CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

MMTC Limited, PEC Limited and the State Trading Corporation of India Limited

4.1 Trading Activities of Agro Commodities

4.1.1 Introduction

MMTC Limited (MMTC), The State Trading Corporation of India Limited (STC) and PEC Limited (PEC) are trading companies under Ministry of Commerce & Industry (MoCI). All the three companies undertake import, export and domestic trade by extending financial assistance to their business associates for a fixed trading margin.

Audit reviewed the trading activities of agro commodities where dues were recoverable/written off as on March 2013 in MMTC, STC and PEC to identify the causes of specific failures in their operations leading to loss.

4.1.2 Audit Findings

4.1.2.1 Unauthorized lifting of agro commodities by the private associates

As per the business model followed, the trading companies extend pre-shipment credit[♣] to the associates against export orders received by them or in the case of import of commodities on behalf of associates, arrange buyers credit to discharge the import liability and subsequently recover the amount. In both the scenarios the goods remained pledged to the trading company till payment is received. The associate is responsible for arranging for foreign buyer/seller and also for ensuring payment. In the following cases it was seen that the PSUs continued trade with associates in spite of outstanding dues. It was also noted that the PSUs failed to safeguard their assets pledged to them. This resulted in the PSUs incurring heavy losses.

♣ Pre-shipment financing {either on Letter of Credit (LC) or Documents against Payment (DP) terms of payments} is made available before goods are shipped (usually against a confirmed order) to help an Associate to fulfil an export order. In LC basis, buyers establish LC in favour of trading PSU. In case of DP terms of payment, buyer remits stipulated percent (10-20per cent) as advance payment to trading PSU. Associate starts the process of domestic procurement and approaches trading PSU for release of pre-shipment finance. The Associate submits Surveyor's report of pre-shipment inspection for quantity and quality of the commodity proposed to be exported. Based on Surveyor report and only after the procured cargo reaches the port of shipment in the custody of Cargo Handling Agent (CHA), who issues a "Trust Deed" in favour of trading PSU for the 100 per cent cargo, trading PSU releases finance to the associate. Associate ships the procured cargo and submits the documents to trading PSU for negotiation through Bank, in case of LC and in case of DP terms of payment the documents are sent to overseas buyers for collection through the Bank of trading PSU. On receipt of payment from foreign buyers in the account of trading PSU, the trading PSU, after adjusting its trading margin, advance made to associate, Bank charges and applicable interest etc. releases the balance amount to associate.

4.1.2.2 Export of maize, sugar and other agricultural commodities

STC extended pre-shipment credit for export of agricultural commodities by M/s. Mehak Feeds Industry [now Mehak Overseas Private Limited (MOPL)] during the period 2006-07 to 2009-10. However, due to backing out by foreign buyers, non-acceptance of cargo on account of fall in international prices, demurrage charges at the destination port, etc. STC/MOPL could not recover the dues. Resultantly, an amount of ₹ 44.59 crore was outstanding as on October 2010 against MOPL. Subsequently (October 2010) STC again extended financial support to MOPL for export of maize. But in this trade also, STC could not recover the dues of ₹ 22.03 crore from MOPL. Physical verification of Indian Yellow Maize stocks procured by MOPL for export and kept in godowns at Kakinada, Kolkata, Nasik and Navi Mumbai, conducted by STC in March/April 2013, revealed that no stock was available in the godowns.

Audit observed that though MOPL was a persistent defaulter, STC extended pre-shipment credit beyond October 2010. Resultantly, ₹ 22.03 crore was added to recoverable from MOPL. Though STC was entitled to encash the Post Dated Cheques (PDCs) in the event of default by MOPL, STC failed to encash the available PDCs on the date of default. Subsequently the PDCs were dishonoured on presentation in February 2013. As a result, STC could not recover outstanding dues of ₹ 91.51 crore (including interest of ₹ 15.65 crore and overdue commission charged by SBI ₹ 9.24 crore) from MOPL (March 2014). The associate was absconding (since July 2012).

Management in its reply (November 2013) accepted the facts and stated that legal action for recovery of dues was initiated by the branch and provisions in the accounts for doubtful debts had been made during 2013-14 for ₹ 91.51 crore.

4.1.2.3 Import of Canadian Yellow Peas (CYP)

STC entered into an agreement (June 2010) and imported 27500 MT of CYP on behalf of M/s Prime Impex Limited (PIL) which was stored at different sheds of Kolkata Port Trust. STC arranged buyers credit and payment of ₹ 36.72 crore was made to foreign supplier. As PIL did not make the payment, STC decided to invoke risk and cost clause and conducted physical verification of stock on 17 January 2011 in the presence of PIL's representatives, CHA and Surveyor and full stock was found available in different sheds. STC invited tenders and allotted 2500 MTs to bidders but Cargo Handling Agent (CHA) was not effecting the delivery. STC on 03 March 2011 learnt that the stocks were lifted by the associate in connivance with the CHA and the surveyor.

Audit observed that as per the agreement the goods were to remain hypothecated and pledged to STC, till final payment by PIL. Further, clause 5 of the agreement provided that CHA was to be appointed by STC. However, in contravention of the agreement, CHA was appointed by PIL; resultantly PIL in connivance with CHA lifted the stock unauthorizedly. Further, STC neither obtained any security against the amount financed nor took steps to secure the pledged stock safely. Against the outstanding dues of ₹ 36.01 crore (March 2011), STC could recover only ₹ 2.34 crore by encashing security deposit/ available credit balance and balance recoverable from the associate was ₹ 33.67 crore, which was written off by STC (May 2012).

Management accepted (March 2014) the audit observation and stated that FIR has been lodged against associate, CHA, surveyor and others for unauthorized lifting of stock. It has also initiated arbitration and legal action and in order to avoid such situations in the future, steps are being taken to revise the modus operandi.

4.1.2.4 Export of rice bran

STC entered into three agreements on 25-9-2007, 27-11-2007 and 5-12-2007 with M/s. Saraf Impex Private Limited (SIPL) for financing export of aggregate quantity of 12000 MTs of deoiled rice bran from October 2007 to February 2008. Against the total quantity procured, SIPL exported 5970 MTs and defaulted in exporting balance quantity of 6430 MT (March 2010). The balance quantity valuing ₹ 3.05 crore was stored by STC in a private warehouse. STC assigned the work of assessing the stock and its quality to a Surveyor, whose survey report (December 2010) revealed that stock was available only to the extent of 985.8 MT against 6430 MT reported previously, the differential stock of 5444.20 MT having been lifted by SIPL without the knowledge of STC. Further, post dated cheques (PDCs) furnished by SIPL were dishonoured for which a legal case was filed by STC. Audit observed that STC neither obtained any security against the amount financed nor was it able to secure the pledged stock. STC made a provision (June 2013) of ₹ 3.49 crore in the accounts against the amount recoverable from SIPL.

Management replied (March 2014) that it filed a legal case against SIPL and on the basis of court order an amount of ₹ 78 lakh was recovered (February 2014) but thereafter the party stopped making payment. It was further stated that the company was in the process of filing arbitration case against SIPL to recover the balance dues of ₹ 2.71 crore.

The reply is not tenable as the management failed to protect its financial interest and could not recover the balance dues of ₹ 2.71 crore even after lapse of more than four years and the recovery of which has become doubtful.

4.1.2.5 Import of CYP in PEC Limited

PEC entered into five agreements between 8 September 2008 and 3 September 2010 with M/s Prime Impex Limited (PIL) for import of 102500 MT of CYP and opened Letters of Credit (LCs) during September 2008 to September 2010. As per the agreements, the goods, at the risk and cost of Associate were to be pledged to PEC and were to be released only on authorization/written instructions of PEC. An independent surveyor was also to be appointed by PEC who was to be present at the time of each release. Against the total imported quantity of 102100 MTs, as per surveyor report dated 21 February 2011, PIL lifted only 34395 MTs. As PEC observed shortages in the last week of February 2011 a physical verification was conducted on 4 March 2011 which revealed that almost the entire stock leaving a balance of 7975.314 MT had been unauthorisedly removed by PIL. CHA admitted that they released the balance quantity merely on the verbal assurance/ confirmation by PIL that they had obtained the de-pledge order from PEC.

Audit observed that associate was required to lift the material before the expiry of usance[1] period, failing which PEC was at liberty to sell the goods at the risk and cost of the associate. However, though there was delay in lifting the stock by PIL, PEC failed to invoke the said clause. PEC also failed to ensure day to day supervision and monitoring of the pledged stock and PIL in connivance with the CHA and Surveyor lifted the stock of 59729.686 MT of CYP. Resultantly recovery of ₹ 121.33[2] crore (including overdue interest) (November 2013) became doubtful. Moreover, the claim lodged had also been denied by the insurance company on the ground that the cargo was removed unauthorizedly by the party.

Management replied (March 2014) that all the relevant files had been seized and after investigation the CBI-EOW Kolkata filed charge sheet in CBI court at Kolkata. PEC had also written off the losses of ₹ 81.73 crore.

4.1.3 Acceptance of security in variance with accepted trade practices

4.1.3.1 Allowing lifting of material on the basis of PDCs

PEC sold 118519 MT of imported wheat to M/s. Sree Laxmi Trading Corporation (SLTC) on High Sea Sales[3] basis (agreement entered between September 2006 and January 2007) which was pledged in favour of PEC. Release of the pledged stocks to associate was to be done against 100 *per cent* payment of cost of goods, PEC's service charges and other expenses as per clause 16 of the Associateship Agreement. However, the lifting of wheat was very slow and 67343.801 MT of stock was lying with PEC (21 January 2010). Audit observed that contrary to the aforesaid clause, PEC within one day of request by SLTC (30 March 2010), permitted (31 March 2010) to lift the balance stock valuing ₹ 61.63 crore against PDCs of ₹ 51.00 crore. PEC issued delivery orders on 31 March 2010 against which SLTC took the delivery of entire material. Though four other cheques issued by the associate of ₹ 2 crore each dated 30 March 2010 were available but PEC could not present these cheques before issuing delivery orders on 31 March 2010 and subsequently on presentation between 20 April 2010 and 28 September 2010 all the four cheques were dishonoured. The PDCs of ₹ 51 crore were also dishonored by the bank on presentation in June 2011 as the bank account of the party was closed on 1 November 2010. Thus, failure to ensure the recovery of cost before issuing delivery order led to a situation where recovery of ₹ 58.35 crore became doubtful (March 2014).

Management replied (March 2014) that it had initiated legal proceedings against SLTC and also invoked arbitration clause with Indian Arbitration Council.

4.1.3.2 Non-recovery of interest and service charges

PEC entered (17 November 2009) into an agreement with M/s PBR Impex for procurement of paddy with a financial assistance limit of ₹ 50 crore. The associate had to

[1] Period for which buyers credit is arranged, usually 120 days.
[2] Booked in accounts only ₹ 81.73 crore.
[3] High Seas Sales (HSS) is a sale carried out by the carrier document consignee to another buyer while the goods are yet on high seas or after their dispatch from the port of origin and before their arrival at the port of destination. HSS agreement should be signed after dispatch of goods from origin and prior to their arrival at destination port.

pay interest @ 10.5 *per cent* on the amount financed and the applicable service charges. The financial limit was enhanced (December 2009) to ₹ 70 crore. PEC provided financial assistance to the tune of ₹ 72.70 crore (November 2009 to February 2010) to M/s PBR towards procurement of 32761.65 MT of paddy. Though the entire stock was to be lifted by December 2010 but even after lapse of more than three years the party lifted 32523.40 MT up to March 2014. Instead of recovering interest and service charges on the amount financed to the party in terms of the agreement, PEC decided to raise the claim on these accounts only after realization of principal amount. Resultantly, an amount of ₹ 13.13 crore was recoverable from M/s PBR, as on 31 March 2014, against which stock of only ₹ 0.64 crore was available with PEC.

Management replied (March 2014) that Company was holding un-lifted stock valuing ₹ 0.64 crore and PDCs for more than the outstanding amount towards interest cost.

The reply is not tenable as the PDCs available against the security of balance recoverable amount were later on dishonoured in August/September 2014, for which PEC has initiated legal action. As no security is available with the Company, chances of realisation of dues of ₹ 12.49 crore (March 2014) have become doubtful.

4.1.3.3 Export of sugar in STC

STC entered (March 2007) into back-to-back contract with M/s PKS Limited, Kolkata for export of sugar to various countries. As per agreement, STC made 100 *per cent* payments towards cost of sugar (rake-wise) to Sugar Mills after getting 15 *per cent* payment from M/s PKS Limited and its request for release of payment to specific sugar mill. After exporting the consignment and receipt of export proceeds, STC was to release balance payment to PKS after recovering its trade margin, interest and other bank charges. PKS deposited post dated cheques (PDCs) of 110 *per cent* value of export order plus interest against amount financed by STC which could be encashed by STC, in case of any failure on the part of M/s PKS. Due to drop in international prices, buyers did not lift the goods at the port of discharge in time and resultantly PKS sold the consignment at discounted rates. STC had financed ₹ 182.04 crore till 2009-10 to M/s PKS against which STC could recover ₹ 164.33 crore leaving balance outstanding of ₹ 20.89 crore (including interest up to 31 March 2011). Further, cheques presented by STC for payment were dishonoured by banks.

Besides initiating legal action under Negotiable Instruments Act, STC invoked Personal and Corporate Guarantees furnished by PKS. As a result of legal action, Kolkata High Court appointed a Receiver who took possession of about 1.07 lakh MT Iron Ore stock lying at Gua, Jharkhand belonging to PKS Limited, which was hypothecated by M/s PKS to STC, in lieu of outstandings of STC, and covered the outstanding amount.

Audit observed that as per agreement payment of consignment was to be made by foreign buyer on sight LC basis and funds disbursed by STC were to be liquidated by PKS within 30 days from released date. However in the instant case, though outstanding dues were of 2008-09 and default on the part of foreign buyer was clear, but STC failed to take timely action. The available PDCs were deposited only on 22 February 2011 and were dishonoured by the bank. As a result, the recovery of ₹ 20.89 crore became doubtful.

Management in its reply (April 2014) stated that it had initiated legal action under Section 138 of the Negotiable Instruments Act and also under Section 9 of Arbitration and Conciliation Act for recovery of outstanding dues. It had also invoked personal and corporate guarantee. Further, as per the directions of Kolkata High Court a receiver was appointed for possession of 1.07 lakh MT of iron ore stock of PKS and the matter was referred to Indian Council of Arbitration (ICA), Delhi, which was pending. STC had also written off in 2012-13 total dues of ₹ 20.89 crore outstanding against M/s PKS.

The reply is not tenable as the management while writing off of outstanding dues admitted the fact that it would be difficult to sell the iron ore stock due to numerous restrictions on export/movement of iron ore from mines. Thus, failure to take timely action as per the provisions of the agreement, resulted in loss of ₹ 20.89 crore to STC.

4.1.4 Non-lifting of stock

4.1.4.1 Import of crude palm oil

PEC imported (July 2012) 2999.766 MT of Crude Palm Oil (CPO) for M/s Mihijam Vanaspati Limited (MVL). MVL had to lift the CPO within usance period of 180 days. Though usance period was extended twice for 90 days each and lifting period was extended for 60 days but still MVL could not lift the entire material and a balance of 2385.766 MTs remained in stock (July 2013). The surveyor's report (21 October 2013) revealed that stock of only 2333.341 MT was available. PEC also noticed (July 2013) that due to prolonged storage the stock might not be fit for human consumption. The PDCs of ₹ 5.47 crore were dishonoured (September 2013). Audit observed that PEC failed to secure its financial interest for ₹ 15.45 crore and was also at risk of losing the pledged stock due to constant deterioration of the quality. Further, PEC failed to reconcile the difference of 52.425 MTs in the stock of CPO.

Management replied (June 2014) that PEC is taking all necessary steps to safeguard its interests and was also exploring opportunity to auction the cargo at the right time. PEC has also filed a court case against MVL for dishonour of cheque.

4.1.4.2 Blocking of funds due to non-lifting of pulses

M/s. R. Piyarelall Import & Export Limited (RPIEL) associated regularly with PEC for import of agro products and on 31 March 2010 there were outstanding dues of ₹ 114.53 crore against the associate. Despite this, PEC again entered into agreements with RPIEL for import of pulses between August 2010 and February 2011. Audit observed that neither did the associate lift the entire stock nor did he pay the entire cost prior to payment of foreign LCs. PEC, however, failed to sell the stock at the risk and cost of the associate to recover the dues.

Management replied (June 2014) that the party was in financial crunch and had requested time for settling the dues and was liquidating the stock in lots on daily basis. RPIEL had also provided documents for mortgaging a property valuing ₹ 35 crore towards collateral security for outstanding dues.

However, the fact remains that PEC failed to take action as per the agreement even after more than three years of default which led to blocking of funds of ₹ 80.74 crore (February 2013).

4.1.4.3 Supply of pulses to Govt. of West Bengal

On the request (July 2009 and August 2009) of Department of Food and Supplies (DoFS), Government of West Bengal, MMTC offered (12 August 2009) to supply 5000 MTs of red lentils and 1000 MT of moong beans at a value of ₹ 25.72 crore and ₹ 5.03 crore respectively. DoFS confirmed the offer (13 August 2009) and assured to submit bank guarantee within 1-2 days. MMTC informed (16 September 2009) DoFS that the entire consignment of moong beans had sailed and the consignment of red lentils was also expected to be shipped shortly and requested to release bank guarantees. However, DoFS did not provide the BG and vide letter dated 24 September 2009 informed MMTC of their decision to cancel the import of pulses.

Audit observed that, though execution of contract by MMTC was subject to 100 *per cent* financial bank guarantee from DoFS, but it executed the contract without ensuring the receipt of bank guarantees. Subsequently, the material was sold in open market at a loss of ₹ 11.37 crore.

Management confirmed (March 2014) the facts and figures contained in the audit observation.

4.1.4.4 Delay in disposal of cotton waste

MMTC entered into an MOU (November 2009) with M/s Suchetan Export Private Limited (SEPL) for procurement of cotton waste from local suppliers for 100 *per cent* back-to-back sale. Accordingly, MMTC procured 1042.101 MT of cotton waste in November 2009 and 102.059 MT in the year 2010-11. As per terms of the MOU, the cotton waste was to be lifted within 120 days by making payment to MMTC. As SEPL failed to liquidate the entire stock within the stipulated period, the balance stock of 607.20 MT (July 2012), was sold at risk and cost of SEPL in August and November 2012, i.e., after a delay of more than two years. The amount recoverable from SEPL on account of price differential and interest cost after adjusting available EMD was ₹ 1.33 crore.

Audit observed that delay in decision to invoke the 'risk and cost' sale clause and failure to ensure adequate financial security resulted in non-recovery of ₹ 1.33 crore.

Management in its reply (July 2014) stated that MMTC had PDCs of ₹ 1.50 crore but the same were dishonoured on presentation for which a criminal case was filed against the party.

4.1.4.5 Loss due to sale on risk and cost basis

MMTC entered into contracts (2010-11) for sale of pulses (Lemon Toor and Toor Malawi) on ex-godown basis with three associates. Though all three associates did not lift the quantity within the prescribed time limit, MMTC did not obtain additional EMD to cover mark-to-market losses as per the agreements and sold the un-lifted quantity on risk and cost basis, resulting in loss of ₹ 3.40[1] crore (July 2014).

Management accepted (July 2014) the facts and stated that EMD of all the three parties were forfeited and arbitration proceeding initiated for recovery of dues of ₹ 3.40 crore.

4.1.4.6 Non-lifting of imported Yellow Peas in STC

STC imported pulses (2008-09 and 2009-10) on behalf of M/s R. Piyarelall Import & Export Limited (RPIEL). The stock was pledged to STC and the same was to be lifted on cash and carry basis within a period of 120 days. RPIEL was slow in lifting of the imported stock since beginning and also not co-operating in physical verification of stock. Ultimately, RPIEL failed to lift 21927.59 MT Yellow Peas (September 2013). In spite of this, STC did not take action to dispose of the material at the risk and cost of the party. The cheques given by RPIEL were also dishonoured on presentation (December 2012). Resultantly, an amount of ₹ 131.61 crore was outstanding against RPIEL (February 2014), out of which STC had already written off ₹ 75.26 crore.

Management replied (March 2014) that legal action had been initiated against RPEIL under Section 138 of Negotiable Instrument Act to recover the outstanding dues.

4.1.5 Unfruitful results of decree passed by Arbitration/Courts

A review of records relating to arbitration and court cases in MMTC revealed that in three[2] cases even though the arbitration awards/High Court orders were in favour of MMTC but as the parties were either declared sick or filed an appeal against arbitration award, MMTC could not realize its dues of ₹ 12.63 crore[3].

Management in its reply (July 2014) stated that the claims in two cases (M/s Varuna Agro Proteins and M/s Surya Agro) were pending before the official liquidator, while in one case (M/s Priyanka Overseas Limited) the matter was pending before the Delhi High Court.

Reply of the management is factual and as the matter is pending before liquidator/court, the chance of recovery of dues of ₹ 12.63 crore is remote. Failure to recover dues inspite of court orders only buttresses the audit point of highly risky nature of activity.

Conclusion

Trade in agro commodities by the three CPSEs highlights mismanagement, possible fraud, negligence and absence of financial prudence. As the entire activity of identifying supplier, buyer, storage, arranging for shipment, etc. was performed by the associates which are private parties, it is a moot point whether these would qualify to be termed as 'trading activity'. In fact, the three CPSEs failed to assess the credit worthiness of associates and have been involved in providing finance to

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[1] *M/s Badri - ₹1.12 crore, M/s R. Piyarelall - ₹0.93 crore and M/s Balaji - ₹1.35 crore*
[2] *M/s Varuna Agro Proteins, M/s Surya Agro Oil and M/s Priyanka Overseas Limited.*
[3] *M/s Varuna Agro Proteins ₹7.36 crore, M/s Surya Agro Oil ₹3.37 crore and M/s Priyanka Overseas Limited ₹1.90 crore*

highly risky ventures without adequate safeguards. Resultantly, they suffered losses because of inadequate security against the amount financed and they were also not able to secure the pledged stock safely. Inordinate delays in disposal of un-lifted material and in taking decision to invoke the 'risk sale' clause as also release of stock on the basis of PDCs indicated culpability on the part of the Management. Though each CPSE has Government nominees on the Board of Directors, nothing came to notice to show that they had effectively protected the interests of the Government by insisting on adequate safeguards.

Ministry of Commerce & Industry in its reply (September 2014) stated that as the issues related to commercial activities of CPSEs, they had no further comments in the matter.

Neelachal Ispat Nigam Limited

4.2 Irregular payment of bonus

An irregular payment of bonus amounting to ₹ 7.03 crore was made to the employees in deviation from the approved Annual Performance Linked Reward Scheme of the Company

Neelachal Ispat Nigam Limited (Company) introduced (September 2006) an Annual Performance Linked Reward Scheme (APLRS) for its employees for a period of three years beginning 2005-06 which was extended thereafter. The scheme replaced the then existing system of payment of ex-gratia in lieu of annual bonus and was based on fulfilment of targets with respect to the budgeted pig iron production, oven pushing and techno-economic factors for coke rate having weightages of 35 *per cent*, 35 *per cent* and 30 *per cent* respectively. The first two parameters were to have an earning potential only on achievement of at least 80 *per cent* performance. The amount payable per employee in a year depended on the sum total of earnings from the above three parameters multiplied by a profitability factor to be decided by the management based on net profit for the year. The total potential for payment under the scheme (including all the three parameters) on 100 *per cent* fulfilment was stipulated at ₹ 8000 per employee. The scheme also had an additional earning potential of one *per cent* for every five *per cent* increase in performance over 100 *per cent* performance level for all three parameters.

Audit examination revealed that in spite of incurring loss for 2010-11 and 2012-13 when related profitability factor became 'zero', the Company disbursed bonus amounting to ₹ 4.52 crore. Further, computation of bonus for 2008-09 to 2011-12 included earnings from the first two parameters though the minimum required performance level of 80 *per cent* was not achieved. The computation for 2006-07 also included earnings of more than 100 *per cent* from its third parameter, though the scheme did not contemplate any such earning potential for individual parameters. This resulted in an excess payment of bonus amounting to ₹ 2.51 crore for 2006-07 to 2011-12 (except 2010-11).

It was also observed that payment of bonus relating to 2006-07 to 2012-13 exceeded the stipulated amount of ₹ 8000 per employee, though 100 *per cent* performance level was never achieved for all the three parameters. Further, the scheme lacked clarity in determining the profitability factor with respect to the net profit earned each year which was completely unrelated to the level of net profit earned.

The Company stated (October 2014) that the profitability factor was decided in consideration of profit earned in the previous year, expectation of employees and practices followed in neighbouring industries. It was also stated that under the prevailing scheme, in the year the Company incurred losses, the profitability factor was 'one' and hence employees were entitled to bonus payment for the components under production and productivity only. Also, considering general expectations of the employees, prevailing payment to employees during Puja time in neighbouring industries as well as in SAIL and in other units of public sector, relaxation and deviations were considered.

The above contention is not acceptable in view of the fact that in the years the company incurred losses, the profitability factor was 'zero', and not 'one', as claimed by the management. As such, there should not have been any earnings under the scheme in the years when losses were incurred. Further, other factors like expectation of the employees were beyond the scope of the approved scheme. Moreover, Department of Public Enterprises had stopped (November 1997) payment of reward to employees of CPSEs which was beyond the scope of any approved scheme.

Thus, the Company made an irregular payment of bonus amounting to ₹ 7.03 crore• in deviation from its approved Annual Performance Linked Reward Scheme.

The matter was reported to the Ministry (November 2014); their reply was awaited (March 2015).

PEC Limited, MMTC Limited and the State Trading Corporation of India Limited

4.3 Non-compliance to the directions of Government of India for export of rice to African Countries

PEC Limited, MMTC Limited and The State Trading Corporation of India Limited, while exporting rice to African Countries, failed to get the directions of Government of India complied with by their 'Associates'; resultantly, associates directly negotiated with foreign countries and earned huge profits, which otherwise could have been earned by these CPSEs.

Ministry of Commerce & Industry (MoCI), Department of Commerce allowed export of non-basmati rice to the African countries, namely Comoros and Mauritius in January 2008 through MMTC Limited, Republic of Sierra Leone in March 2008 through PEC Limited, and Madagascar and Ghana in January 2008 and October 2008, respectively, through The State Trading Corporation of India Limited (STC). Export of rice was subject to conditions stipulated by Director General of Foreign Trade (DGFT) notifications dated 24-01-2008 that the CPSEs would (i) undertake the exports in consultation with Department of Food and Public Distribution (DFPD); (ii) buy rice from the market from those rice mills who had already delivered levy rice to STC/State Agencies, and (iii) ensure that the price paid for procurement of rice was as close to the MSP/levy price as possible so as not to disturb the procurement operations within the country.

• *₹4.52 crore + ₹2.51 crore*

Audit observed that the CPSEs did not adhere to the aforesaid conditions. The 'Associates' were also selected in a non transparent manner without inviting bids[1] and in most of the cases governments of African countries nominated Indian suppliers to carry out the export of rice. The 'Associates' (suppliers) made direct negotiations with the State agencies/buyers in these countries and fixed export price of the rice ranging between USD 430 PMT to USD 684 PMT against the Minimum Support Price (MSP)[2] of rice USD 329.52 PMT as may be seen from the details given below:

Name of PSU	**Country exported to**	**Quantity awarded (in MTs)**	**Name of Associate**	**Quantity exported (in MT)**	**Export Rate/MT (in USD)**	**PSU's Margin/MT (in USD)**	**Margin retained by Associate in excess of MSP of rice USD 329.52/MT (in USD)**
PEC	Republic of Sierra Leone	40000	Shivnath Rai Harnarain Ltd. (SRHL)	22047.5	430	5	95.48
				17952.5	470	5	135.48
MMTC	Mauritius	9000	LMJ International Limited.	9000	455	87	38.48
	Comoros	25000	SRHL	25000	495	14	Contract cancelled.
			SRHL	3100	640	10	300.48
			Emmsons International Limited.	2700	640	10	300.48
			Amira Foods India Ltd. (AFIL)	2700	640	10	300.48
STC	Ghana	15000	AFIL	15000	684	10.26	344.22
	Madagascar	50000	Jayamjay Export	50000	410-420	1.5 *per cent*	Contract cancelled.
			SRHL	45000	450	6.75	113.73
			SRHL	5000	458	6.87	121.61

Thus, while the associates enjoyed profit margins in the range of USD 38.48 PMT to USD 344.22 PMT, the CPSEs earned a meagre margin ranging from USD 5-10 PMT (except in case of export made by MMTC to Mauritius where it was USD 87/MT). Further, though the rice was to be procured from those rice mills which had already delivered levy rice to STC/State Agencies, the CPSEs neither ensured that procurement was made from such mills nor obtained any certificate from the associates, except in the case of export to Ghana.

[1] ***Except in case of export made by MMTC to Mauritius***

[2] ***Rate of rice procured by 'Associates' in 2008-09 was not available. As such the rate of rice has been derived on the basis of rates of MSP of paddy and other charges for Custom Milled Rice delivered to the Food Corporation of India for Central Pool during the Kharif Marketing Season 2008-09 in respect of Government of Uttar Pradesh and its agencies vide Government of India, Department of Food and Public Distribution circular No. 192(23)/2008-FC.A/Cs dated 4 November 2008, as under: Rate of Raw Rice (Grade-A) = ₹ 1512.84/qtl. or ₹ 15128.40/MT or USD 329.52/MT (considering 1 USD=₹ 45.91)***

CPSEs also did not obtain approval of the respective Boards of Directors before execution of rice export though the ceiling of contract in all cases had exceeded the limit prescribed in their Delegation of Powers (DoP).

CPSEs replied (MMTC: January 2014, STC: May 2014 and PEC: June 2014) as under:

- Associates were nominated by the concerned foreign governments which also settled the price and commercial terms with them directly. The associates procured the rice from those mills that had already discharged their levy obligations and exports were made on 'back to back' basis. Also, no funds of the CPSEs were involved and there was no loss in these transactions.
- The export price was summation of pre-shipment activities, ocean freight, etc. and was considered appropriate due to risky nature of trade with African countries.
- The trade transactions were approved as per the Delegation of Powers by the Committee of Management/Directors (COM/COD) comprising CMD and all functional Directors. Moreover, the minutes of SPCOD/FMCOD ♦ were submitted to Board on quarterly basis.

Ministry of Commerce & Industry (MoCI) while endorsing replies of the three CPSEs stated (September 2014) that after examining the records of export of rice to African countries, three private sector firms involved in these transactions were blacklisted and debarred from all further transactions with CPSEs of the Department of Commerce for a period of four years. An advisory was also issued to other Ministries/Departments to abstain from doing business with these firms. Further, on the advice of Central Vigilance Commission, departmental enquiries were held by three separate Additional Secretary level officers of the MoCI. On the basis of the enquiry reports, the Disciplinary Authority awarded punishment to nine officials of the CPSEs. MoCI further stated that to prevent recurrence of such a situation in future, remedial action has been taken by the Ministry through issue of detailed guidelines.

Reply given by CPSEs is not acceptable as they had not adhered to the conditions for export of rice stipulated by DGFT. Impact of guidelines of the Ministry, to prevent recurrence of such incidents will be assessed in future audits.

The State Trading Corporation of India Limited

4.4 Non recovery of dues due to operational lapses in Post Shipment Finance

Lapses in implementation of post shipment finance scheme led to non-recovery of dues of ₹ 446.29 crore. Discounting of export documents of dubious legality conceded by EXIM Bank, were also noticed besides infructuous expenditure on insurance premium of ₹ 17.07 crore.

♦ *SPCOD – Sale Purchase Committee of Directors; FMCOD – Functional Management Committee of Directors*

4.4.1 Credit Linked Insurance Scheme

4.4.1.1 The Committee of Management (COM)[1] of the State Trading Corporation of India Limited (STC) approved (September 2005), post shipment finance (PSF)[2] under Credit Linked Insurance Scheme (CLIS) for export and import operations. As per the approved scheme, the Associate was to export the goods on STC's account and submit export documents, which were to be routed through the Lender Bank i.e. HSBC for discounting[3]. HSBC was not to have any recourse against STC up to a loss of ₹ 50 crore per annum. The Associate would be paid on 'Document against Acceptance' (DA)[4] basis and payment from foreign buyer was expected to be realised within 90 to 180 days. The terms and conditions of the trade were to be as per 'Business Credit Shield' Policy of M/s New India Assurance Company (NIA) (May 2005).

4.4.1.2 While Mumbai branch of STC had initially proposed to source post shipment finance (PSF) from HSBC, STC also considered subsequent proposals from Export-Import Bank of India (EXIM Bank) and ABN AMRO and selected EXIM Bank as its Lender Bank through an agreement in January 2006, for PSF for agricultural commodities and other products, with a credit limit of USD 50 million. EXIM Bank was to discount export bills at 90 *per cent* of invoice value. Repayment was to be made within 180 days from the date of disbursement or out of export proceeds, whichever was earlier.

In a significant departure from the arrangement offered by HSBC as indicated in para 1.1 above, STC was responsible for all operational risks under insurance policy and EXIM Bank had full recourse to STC. Thus loss due to defaults by foreign buyers in repayment of dues not covered by insurance was to be borne by STC. Funding was restricted to transactions covered under insurance policy and buyer's limit as specified therein.

4.4.1.3 STC took credit insurance policy (November 2005) from NIA up to November 2006 under which NIA was to decide revolving credit limit of foreign buyers. Fresh receivables would remain uninsured in case of debts older than 60 days from the foreign buyer. STC was to promptly inform NIA when a debt was partially or wholly unpaid beyond 30 days and furnish details of buyers making late payments by more than 30 days. Maximum liability of NIA was 30 times the premium paid and maximum term of payment was 180 days from the invoice date. Subsequently, STC took (June 2006) another credit insurance policy from ICICI Lombard up to June 2007, with terms and conditions similar to NIA policy, except that the maximum liability was enhanced to 50 times premium paid.

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[1] Committee of Management comprised of Chairman & Managing Director, all functional Directors and Executive Director (Vigilance).

[2] Post shipment finance is a kind of loan provided by a financial institution to an exporter or seller against a shipment that has already been made. PSF is granted from the date of extending the credit after shipment of the goods to the stipulated date of realisation of the export proceeds.

[3] Cashing or trading a bill of exchange at less than its par value and before its maturity date. The Bank then presents the Bill to the borrower's customer on the due date of the Bill and collects the total amount.

[4] An arrangement in which an exporter instructs a bank to hand over shipping and title documents to an importer, only if the importer accepts the accompanying bill of exchange or draft by signing it.

4.4.1.4 As per contractual agreements executed by STC (February 2006 to July 2009) with its 'Associates', out of 90 *per cent* discounted bill value received from EXIM Bank, STC would retain 1.5 *per cent* as trading margin and 5 *per cent* towards incidentals. While 83.5 *per cent* of invoice value was to be released against post dated cheques (PDCs) obtained from the 'Associates', the remaining 10 *per cent* was to be released after receipt of final payment from foreign buyers by Lender Bank and its release to STC.

Exports made under CLIS by STC during 2005-06 to 2009-10 amounted to ₹ 1565.13 crore. STC did not realize its dues fully from the foreign buyers. Resultantly, EXIM Bank converted (December 2010) outstanding dues of ₹ 397.17 crore (including interest) into Working Capital Term Loan (WCTL).

4.4.2 Audit findings

Audit reviewed PSF transactions during 2005-06 to 2009-10, relating to eight[♣] Associates with outstanding dues amounting to ₹ 347.70 crore (excluding interest on overdue receivable). The information/data on the basis of which the audit findings have been arrived at was compiled by audit and was referred to STC for confirmation in October 2013. Though STC confirmed (December 2013) the financial data, it expressed its inability to confirm the outstanding/recoverable amounts against exports under CLIS. However, as on 31 March 2014, STC had made a provision of ₹ 446.29 crore against net receivables under CLIS.

Lapses noticed in Audit are discussed in the succeeding paragraphs.

4.4.2.1 Failure to safeguard interest of STC

Agreements entered into with the Associates did not include any provision to obtain Bank Guarantees etc., for safeguarding the financial interests of STC. Even in agreements where a few safeguards were provided, the same were not enforced. Illustratively, a clause for recovery of PSF disbursed to Associates in case of buyers' default in making remittances included in agreements with M/s Masumi and M/s Ushma was not enforced and a similar clause was missing in agreements with other Associates.

Further, as per agreements with Associates, payment from foreign buyers was required to be remitted to STC within 180 days and 90/120 days respectively from the bill of lading/airway bill date. While the default in payment by foreign buyers was seen in 71.43 *per cent* transactions in 2005-06, it was more than 99 *per cent* in transactions entered into during 2006-07 to 2009-10. Though default in making payments by foreign buyers was a major risk, STC did not enter into any agreement with the foreign buyers to safeguard its financial interests.

STC stated (September 2014) that it had safeguarded its interests by way of legal provisions in the agreements which enabled it to take legal action against defaulter

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[♣] M/s: (i) Masumi ₹ 45.70 crore, (ii) Bonito Impex ₹ 85.02 crore, (iii) Ushma ₹ 157.74 crore, (iv) Vidyut ₹ 3.97 crore, (v) Ganesh ₹ 5.00 crore, (vi) Indo Bonito ₹ 1.80 crore, (vii) Shalimar ₹ 22.00 crore and (viii) Space ₹ 26.47 crore (in case of M/s. Space, PSF was obtained from EXIM Bank as well as Standard Chartered Bank).

Associates including M/s Masumi and M/s Ushma. STC also justified not entering into agreement with foreign buyers on the ground that export orders were received from the buyers, which were backed by agreements with STC's Associates.

The reply does not consider the fact that legal action is resorted to as the last recourse and is a long and cumbersome process with uncertain outcome. The point remains that safeguards, such as Bank Guarantees etc, which would have precluded legal action were not part of the agreements.

4.4.2.2 Acceptance of full risk by STC by deviating from approved Scheme

As per CLIS, Lender Bank (HSBC) would not have recourse against STC in case of default by foreign buyers. However, deviating from the approved scheme, STC selected EXIM Bank as the Lender Bank primarily to avail credit facility of USD 300 million and assumed liability of full recourse but did not devise a mechanism to safeguard its financial interests against default by the foreign buyers.

STC stated (September 2014) that EXIM Bank was preferred as it was under the same administrative Ministry. It further stated that business was carried out through EXIM Bank and not with HSBC since as per agreement, entire responsibility for repatriation of export proceeds was of the Associates.

The reply ignores the fact that in case of default by foreign buyer/Associate, STC was liable to settle the liability of Lender Bank.

4.4.2.3 Failure to comply with the requirements of insurance policies

(a) In respect of two foreign buyers (M/s Mohammed Hamza and M/s Naif Kingdom) of M/s Masumi, though no credit limit was sanctioned by insurance companies, STC went ahead and traded with them.

STC replied (September 2014) that PSF was availed from Standard Chartered Bank (SCB) in the case of M/s Masumi’s foreign buyers whose limits were sanctioned by insurance companies.

The reply is not acceptable as the list of buyers in the agreement with SCB (June 2008) indicating credit limits approved by SCB, did not include the said two parties.

(b) In order to safeguard financial interests of STC, outstanding dues of foreign buyers should not have been allowed to exceed the credit limits sanctioned by insurance companies. Audit scrutiny revealed that out of total 42 foreign buyers to whom exports were made, in respect of 25 buyers, the outstanding dues exceeded the sanctioned limit. This indicated ineffective monitoring of CLIS by STC.

STC stated (September 2014) that they had stopped further transactions with overseas buyers on noticing the same. The reply does not deny that there was weakness in monitoring in STC.

(c) STC failed to comply with the conditions in the insurance policies designed to control default in payment by foreign buyers as shown in Tables 1 & 2:

Table 1: Non-compliance with terms of insurance policy with NIA

Details of Transactions	Policy-1	Policy-2	Policy-3
Total Transactions	**33**	**71**	**49**
Less: Records relating to transactions not available/provided by STC	7	Nil	Nil
Less: Cases where date on which payment was to be received from foreign supplier is not available with STC	Nil	17	07
Transactions for which records were available	**26**	**54**	**42**
Transactions with delayed payments by buyers	25	52	42
Transactions which were not covered by insurance as debt due for more than 60 days were not reported to NIA	11	24	31
Transactions where STC failed to comply with condition of notifying NIA of non-payment by buyer beyond 30 days	15	37	39
Transactions with default exceeding six months 'Protracted Default'	Nil	Nil	15
Transactions where STC failed to comply with condition of notifying consistent non-payment beyond 30 days by the buyer in the last 12 months	13	43	39

Table 2: Non-compliance with terms of insurance policy with ICICI Lombard

Details of Transactions	Policy-1	Policy-2	Policy-3 & 4
Total Transactions	394	413	23
Less: Cases where date on which payment was to be received from foreign supplier is not available with STC	100	350	23
Transactions for which records are available	**294**	**63**	**0**
Transactions with delayed payments by buyers	292	63	0
Transactions with default exceeding four months 'Protracted Default'	128	21	0
Transactions where STC failed to comply with condition of notifying consistent non-payment by buyer with least possible delay	349	163	23

STC stated (September 2014) that departmental proceedings and CBI inquiries were going on against the delinquent officials.

4.4.2.4 Mismanagement of credit insurance policies

(a) STC had taken credit insurance policies from NIA and ICICI Lombard paying a total premium of ₹ 17.07 crore for the period November 2005 to February 2010. As per the terms and conditions of the policy, STC was required to file various declarations periodically, viz. insurable turnover and overdue payments, etc. However, due to failure in complying with these conditions, STC could not lodge the claims with the insurance companies. Further, insurance policy taken in February 2009 from NIA with Maximum Loss Liability (MLL) of ₹ 250 crore required quarterly payment of premium of ₹ 1.04 crore. STC did not pay the 4th instalment due in November 2009. Resultantly, the policy was rendered inoperative. Thus, the amount of insurance premium paid to NIA in the previous three instalments totalling to ₹ 3.13 crore[♥] was rendered wasteful.

Here also, STC stated (September 2014) that the departmental proceedings and CBI inquiries were ongoing against the delinquent officials.

(b) Insurance policies taken by STC restricted the loss recoverable by it to the Maximum Loss Level (MLL) i.e. 30-60 and 50 times of premium paid in case of NIA and ICICI Lombard, respectively. Though MLL had remained lower than the dues in default, no remedial measures were taken by STC to revise the insurance premium to increase MLL. This was in spite of the fact that as per agreement, the insurance premium was recoverable from the Associates.

STC stated (September 2014) that as MLL remained less than the loss recoverable from the insurance companies, it had initiated action against STC's officials responsible for the same. CBI enquiries were also on going.

4.4.2.5 Renewal of credit limit without assessment of its benefits

Recovery of dues from buyers was not satisfactory from the very first year of operation of CLIS, as there were delays/defaults in 102 out of 103 transactions as on 31 January 2007. Operational/ financial prudence required an analysis of transactions of the previous year before renewal of the credit, STC renewed the credit of USD 50 million from EXIM Bank in February 2007 without such analysis. In the above stated 102 cases where receipt of payment from buyers was delayed, no correspondence with EXIM Bank or with the insurance companies was available.

STC stated (September 2014) that buyers were making payments through EXIM Bank which was aware of the situation.

Reply does not explain how renewal of credit limits without assessment of performance of foreign buyers could be considered a prudent financial decision.

4.4.2.6 Discounting of export documents of dubious legality with EXIM Bank

Due to continued default in payment by foreign buyers, by 31 March 2009 the credit advanced by EXIM Bank, had to be graded as a 'Non Performing Asset' (NPA). In order to avoid NPA situation, STC submitted to EXIM Bank, photocopies of 28 invoices purportedly evidencing export of 'cut and polished' diamonds undertaken by M/s Ushma valuing USD 14.48 million. EXIM Bank discounted these bills and adjusted the amount against their dues. However, STC actually received only 18 shipping documents worth ₹ 73.64 crore after a long gap in May 2009. Again on 30 June 2009, to avoid NPA situation, STC submitted another batch of export documents evidencing export of 'cut and polished' diamonds by M/s Ushma, M/s Indo Bonito and M/s Masumi, which were discounted and adjusted by EXIM Bank against the dues towards credit under CLIS.

[♥] ***This is included in the total premium of ₹ 17.07 crore paid to insurance companies as mentioned in para 2.4(a).***

However, despite repeated demands by EXIM Bank, STC did not provide the Bills of Exchange duly accepted by respective foreign buyers.

Adjustment of CLIS overdues as mentioned above was questionable as the diamond export documents purportedly evidencing exports of ₹ 385.73 crore were of dubious legality as no buyers' acceptance of the Bills of Exchange was ever received in respect of the said export documents.

STC accepted (September 2014) that diamond shipping documents were submitted to EXIM Bank against which STC did not avail any credit from the latter. It further stated that departmental proceedings and CBI inquiries were on against their officials who had handled the jewellery, 'cut and polished' diamonds documents to EXIM Bank, without buyers' acceptance when transactions were on Documents against Acceptance (DA) payment terms.

4.4.2.7 Non formulation of guidelines

CLIS being a new business model required guidelines for its effective formulation and implementation which was not done. STC replied (September 2014) that business was carried out as per the drill/terms contained in the COM note and also agreement signed between STC and Associates.

Reply is not tenable as the COM note/agreements did not include any safeguards to protect financial interests of STC. The reply also contradicts the fact mentioned in the report given in June 2009 by a committee formed by STC to review CLIS, which stated that no drill/line of action was formulated for operations under the scheme.

4.4.2.8 Reply of Ministry of Commerce & Industry

Ministry endorsed (June 2014) the reply given by STC and also intimated that a criminal complaint was lodged with CBI, Mumbai and the matter was under investigation. CBI had registered cases against business Associates and their executives, insurance consultants and three officials of STC. Disciplinary action had also been initiated by STC against its seven officials.

Conclusion

STC was negligent in safeguarding its interests while entering into a new business scheme leading to huge losses. STC's failure to comply with the conditions of credit insurance policies rendered it unable to recover trade losses from insurance companies. The corporate office of STC camouflaged the outstanding dues by allowing adjustment thereof by EXIM Bank against shipping documents for jewellery/diamond export, the legitimacy of which was doubtful.

Lapses in the PSF scheme, brought out above, could have been rectified during the course of its implementation by undertaking a critical review and putting in place adequate safeguards, which would have avoided non-recovery of dues of ₹ 446.29 crore apart from infructuous expenditure of ₹ 17.07 crore on insurance premium.

The Ministry is advised to review and correct deficiencies in monitoring and control of business activities of STC by its Corporate Office/Board of Directors, without necessarily awaiting results of disciplinary action and CBI investigation.

STCL Limited

4.5 Unfruitful expenditure at Spices Park, Chhindwara, Madhya Pradesh

Unfruitful expenditure of ₹ 7.13 crore on establishment of Steam Sterilization Unit and Grinding and Packing Unit at Spices Park, Chhindwara, Madhya Pradesh

STCL Limited (Company), a Government of India Undertaking and subsidiary of The STC of India Limited, headquartered at Bangalore intended (March 2008) to establish a Steam Sterilization Unit (SSU) and Grinding and Packing Unit (GPU) at Spices Park, Chhindwara, Madhya Pradesh. These two units were to carry out the functions of cleaning, fumigation, grading, grinding, processing and packing of spices. The main objectives of setting up these two units was to ensure high quality of processed spices, reduce use of pesticides and other contaminants and thus comply with international food safety standards and quality specifications, promote marketing of branded spices directly to consumers in the international market, ensure higher returns for spice farmers through value addition in processing, enhance production of spices and help exporters to earn valuable foreign exchange. The project cost for setting up the two units was estimated at ₹ 8.04 crore, including cost of land, building, plant and machinery, power, water, preliminary and pre operation expenses, working capital, furniture and contingency. It was proposed that the above project cost would be financed by the Company to the extent of ₹ 1 crore, while the remaining ₹ 7.04 crore would be allocated by Government of India (GoI) under the ASIDE (Assistance to States for Developing Export Infrastructure and Allied Activities) scheme.

Accordingly, the Company submitted a project proposal for establishment of the above two units and requested (March 2008) Ministry of Commerce and Industry (Ministry) for sanction of funds amounting to ₹ 7.04 crore, along with duly filled application, including detailed project report on technical feasibility and economic viability. In response, the Ministry sanctioned (August 2008) only ₹ 6.29 crore for the above project, with the instruction that GoI would not be releasing any more funds and remaining ₹ 1.75 crore of the total estimated project cost of ₹ 8.04 crore would have to be met by the Company. Cost escalation, if any, would also have to be borne by the latter. The sanction letter also specified that utilization certificate for the amount sanctioned would have to be furnished by March 2010 and that a penal clause be built into the contract with the implementing agency so that the project was not delayed.

While importing required plant and machinery for the two above units, the Company availed (November 2008) concessional customs duty of three *per cent* under the Export Promotion Capital Goods (EPCG) scheme and thereby saved ₹ 1.21 crore. As per the EPCG scheme, the Company would be liable to export products valued at eight times the duty saved within eight years, failing which it would have to forfeit EPCG bond of ₹ 3.77 crore deposited with Customs authorities.

The Company submitted (March 2010) a utilization certificate for ₹ 6.29 crore to the Ministry, along with an assurance that the project was virtually fully completed, that civil and mechanical works were completed and that final testing and commissioning of the two units were in progress. It was further mentioned that the total expenditure incurred to that date (March 2010) was ₹ 7.23 crore. In addition, the Company incurred ₹ 0.30 crore towards commissioning of the two units. The Company forfeited the bank guarantee (Euro 59000 equivalent to ₹ 0.40 crore) of equipment supplier (M/s Steam Lab, Germany) for non fulfilment of contractual obligations. Thereby, the total expenditure incurred stood at ₹ 7.13 crore.

Audit examination revealed that though the two units in the project were commissioned (October 2010), the Company did not operate them on its own, as it faced acute financial crises. Accordingly, the Company leased out (March 2012) the use of the two units to M/s RDM Care (India) Private Limited i.e. after 18 months of non operation of the commissioned units. However, just nine months later (January 2013), the lease agreement with the private firm was terminated at the request of the latter. Subsequently, eight months later (September 2013), the two units were leased out to M/s A-Tech Engineering and Management.

The Company stated (September 2014) that the two units were not operated as intended and there was no export either by the Company or through its lessees. No commercial production had been carried out. However, efforts were being made to operate the Steam Sterilisation Unit. Ministry endorsed (January 2015) the views of the company.

The reply of the Company/Ministry needs to be viewed against the fact that none of the objectives stated at the time of establishing the two units was achieved, defeating the purpose of bringing about improvement in the quality of spice processing. Thus, the Company's inability to operate its two units at Spices Park, even after lapse of 48 months since they were commissioned, either on its own or through lessees to achieve the intended objectives, resulted in unfruitful expenditure of ₹ 7.13 crore (including ₹ 6.29 crore from GoI) as in September 2014. In addition, there is the further possibility that the EPCG bond of ₹ 3.77 crore deposited with Customs authorities would be forfeited, if the Company failed to ensure adequate value of exports from the two units in compliance with the provisions of EPCG scheme.