIT) issued in April 2007. DoF extended (March 2010) the above contracts for two more years (i.e. up to 31 March 2012) and subsequently (March 2012) for two more months up to 31 May 2012. Apart from the aforesaid lump sum rates, the Company was eligible, as per NIT, to get reimbursement towards port dues, customs duty and inland freight charges. The Company quoted the above rate after estimating various expenses involved and profit of ₹ 50 per MT.

During the period 2007-12, the Company unloaded and handled imported urea from 175 vessels and dispatched/distributed 56.77 lakh MT to various States/Union Territories. For this activity the Company incurred an expenditure of ₹ 4368.05 crore and could claim an amount of ₹ 4323.24 crore only from DoF**,** resulting in a overall loss of ₹ 44.81 crore against an estimated overall profit of ₹ 28.39 crore (56.77 lakh MT being the quantity sold X ₹ 50).

Audit observed that the estimation prepared by the Company for bidding was deficient as significant elements of cost viz. inland freight charges, finance charges and shortages in handling and transportation were worked out incorrectly without detailed analysis of NIT terms and included in the estimate. The Company, however, made some savings in other elements of cost such as Custom House Agents (CHA) charges which brought down the net loss to ₹ 44.81 crore.

The following three elements mainly contributed under recovery of cost of ₹ 69.14 crore as discussed in succeeding paragraphs:

(A) Even though**,** the inland freight charges from the ports to districts were reimbursable, the reimbursement was regulated as per the statement, which was enclosed with NIT. The statement provided fixed freight rates for transport of urea from a particular port to different States. Irrespective of internal movements within a State, the reimbursement was allowed at the rate mentioned in the statement for transport of urea from a particular port to a particular State. Thus, the rate given in the statement was

[♣] *Quoted rate ₹966*

expected to cover all the block level destinations in a State. With such a structure of the contract, districts and blocks in proximity to port in a State would be to the benefit to the HA**,** while districts and blocks away from the port would lead to loss. As actual movements were regulated as per the movement orders of the State and DoF, an amount of ₹ 54.72 crore remained unrecoverable from the DoF.

Management replied (November 2012) that the districts which were far off in the State from the port were to be supplied from the port and this resulted in huge under recovery.

(B) The Company estimated ₹ 6/- PMT towards finance charges to be incurred for opening of Letter of Credit (LCs) in favour of DoF. Even though**,** the Company considered in the estimate the LC opening charges levied by the State Bank of India, the Company's banker, it did not consider in the estimate the LC negotiation charges which was levied by the State Bank of Patiala, the banker of DoF. Due to this lapse, the Company incurred an avoidable expenditure of ₹ 7.36 crore towards LC negotiation charges. However, after taking in to account the gain on account of LC opening charges as compared to estimate, the net extra expenditure incurred by the Company towards finance charges was ₹ 5.87 crore.

Management accepted (November 2012) that the LC negotiation charges levied by the State Bank of Patiala were not anticipated in the estimate. The extra expenditure of ₹ 5.87 crore could have been avoided had the Company ascertained full details of expenditure involved towards LC or had the Company opened a Bank account with the State Bank of Patiala, Mumbai for LC.

(C) The Company estimated ₹ 9 PMT towards shortages to cover handling and transit loss calculated at 0.25 *per cent* on the urea issue price which was at variance with 0.5 *per cent* allowed by the Company to CHA in their back-to-back contract. The actual shortages (including destination godown storage loss) were 0.81, 0.57, 0.22, 0.50 and 0.44 *per cent* for 2007-08, 2008-09, 2009-10, 2010-11 and 2011-12 respectively. Thus, the norms adopted by the Company for handling and transit losses were unrealistic. In none of these years (except the year 2009-10) the actual shortages were within the estimated norms. The value of shortages in excess of the estimate was ₹ 8.55 crore which had to be absorbed by the Company.

Management stated (November 2012) that they have recovered losses on account of shortages above 0.5 *per cent* from the CHAs, and if percentage of shortages in the contract with CHAs were kept at 0.25 *per cent*, it would have resulted in higher charges levied by them. The above reply of the managements was not supported by any documentary evidence.

The reply of the Management is not acceptable as the Company had not realized the unfavourable terms in NIT and should not have quoted with such thin margins. Further Company should have also ascertained full details of expenditure involved towards LC negotiation charges before making estimates and provision should have been made for recovery of actual shortage of handling of transit loss from CHA through back-to-back contract**.**

The Company, however, made some savings in other elements of cost such as CHA charges which brought down the net loss to ₹ 44.81 crore. Thus, Company incurred loss of ₹ 44.81 crore mainly due to excess expenditure incurred over estimates made in respect of inland freight charges, finance charges and handling and transit losses.

The matter was reported to the Ministry in December 2012; their reply was awaited. (March 2013).