CHAPTER II: Performance Audit on "Exemptions and subsidies to industries under Industrial Policies"

HIGHLIGHTS:

Industrial Policies (IP) promulgated by the Government from time to time allowed full exemption to industries from payment of Electricity Duty. Energy Department, in its notification made under the Electricity Act, 2003 allowed exemption on Electricity Duty on self consumption. The Industries Department did not make suitable provisions in the IP in accordance with the notification issued by Energy Department and Electricity Act, 2003. As a result the Government was deprived of revenue of ₹ 6.03 crore.

(Paragraph 2.10)

Though the time limit for commencement of commercial production is prescribed in the IP, option by the IP for industries to choose between the policies coupled with lack of provision for treating the exemption already availed in IP allowed exemption to industries in more than one policy.

(Paragraph 2.11)

The Industries Department issues Stamp Duty Exemption Certificate, on the basis of which the Commercial Tax (Registration) Department provides exemption from payment of Stamp Duty. The benefited industry is to commence commercial production within two to five years from the date of issuing the certificate for exemption from Stamp Duty. It was observed that the Industries Department while issuing subsequent exemption certificates to the industries did not restrict the date of commencement of commercial production as per the initial date, due to which the time limit got extended beyond the time limit prescribed in the IP.

(Paragraph 2.12)

The Industries Department allowed Stamp Duty exemption of ₹ 1.68 crore to an industry under diversification which neither fulfilled the condition of commencing commercial production in its existing industry nor did it commence commercial production of its new product within the IP period under which it was benefited.

(Paragraph 2.18)

An industry which was eligible for exemption, sold one of its units to an industry which was not eligible for any exemption. The sold out unit which was now a part of ineligible industry was allowed irregular exemption of Electricity Duty of ₹ 1.08 crore.

(Paragraph 2.19)

Industries included in the negative list of the IP were not eligible for any benefit under IP. However, the Industries Department allowed exemption and subsidies of ₹ 76.29 lakh to the industries included in negative list.

(Paragraph 2.20)

As per the conditions mentioned in the IP, any industry after availing the benefits of IP is to function continuously for at least five years. Absence of monitoring mechanism in the Industries Department not only resulted in failure by three industries to function continuously but also five industries were not set up. These industries availed exemptions/subsidies of ₹ 7.38 crore which was recoverable.

(Paragraph 2.25 and 2.27)

2.1 Introduction

The Government of Chhattisgarh (GoCG) has introduced Industrial Policies (IPs) in the State for various periods 2001-06, 2004-09, 2009-14 and 2014-19.

Some of the main objectives of the IPs are

(a) to encourage development of allied sectors parallel to core sector and to generate self-employment as well as additional employment opportunities to the local residents of the State in industries by granting them various exemptions and subsidies,

(b) to make special efforts towards bringing the poor, backward class people such as Scheduled Caste (SC)/Scheduled Tribes (ST), females, handicapped persons, retired soldiers, naxalite affected families into the mainstream of economic and industrial development,

(c) to offer more incentives to industries in backward areas of the State for balanced industrial development, and

(d) to promote private sector participation for the development of basic and industrial infrastructure and to create competitive platform for investments.

The Department of Commerce and Industries (Industries Department), GoCG is the nodal agency for implementation of IPs. Under the IPs promulgated from time to time by the GoCG, industrial units are granted 13 types of exemptions and subsidies. Major amount of exemptions and subsidies are covered under exemptions from payment of stamp duty, exemption from payment of electricity duty, subsidy on capital investment and interest subsidy. These exemptions are granted upto a specified period on fulfillment of certain terms and conditions. Further, date of commencement of commercial production is the criteria for claiming exemptions/subsidies under any particular policy.

The Director (Industries) issues exemption certificates to industries (excluding small and micro industries) from payment of stamp duty after receipt of applications from the industries under an IP and the Commercial Tax (Registration) Department allows the exemption from payment of stamp duty. Exemption certificates for stamp duty to small and micro industries are granted by the respective District Trade and Industries Centre (DTIC).

In case of electricity duty, the Energy Department grants the exemption certificates to new industries after scrutiny of eligibility criteria and on the basis of recommendation made by the Industries Department.

Industries Department grants fixed capital investment subsidy and interest subsidy to new industries. Industries whose date of fixed capital investment commences within the effective period of the IP are entitled for exemption under that IP. The industries have been categorised on the basis of capital investment as Micro, Small and Medium industries (upto ₹ 10 crore), Large scale industries (between ₹ 10 and ₹ 100 crore), Mega industries (between ₹ 100 to ₹ 1,000 crore) and Ultra Mega projects (exceeding ₹ 1,000 crore).

2.2 Effect of Industrial policies in the State

The Government of Chhattisgarh declared the IPs for various periods such as IP for 2001-06, 2004-09, 2009-14 and 2014-19 to encourage the industrial development in the State. Under the IPs the industries granted 13 types of exemptions and subsidies. The Government provided incentives in the form of exemptions and subsidies to attract the investors for making more investments in the State.

Before the introduction of first IP in 2001 for State, there were only 68 large, mega and ultra mega industries in the State. However, after introduction of the IPs, 190 new large, mega and ultra mega industries having capital investment of ₹ 57,093.83 crore had been established in the State during the period between 2001-02 and 2015-16 from which 42,715 new direct employments had been generated as shown in **Table 2.1** below:

Table 2.1: Details of large/mega/ultra-mega industries set up in the State after introduction of Industrial Policies

Year	No. of Industries	Total Capital Investment (₹ in crore)	No. of employment generated
Upto 2011-12	162	47,667.40	37,120
2012-13	8	484.37	969
2013-14	8	170.59	2,043
2014-15	4	1,864.34	1,109
2015-16	8	6,907.13	1,474
Total	**190**	**57,093.83**	**42,715**

(Source: Information provided by Directorate of Industries)

Further, scrutiny revealed that the Government signed 124 Memorandum of Understandings (MoUs) to establish the industrial projects in core sector. Out of this, in 61 projects the work is under process in which capital investment amounting to ₹ 60,617.88 crore has been invested by the investors in addition to the above. Also there was capital investment of ₹ 480.89 crore in food processing units.

The incentives provided by the Government through various IPs not only attracted the investment in large, mega and ultra mega units but also attracted the investments in micro and small industries.

After the introduction of first IP in 2001, 20,246 micro and small industries having capital investment of ₹ 2,777.84 crore have been established in the

State between 2001-02 and 2015-16 in which 1,25,649 new direct employments has been generated as shown in **Table 2.2** below:

Table 2.2: Details of micro and small industries set up in the State after introduction of Industrial Policies

Year	No. of Industries	Total Capital investment (₹ in crore)	No. of employment generated
Upto 2011-12	16,016	1,547.02	91,532
2012-13	1,172	312.07	12,219
2013-14	1,193	257.89	8,212
2014-15	1,228	420.42	8,456
2015-16	637	240.44	5,230
Total	**20,246**	**2,777.84**	**1,25,649**

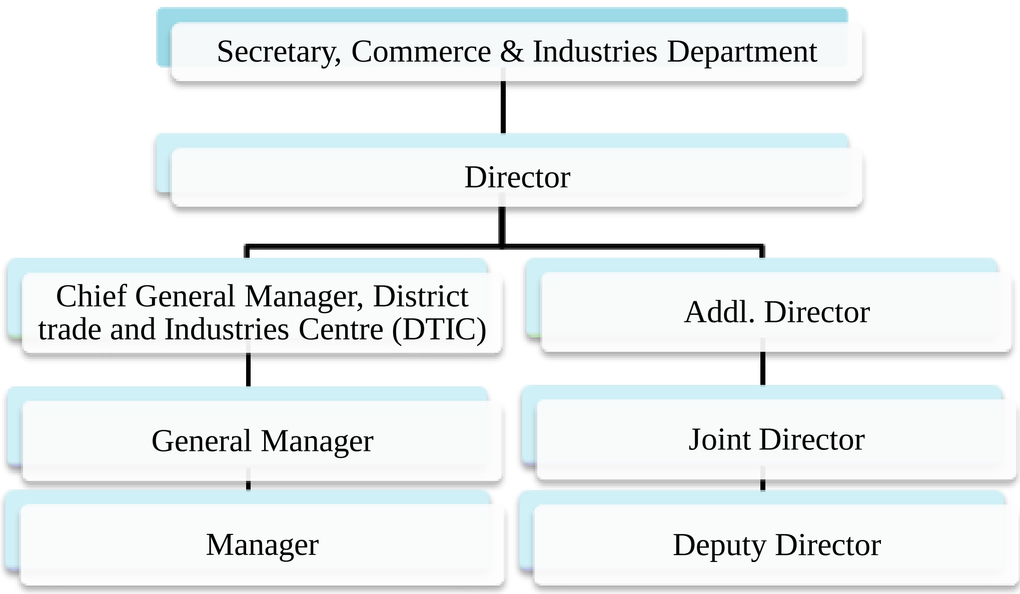
(Source: Information provided by Directorate of Industries)

As can be seen, the GoCG has taken proactive measures after formation of the State and the investment as well as employment in these increased manifolds. Various incentives played a major role in attracting investment. None the less audit found various systemic as well as individual infirmities in implementing the concession/incentive regime, which have been discussed in the report.

2.3 Organisational Setup

Industries Department, GoCG is the implementing agency of the IPs. The Secretary, Industries Department, GoCG is the head of the Department at Government level. The Department is headed by the Director (Industries) and assisted by Additional (Addl.) Directors, Joint Directors and Deputy Directors. At District level, Director (Industries) is assisted by Chief General Manager/General Managers, who are the head of units.

Chart 2.1: Organisational set up



2.4 Audit objectives

The Performance Audit was conducted with a view to evaluate:

- Whether exemptions/subsidies were allowed as per the provisions;
- Whether any mechanism exists in the Department to ensure that all the terms and conditions were followed by the industries before giving exemption/subsidy;
- Whether any coordination exists between the Departments to ascertain the adequacy of measures taken against the defaulters for safeguarding revenue;
- Whether there exists any post-exemption monitoring mechanism for violation of any of the conditions; and
- Whether the objectives of granting concessions were fulfilled after availing of concessions by industries.

2.5 Scope and methodology of Audit

The Performance Audit on "Exemptions and subsidies to industries under Industrial Policies" was conducted in three departments viz., Industries Department, Commercial Tax (Registration) Department and Energy Department. As Industries Department is the implementing agency for the IPs and Director (Industries) issues exemption certificates to all the industries except micro and small industries, it has been selected for audit.

The stamp duty exemption certificates to micro and small industries are issued by DTICs at district level. In all, 17 DTICs have given exemptions to industries. However, in case of a large number of DTICs the exemptions were minimal. Hence, three DTICs[1] which allowed exemption of ₹ 10.87 crore (approximately 83 *per cent*) out of the total exemption of ₹ 13.19 crore, have been selected for audit.

In Energy Department, the Chief Electrical Inspector (CEI) issues certificates to all the industries for exemption from payment of Electricity Duty (ED). Hence all the records pertaining to granting of electricity duty were examined at this office. Records relating to Land Premium exemption allowed to industries were also scrutinised in Chhattisgarh State Industrial Development Corporation (CSIDC), Raipur.

Further, in Commercial Tax (Registration) Department, exemption to industries from payment of stamp duty was allowed in 17 districts. Out of these, six[2] districts were selected on Random Sampling without Replacement (RSWOR) basis which constitutes 35 *per cent* of total districts.

Audit covered the exemption certificates issued by the Industries Department during the period 2011-12 to 2015-16 under various IPs. The Performance Audit was conducted between February 2016 and June 2016.

[1] Raigarh, Raipur and Rajnandgaon

[2] Baloda Bazar, Durg, Korba, Raigarh, Raipur and Rajnandgaon

The scope and methodology of audit was discussed with the Secretary, Commerce and Industries in the Entry Conference held on 6 June 2016. The draft report was forwarded to the Government and the Department on25 July 2016. The Exit Conference was held on 3 November 2016 wherein the audit findings, conclusions and recommendations were discussed. The Government was represented by the Secretary, Commerce and Industries Department. The replies received during exit conference and at other points of time have appropriately been incorporated in the relevant paragraphs of the report.

2.6 Audit criteria

Audit findings are based on the following criteria:

- The IPs (2001-06, 2004-09 and 2009-14) declared by the Government;
- Indian Stamp (IS) Act, 1899;
- Indian Registration Act, 1908;
- Chhattisgarh Preparation and Revision of Market Value Guideline Rules, 2000;
- Chhattisgarh Electricity Duty Act, 1949;
- Chhattisgarh Electricity Duty Rules, 1949;
- Electricity Act, 2003;
- Central Electricity Rules 2005;
- Performance appraisal reports of the respective department;
- Chhattisgarh Industrial Land and Building Management Rule 2015 and
- Various notifications and circulars issued by these Departments and the Government from time to time.

2.7 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of Industries Department, Commercial Tax (Registration) Department, Energy Department and CSIDC for providing requisite information and records to audit.

2.8 Process of issuing exemptions and subsidies

Industries eligible under the IPs are required to apply to the Industries Department with valid documents such as Entrepreneur's Memorandum (EM) part-I, Industrial Entrepreneur's Memorandum (IEM) or MoU and the requirement of land. The agreement for purchase of land is to be submitted where the purchase of land has been made directly from farmers and in case of land allotted by CSIDC, the land allotment letter issued by CSIDC is to be submitted to the Industries Department. On the basis of these documents, the Industries Department issues certificate for exemption from payment of stamp duty. On production of this exemption certificate, the Commercial Tax (Registration) Department allows the exemption from payment of stamp duty during the registration of the land purchased/leased for the industrial purpose.

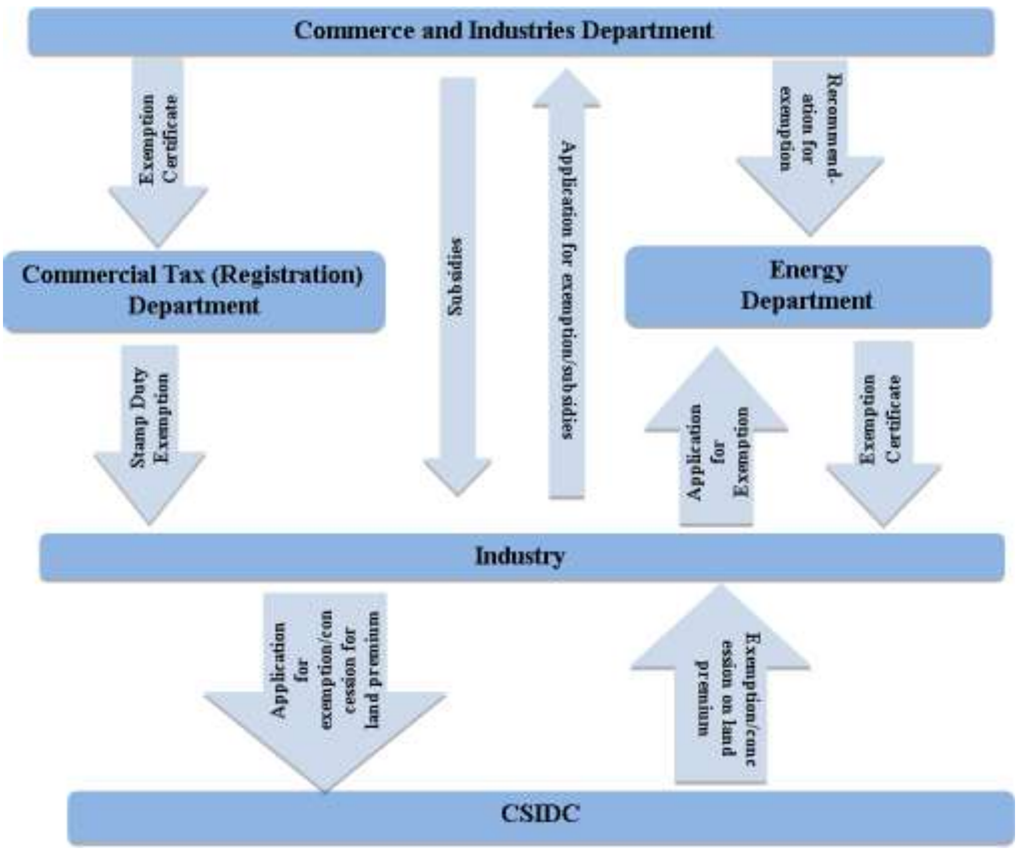
On the commencement of commercial production, the industry needs to apply for EM Part II with the requirement of capacity of the electrical energy and in case of power producing industry, it has to apply with the generating capacity of Turbine Generator (TG) sets for the exemption of electricity duty and need to apply to both the departments i.e., Industries Department and Energy Department. After deciding the eligibility, the Industries Department recommends for exemption from payment of electricity duty. On the basis of recommendation and eligibility criteria, the Energy Department issues exemption certificate.

To claim fixed capital investment subsidy and interest subsidy, the industry needs to apply within one year from the date of commencement of commercial production. For the capital subsidy, the industry shall produce all the relevant documents such as EM Part II, details of investments made upto the commencement of commercial production. On the basis of these documents, the Industries Department grants subsidies. Capital subsidy ranging between ₹ 25 lakh to ₹ 5 crore and interest subsidy between ₹ 5 lakh to ₹ 60 lakh is provided as per the eligibility of the industry.

Concession/exemption on land premium is also allowed to eligible industries when land is allotted in industrial area and service charge concession is allowed to industries when land is allotted outside industrial area. These concessions are allowed by CSIDC. After fulfilment of the terms and conditions mentioned in the letter of intent, CSIDC issues land allotment letter to the industry after which the industry is required to execute lease deed within the prescribed time limit.

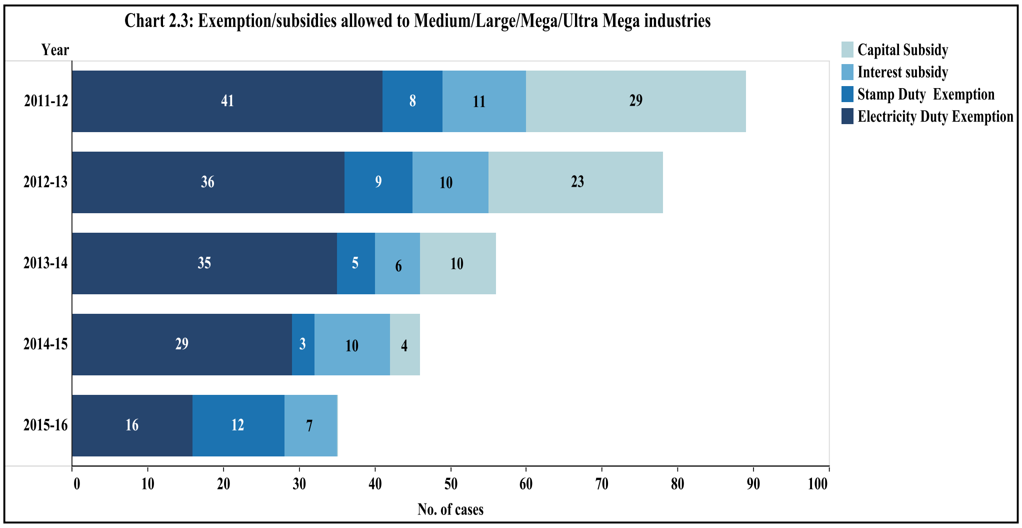
Process flowchart of exemptions and subsidies to industries is given in **Chart 2.2** herein below:

Chart 2.2: -Process flow chart

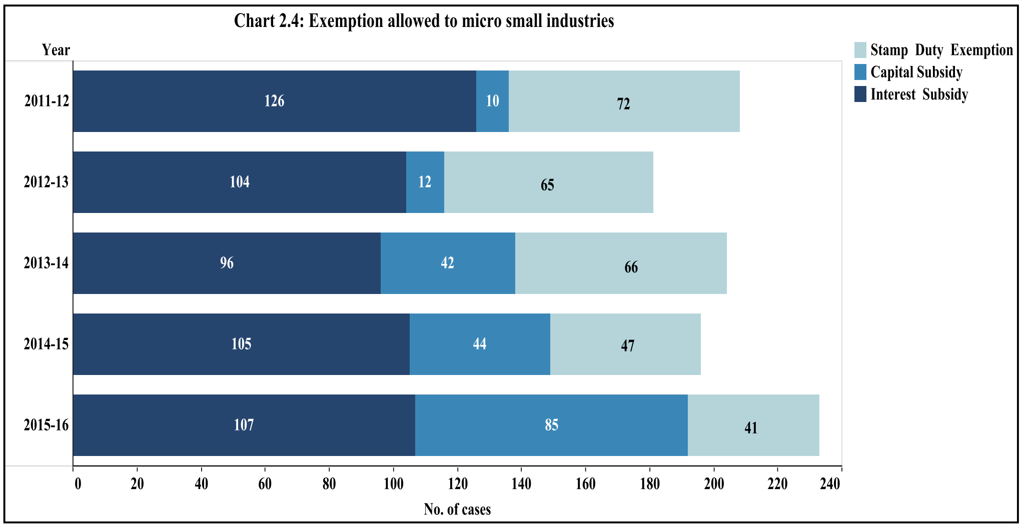


2.9 Total number of cases in which exemption and subsidies were allowed

Number of cases in which stamp duty exemption, electricity duty exemption, capital subsidies and interest subsidies were allowed to medium/large/mega/ultra mega industries is detailed in **Chart 2.3** and number of cases in which stamp duty exemption, capital subsidies and interest subsidies to micro/small industries is shown in **Chart 2.4.**



Source: Directorate of industries



Source: District Trade and Industries Centre, Raipur/Rajnandgaon/Raigarh

Audit Finding

Inconsistency in Industrial Policy

The notification issued by the Energy Department allowed exemption from payment of electricity duty only on self-consumption of electricity produced but in contravention to the departmental notification the IP allowed full exemption to industries from payment of electricity duty. There were three cases in which the industries did not consume the electrical energy produced by it, however the Energy Department issued the certificates for exemption from payment of electricity duty. Further, in six cases benefit of exemption/subsidy were allowed in more than one policy and in two cases we found that the Industries Department did not restrict the date of commencement of commercial production on subsequent certificates, as per the date of initial exemption certificate issued to same industry. Thus, due to inconsistency in the IP, electricity duty exemption of ₹ 19.08 crore and capital subsidy of ₹ 36.19 lakh was allowed in nine cases out of 157 cases of Electricity Duty exemptions and 66 cases of Capital subsidies which are mentioned in the following paragraphs.

2.10 Absence of provision for exemption from electricity duty in industrial policy in accordance with the departmental notifications

The Industries Department did not make provision in IP for exemption from the payment of electricity duty in accordance with the notification issued by the Energy Department and Electricity Act, 2003.

As per the IP 2004-09, any industry categorised in special thrust area is fully exempted from payment of electricity duty for 15 years from the date of commencement of commercial production. Production of electrical energy from non-conventional source is included in special thrust sector. As per the notification issued (November 2014) by the Energy Department under the IP 2004-09, exemption from electricity duty is allowed to an industry on self-consumption of electricity. The departmental notification prevails over the terms and conditions of IP. Further as per Rule 3 of Electricity Rules, 2005 formulated under Electricity Act, 2003, if any producer consumed less than 51 *percent* of the total units of electricity energy produced, it would be treated as Independent Power Plant (IPP).

During scrutiny of monthly returns form 'G' submitted by producers in the office of Chief Electrical Inspector, Raipur, we noticed that three[3] industries commenced the commercial production of electrical energy between July 2006 and November 2006.These industries produced 509.47 MU of electricity from November 2006 to March 2016 out of which, 444.40 MU were sold by them to Chhattisgarh State Power Distribution Company limited (CSPDCL).

As these industries were selling the entire electrical energy except auxiliary consumption produced by them, these were not eligible for exemption from payment of electricity duty as per the notification issued in November 2014 under IP 2004-09. However the Industries Department recommended for exemption and CEI issued the exemption certificates. As per Electricity Duty Act, 1949 electricity duty amounting to ₹ 6.03 crore was leviable on auxiliary consumption of 65.07 MU. Further ₹ 2.22 crore was leviable on the energy sold/supplied to CSPDCL.

Further, scrutiny revealed that as per the notification issued by the Energy Department, demand notices have been sent (May 2015) to these industries by Energy Department for payment of electricity duty for energy sold/supplied to

[3] RR Energy, Ecofern and Neeraj Power

CSPDCL, which was challenged by these industries with reference to the provisions of IP.

It was also recommended in paragraph 6.2.25 of the Audit Report of the Comptroller and Auditor General of India on Revenue Sector for the year ended 31 March 2012, Government of Chhattisgarh that the Government may consider to ensure withdrawal of the existing IP prior to introduction of a new policy. However, the Government did not take the remedial action in regard. As a result of not withdrawing the earlier policy, the Departments continued to issue clarifications/instructions in respect of previous IPs. As such, suitable provision was not included in the IP in accordance with the Act which not only deprived the GoCG of revenue amounting ₹ 6.03 crore but also ₹ 2.22 crore remained pending in the court of law.

During the Exit Conference, the Government stated (November 2016) that electricity duty exemption is governed by the notification issued by the Energy Department. As per notification issued by Energy Department in November 2014, the electricity duty exemption is allowed only on self-consumption of electrical energy. Such condition was not mentioned in previous notification. Thus a letter has since been sent to Energy Department to take necessary action in accordance with notification of November 2014.

The Government may ensure that the provisions of Industrial Policies are modified in accordance with the departmental notifications to avoid deprivation of Government revenue.

2.11 Benefit of exemption allowed to industries under more than one policy

The Department granted different types of exemptions and subsidies to same industries under different IPs.

As per the IPs promulgated by the GoCG from time to time, an industry is eligible to avail exemption/subsidy under the policy, only if commercial production has commenced within the period of the said policy. If any industry fails to commence the commercial production in the prescribed period, it is allowed to opt exemption/subsidy as availed under the previous policy, on commencing commercial production within one year from the last date of validity of previous policy. Further in every policy, the benefits to be provided keep varying along with the list of negative industries.

Though the industry has the option to choose the IP under which the benefits are to be availed, it is silent about how it is to be treated if the industry had already availed any benefit under the earlier policies. Due to this discrepancy in the policy, the industries availed different benefits under two different policies.

2.11.1 We found during scrutiny of 157 cases of Electricity Duty exemption, 37 cases of Stamp Duty exemption, 66 cases of Capital Subsidy and 44 cases of Interest Subsidy in the office of Director (Industries) that in three cases the Department issued the exemption certificates from payment of stamp duty under the IP 2001-06 between March 2004 and May 2004.Out of these, in two[4] cases the industries commenced the commercial production between December 2004 and March 2005 and the Department has granted fixed capital investment subsidy amounting to ₹ 36.19 lakh under the IP 2004-09 between March 2013 and September 2013. In remaining one[5] case, on the basis of the recommendation of Industries Department (January 2010), CEI issued the exemption certificate under IP 2004-09 for exemption from payment of electricity duty for the period from March 2006 to March 2021. The industry produced and consumed 381.8 MU (August 2006 to May 2014) of electrical energy on which electricity duty amounting to ₹ 10.41 crore was exempted.

2.11.2 Similarly, in three[6] cases the Department issued the exemption certificates from payment of stamp duty under the IP 2004-09 between February 2009 and February 2010. These industries commenced the commercial production between February 2010 and November 2012. However, the Department issued the exemption certificates for exemption from payment of electricity duty under the IP 2009-14. The industries consumed 110.53 MU of electrical energy on which electricity duty amounting ₹ 2.64 crore was exempted.

Thus, the allowance of exemptions/subsidies under different policies and failure in establishing the industry during one policy period led to delay in achieving the objectives of IPs such as development of industrial sector in the State, employment generation, development of backward classes etc.

During the Exit Conference, the Government stated (November 2016) that Stamp duty exemption is granted before the establishment of any industry. The industries are also required to complete further formalities such as construction of building, electricity connection, supply of plant and machinery etc. before the commencement of commercial production. Further, some industries which have been granted stamp duty exemption at the end of the IPs are not able to commence the commercial production at the end of the same policy. As such it is not possible to restrict all activities regarding establishment of industry in one policy.

The reply of the Government is not acceptable as while being established, the industry was aware of the policy for which the benefits were to be taken. Further, as the benefits offered in IPs keep varying along with the list of negative industries in every policy, all the benefits to an industry may be granted in one policy so that the delay in achieving the objectives of IPs may be avoided.

The Government may consider making necessary amendments in the IP so that all the facilities are availed by the industry in one policy only to avoid the delay in achievement of the objectives of the IPs.

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[4] Aarti Sponge Limited and Nandan Steel Limited.

[5] Crest Steel and Power Limited

[6] Asan Steel, Jai Ambey Wires and Super Global Limited.

2.12 Time limit for commencement of commercial production not confined as per the initial certificate issued for exemption for stamp duty

The Department did not ensure that the industry restrict to date for commencement of commercial production as per the initial certificate issued for the exemption from payment of stamp duty.

As per the terms and conditions mentioned in the exemption certificate, any industry is required to commence commercial production within five years from the date of issue of the exemption certificate.

During scrutiny of registered documents in the office of SR, Baloda Bazar and Rajnandgaon we noticed that two[7]industries have availed exemption from payment of stamp duty between November 2007 and October 2010. Scrutiny of exemption certificates issued by the Industries Department revealed that as per the terms and conditions of the exemption certificate, the industry is required to commence commercial production within five years from the date of issue of the exemption certificate. Further scrutiny revealed that in those cases where additional certificates for exemption from payment of stamp duty were issued for purchase of additional land, the department did not restrict the date for commencement of commercial production as per the initial certificate issued for the registration of the land. Due to this the effective period of commencement of commercial production got extended beyond the period mentioned in the certificate issued initially.

During Exit Conference, the Government stated (November 2016) that exemption from Stamp Duty had granted before establishment of certain industries in which there are formalities to be completed before the commencement of commercial production. In respect of certain other industries Stamp Duty exemption was granted at the end of IP period. Therefore, the date of commencement of commercial production cannot be restricted.

The reply of the Government confirms that the initial date of exemption period was not considered while issuing subsequent exemption certificates as there was no such restriction on the date of commencement of commercial production mentioned in the prescribed format.

The Government while issuing subsequent exemption certificates for payment of stamp duty may consider restricting the time of commencement of commercial production according to the exemption certificate issued initially so that benefits of industrialisation occur in time.

Irregular Exemptions

Audit scrutiny revealed that Industries Department allowed/granted exemptions/subsidies in contravention of provisions of IPs. In one case, Industries Department issued recommendations for exemption from payment of electricity duty to an industry on expanded capacity which had already

[7] Emami Cement and VandanaVidyut Limited

availed the benefits in earlier policy and in four cases exemption was allowed on expansion. Further, Industries Department also granted subsidies to industries which had failed to submit EM part II in stipulated time, industry which was not owing the land in own name, old industries, industries which did not apply within the time prescribed and were not having valid documents, industries included in negative list and industries which sold out certain units etc. Thus there was irregular exemption of ₹ 44.30 crore in 63 cases which are mentioned in the following paragraphs.

2.13 Irregular exemption of electricity duty on expanded capacity

The Industries Department issued recommendation for exemption from payment of electricity duty on expansion of industry which had already availed the same benefits under previous policy. The Industries Department also recommended for exemption from payment of electricity duty on expanded capacities of industries in contravention to the notification issued under IP. The CEI issued the exemption certificates on the basis of these recommendations.

As per IP 2004-09 and notification issued in July 2008, Energy Department allows exemption to only new industries and not to the industries on expansion.

2.13.1 We found during scrutiny of 157 cases relating to exemption of Electricity Duty in the office of Director (Industries) that M/s Bajrang Power and Ispat Limited, commenced commercial production (July 2005 and August 2005) from 8 Mega Watt (MW) and 10 MW TG sets respectively on which the Energy Department issued (May 2006) exemption certificates for exemption from electricity duty for 15 years under the IP 2001-06. The industry expanded its capacity by installing 8 MW TG set which commenced commercial production in August 2008. As the industry was already allowed exemption under the IP 2001-06, the exemption given on expanded TG set of 8 MW under IP 2004-09 in December 2012 was irregular. The industry produced and consumed 409.3 MU (between August 2008 to March 2016) of electrical energy on which electricity duty exemption amounting to ₹ 11.66 crore was irregularly allowed was recoverable.

During Exit Conference, the Government stated (November 2016) that revised recommendation was issued under IP 2004-09 to rectify the earlier order in September 2012. Commencement of commercial production is the basis of exemption from electricity duty and as the industry had commenced the commercial production from April 2005 it was covered under IP 2004-09.

The reply of the Government was not acceptable because the industry had opted (February 2011) to avail the benefits of IP 2001-06 and in lieu of this the Department also issued the exemption certificate under the IP 2001-06. Therefore, addition of 8 MW TG set from August 2008 should be treated as expansion which was not eligible for exemption under IP 2004-09.

2.13.2 Similarly, we found that the Industries Department issued the recommendation for exemption from payment of electricity duty to four industries[8] between January 2012 and November 2013. On the basis of these recommendations Energy Department issued exemption certificates for these industries between February 2012 and September 2014. As per the certificate issued by the Energy Department, the installed/required capacity of the electrical energy of these industries was 500 Kilo Volt Ampere (KVA) to 10000 KVA. Further scrutiny revealed that these industries had commenced the commercial production between March 2007 and January 2012 and the installed/ required capacity of the electrical energy of these industries was 300 KVA to 5000 KVA. As such, these industries had expanded their capacities. As per the IP and notification, expansion of the industry was not eligible for the exemption. Despite this, the CEI, instead of declining the exemption and intimating it to the Industries Department, allowed electricity duty exemption ₹ 9.58 crore on consumption of 346.57 MU. Thus, failure to scrutinise the case on the part of Industries department and Energy Department resulted in irregular allowance of exemption of ₹ 9.58 crore.

During Exit Conference, the Government stated (November 2016) that these industries had extended the installation capacity of the electrical energy during the period of commencement of IPs. As per the provisions mentioned in the IP, extended capacity is also treated as the new industry.

The reply of the Government was not acceptable because the benefits had been granted under the IPs as per the date of commencement of commercial production. Thus, any enhancement in the capacity after commencement of commercial production in same industry would be treated as expansion which was not eligible for exemption as per notification issued by the Energy Department.

2.14 Sanction of subsidies to the ineligible industries

The Department granted subsidy to such industries which had failed to submit documents to prove commencement of production/activity (EM Part II) within stipulated time.

Chhattisgarh State Interest Grant Rule, 2009 stipulates that eligible industrial units need to furnish valid EM part-I/small industries registration certificate/IEM/industrial license followed by EM part-II (document to be filed after commencement of production/activity) issued by competent authority along with certificate of commencement of commercial production for claiming interest subsidy and fixed capital investment subsidy.

Further, micro and small industries as defined in clause 8A of Appendix 1 of IP 2009-14 means industrial enterprises falling under the definition of micro and small enterprises notified from time to time by GoI under Micro, Small and Medium Entrepreneur Development Act, 2006 (MSMED Act), and is in possession of EM Part I issued by DTIC of district concerned and also in possession of EM Part II and Commercial production certificate issued by the competent authority after commencement of commercial production. As per

[8] Accurate Weld Arc Limited, J. D. Ispat Private Limited, Tankeshwari Metals & Powder Products Private Limited and Gayatri Rolling Mills Limited.

notification issued in September 2006 by GoI, micro, small or medium enterprises were required to file EM part-I followed by EM part-II within two years from the date of filing of EM part-I to the DTIC and in case of not filing of EM Part-II within specified time period, EM part-I filed by the entrepreneur become invalid.

We found during scrutiny of 117 cases of DTIC, Raipur relating to Capital Subsidy that five industries which received fixed Capital Investment subsidy of ₹ 1.80 crore and 25 industries which received Interest Subsidy of ₹ 3.70 crore (as shown in ***Appendix 2.1***) did not submit their EM part II within the validity period of two years from the date of filing of EM part-I. This indicates that commercial production had not been commenced by the industries within the time stipulated.

Since these industries failed to comply with the provisions of the notification and IP, these were not eligible to avail any kind of subsidies and facilities under the IP 2009-14.Thus, sanction of interest subsidy of ₹ 3.70 crore and fixed capital investment subsidy of ₹ 1.80 crore was irregular.

During Exit Conference, the Government stated (November 2016) that EM part –I and EM part II was filed under the provisions of MSMED Act which was withdrawn by the Government in September 2015. If EM Part II was not issued within two years from the date of issue of EM part I, then EM part I became invalid and thus the intention of establishing the industry would also become invalid and the use was only for filing purpose. Further, there were no provisions in IP 2009-14 and Fixed capital/Interest Grants Rule, 2009 to file EM part II within two years from the date of issuance of EM part I. The commercial production could be commenced within the prescribed time limit of IP.

Reply of the Government was not acceptable because as per the Act, these industries should have filed EM Part II within two years otherwise EM part I became invalid. Further, at the time of submission of EM part II by these industries the Act was in force. Hence these industries could have submitted EM part II in stipulated time as prescribed in the Act and on the basis of invalid document grant of subsidies is irregular.

2.15 Irregular exemption from payment of electricity duty

The CEI issued certificate for exemption from payment of electricity duty to an industry which had already availed exemption under another notification.

As per notification issued in November 1992 by Energy Department, any person or undertaking producing electrical energy from a generating set with a capacity of more than 125 KVA for self-consumption is exempted from payment of electricity duty for five years from the date of commencement of commercial production. The Government has withdrawn the notification in December 2008 and stated that exemption will have to be continued for those industries which were granted exemption prior to 2008 for the period mentioned in the exemption certificate and such industries will not be eligible for any further exemption under IP 2001-06 or any other policy declared by the Government from time to time.

During scrutiny of 'G' forms in the office of CEI, we noticed that M/s Navdurga Fuels limited had commenced commercial production from 4 MW TG set from July 2006. The Industries Department recommended (April 2013) for exemption from payment of electricity duty for 10 years to the industry under IP 2001-06. Further scrutiny of records revealed that the industry was already granted exemption (May 2005) from payment of electricity duty for five years on two Diesel Generator (DG) sets from March 2005 to March 2010. Thus, as per notification issued in December 2008 by the Department, the industry was not eligible for further exemption. However, the CEI instead of declining exemption and intimating it to the Industries Department granted the exemption certificate to the industry in September 2014 for the period from July 2006 to March 2015.

The industry produced and consumed 86.89 MU of electrical energy and availed exemption of ₹ 4.68 crore on electricity duty from commencement of commercial production to March 2016 which should be recovered.

During Exit Conference, the Government stated (November 2016) that as per the information received from CEI, the industry was granted electricity duty exemption earlier under the notification of 1992 and action was taken to withdraw the recommendation issued under IP.

2.16 Irregular exemption allowed to existing industries by considering them as new industries

The Industries and Energy Departments allowed exemption/subsidies to existing industries considering as new industries.

As per IP 2004-09, new industrial unit means an industrial unit which had commenced the commercial production between 1 November 2004 and 31 October 2009.Further as per IP 2009-14 new industrial unit had been defined as an industrial unit which proposes to commence commercial production on or after 1 November 2009 and was in possession of E.M. part-1/I.E.M., letter of intent, industrial license issued by competent authority for this purpose. It should also possess E.M. part II and commercial production certificate issued by competent authority on commencement of commercial production in industry.

2.16.1 During scrutiny of the subsidy cases in the office of Director (Industries) and DTIC, Raigarh and Rajnandgaon we noticed that the Department sanctioned subsidies (capital subsidy and interest subsidy) amounting to ₹ 2.37 crore to five industries[9]. Further scrutiny revealed that as per the registration certificates issued by the Registrar of Companies (RoC) and Commercial Tax Department (CTD),these industries were in existence since 1993 and onwards. Thus, sanction of subsidies to old industries treating them as new industry was irregular.

During Exit Conference, the Government stated (November 2016) that IPs 2004-09 and 2009-14 defines new industry as an industry which commence commercial production within the time limit prescribed in the policies.

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9 M/s Dongargaon Paper Mills, Atmasco Private Limited, Symphony Tradecom, GNS Gases and Regencies Industries.

Further, the expansion of old industries was also treated as new industry. Therefore, it does not matter that these industries were registered in RoC or CTD since or after 1993.

The reply of the Government was not acceptable as these industries were in existence since 1993 and the case files of these industries had no mention regarding expansion of industry as basis for availing subsidy in IP. Further, no records have been furnished by the Department regarding expansion of industries as described in Appendix 1 of IP in support of their reply.

2.16.2 During scrutiny of exemption cases in Director (Industries), we noticed that in two[10] cases the Industries Department issued the recommendation for exemption from payment of electricity duty considering commencement of commercial production between April 2009 and October 2010. Further scrutiny revealed that out of these, in one case CSIDC had already allotted the land for the industry in March 1997 and the industry had merely changed its name to avail the benefits provided to new industries under IP. In other case, an old industry was purchased by an entrepreneur who renamed the industry and showed it as new. These companies availed the exemption of ₹ 2.30 crore on consumption of 99.60 MU electrical energy.

During Exit Conference, the Government stated (November 2016) that CSIDC allotted the land to Chhattisgarh Ferro Traders in 1997. The product of the industry was agricultural equipment. However the industry had not been established. After implementation of IP 2009-14, the same industry after changing the name as Chhattisgarh Ferro Traders Private Limited established the new industry of semi finished non alloys steel and MS ingots. Further, in another case, after purchasing the old industry from Kavita Polymers, fresh investments were made to establish the industry.

The reply of the Government was not acceptable because an industry cannot be treated as new industry by merely changing the name of already existing industry. Further, Government reply itself confirmed that some new products are included in existing industry after making some fresh investments which could not be treated as new industry as per the provision of IP.

2.17 Irregular exemption allowed to industries which did not own land in its name

The Department granted subsidy to such industries which did not own land.

As per the IP 2009-14 it is mandatory for new industrial units to own land in its own name.

2.17.1 We found during scrutiny of 66 cases of Capital Subsidy and 44 cases of Interest Subsidy in the office of Director (Industries) that in eight[11](two cases of IP 2004-09 and six cases of IP 2009-14) cases, the industries commenced the commercial production between May 2008 and July 2014.

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[10] Chhattisgarh Ferro Traders and Jai Balaji Plastics

[11] Ambey Agro, Singhal Forestry, SS Agro, Rajnandgaon Paper Mills, Arora Warehousing, Gold Green Irrigation Private Limited, Sai Baba Agro and Shakti Warehousing

The Industries Department sanctioned the fixed capital investment subsidy of ₹ 2.43 crore and interest subsidy of ₹ 79 lakh to these industries between January 2012 and December 2015. Further scrutiny revealed that these industries did not own the land in its own name. As such, these industries were not eligible for any exemption/subsidy under the IPs. However, the Department granted the subsidy of ₹ 2.43 crore and interest subsidy of ₹ 79 lakh which was irregular as per the provision of IP.

During Exit Conference, the Government stated (November 2016) that there is no provision in IP 2004-09 that the land should be in the name of industry. In IP 2009-14, provision for leased land for 30 years was also made. Further, necessary action has been taken to register the notarised agreements.

The reply of the Department was not acceptable as the exemption/subsidies are granted to promote the industries. The benefit under IP 2004-09 is provided to an industry and not to the proprietor. Further, cost of the land is also included for the consideration of capital subsidy, therefore, registration of land in the name of industries is essential as per the law. In the cases of grant of subsidy under IP 2009-14, lease agreement were neither executed before the commencement of commercial production nor registered.

2.17.2 We found during scrutiny of 117 cases of Capital Subsidy in the office of DTIC, Raipur that four industries had commenced commercial production between February 2010 and March 2013. The Department sanctioned the fixed capital investment subsidy amounting to ₹ 69.94 lakh to these industries between May 2013 and March 2016 under IP 2009-14. As per the provisions of IP 2009-14, the land should be owned in the name of industry. Further, scrutiny revealed that the lease deeds were executed in the name of industry between March 2010 and May 2014. However lease deeds were not registered to the Commercial Tax (Registration) Department. As such, at the time of commencement of commercial production these industrial units did not own the land in industry's name. However the Department sanctioned the capital subsidy amounting to ₹ 69.94 lakh which was irregular as per the provisions of IP.

During the Exit Conference, the Government stated (November 2016) that lease was registered/ notarised after the commencement of commercial production. Necessary orders would be issued for acceptance of registered lease or agreements only.

2.18 Irregular exemption from stamp duty on diversification

The exemption certificate issued by the Department for exemption from payment of stamp duty on diversification was irregular.

As per IP 2009-14, diversification means such existing industrial unit/industry which has been established and commenced its commercial production prior to appointed day under IP 2009-14 (1 November 2009) and is in possession of E.M. part-II and commercial production certificate issued by competent authority, in case of inclusion of new product in industry after the appointed day of IP 2009-14 such new product shall fall under diversified category, provided industrial unit/industry had invested minimum 25 *per cent* capital investment of eligible investment in the existing plant and machinery after 1

November 2009. For this purpose commercial production of new product should have commenced before 31 October 2014.

During scrutiny of registered documents in the office of SR, Raigarh we noticed that the Industries Department issued the exemption certificate for exemption from payment of stamp duty in September 2014 for diversification under the IP 2009-14 to M/s Jindal Steel and Power Limited for which lease deed was executed in November 2014.

Further scrutiny of certificate issued for the exemption from payment of stamp duty revealed that the industry had commenced commercial production from March 2013 which is after the appointed date of IP 2009-14 i.e. 1November 2009. On cross verification with the records of DTIC, Raigarh it was revealed that the industry did not commence commercial production of the new product, till date (April 2016) which should have been commenced by 31 October 2014. As such the industry failed to comply with both the conditions mentioned in the IP 2009-14 and thus was not eligible for exemption from payment of stamp duty. However on the basis of the exemption certificate issued by the Industries Department, the SR concerned allowed the exemption of ₹ 1.68 crore which was irregular. The Industries Department also did not initiate any action to recover the revenue.

During Exit Conference, the Government stated (November 2016) that time limit for the commencement of commercial production is mentioned in the exemption certificate issued for the payment of stamp duty. Exemption from stamp duty is provided before the establishment of the industry. As per notification issued by Commercial Tax (Registration) Department in June 2010, stamp duty exemption is also permissible on diversification. Further, as per the exemption certificate issued by the Industries Department, the industry was required to commence the commercial production within five year i.e. before September 2019.

The reply was not acceptable as the industry failed to commence commercial productions of its existing unit before 1 November 2009 and commercial production of the new product also did not commence by 31 October 2014 as per the terms and conditions mentioned in IP 2009-14.

2.19 Irregular issue of exemption certificate to sold out unit of an industry

The Industries Department issued recommendation for exemption from payment of electricity duty for the sold out part of the industry. The CEI also issued the exemption certificate on the basis of recommendation.

As per the IP 2004-09 and notifications issued there under, exemption from electricity duty was to be granted only to new industries. The industries, which had expanded their capacity, were not eligible for exemption under the new policy.

During scrutiny of the 'G' forms in the office of CEI, we found that M/s Shivalik Power and Steel Private Limited commenced the commercial production from its 8.5 MW bio mass TG set from December 2006.The industry was also manufacturing auto components and engineering spares of metal casting. As such, power production unit was one of the part of the industry. The industry commenced the commercial production during the period of IP 2004-09 and was eligible for exemption under the said policy. Further scrutiny of the records revealed that the industry sold its power production unit to another industry, M/s Hira Ferro Alloys Limited in December 2011 and the unit was renamed Balaji Power Limited. As such, M/s Shivalik Power and Steel Private Limited which is still in existence is eligible for exemption under the IP 2004-09 and the unit which was sold out by the industry was not eligible for exemption under said policy as Hira Ferro Alloys Limited is not eligible for any exemption being an existing industry. Further scrutiny of records revealed that as per ‘G’ forms submitted by the industry, sold out unit of the industry renamed as Balaji Power Limited was working as an undertaking of Hira Ferro Alloys Limited. As the sold out unit was functioning as expansion of an existing industry, it was also not eligible for exemption. However the Industries Department issued the recommendation to the sold out unit of the industry and the Energy Department, instead of declining exemption and intimating it to the Industries Department, issued exemption certificate in January 2015 for the period of 15 years from the date of commencement of commercial production.

The industry produced and consumed 25.24 MU of electrical energy after the sale on which electricity duty amounting to ₹ 70.32 lakh was leviable. Besides, an amount of ₹ 38.14 lakh was also leviable on 190.68 MU energy sold to the CSPDCL.

During Exit Conference, the Government stated (November 2016) that the Department granted the permission for sale of one section of the industry to another industry in September 2005. The industry commenced the commercial production since December 2006. Thus exemption was regular to old industry before the date of sale and the same benefits could be availed by new industry after the date of sale.

The reply of the Government was not acceptable as the industry which was eligible for exemption had sold out its unit to an industry which was not eligible for any exemption.

2.20 Irregular allowance of exemption to industries included in the negative list of IP

The products of the industries were included in the negative list of the IP. However, the Department issued certificates for exemption from payment of stamp duty which was irregular.

In the IPs, some categories of industries have been included in the negative list which are not eligible to avail any exemptions under the said policy. In the IP 2004-09 confectionery, biscuit and bakery product (excluding certified machine processed and branded products) and in IP 2009-14 coal briquette, coke and coal screening, coal fuel are included in the negative list. Further, as per the IPs 2009-14 and 2014-19, in case of establishment of an industry of saturated category along with the industry of any other category, the eligibility of subsidy and exemption/concession shall be determined by considering the entire project as that of saturated category.

2.20.1 In two[12] cases the Industries Department issued exemption certificates between October 2012 and May 2015 from payment of stamp duty under IPs 2009-14 and 2014-19. Further scrutiny of exemption certificates revealed that the industries had shown their products as manufacture of wash coal, other coal and coal tar product not elsewhere classified and mining and agglomeration of coal with coal washery. As the products of these industries were included in saturated list those were not eligible for exemption from payment of stamp duty. However the department issued the exemption certificates between October 2012 and May 2015.

These industries have purchased land admeasuring 42.633 hectare. As per Indian Stamp Act and market value guideline, stamp duty amounting to ₹ 37.11 lakh was leviable. However, the SR concerned allowed exemption from payment of stamp duty.

During Exit Conference, the Government stated (November 2016) that products of these industries were coal washery, which was not included in the negative list of IPs.

The reply was not acceptable because in case of establishment of industry of a saturated category along with industry of any other category, the eligibility of subsidy and concession shall be determined by considering the entire project as saturated category as per the provisions of IP and in this case apart from coal washery, the industries was dealing in other coal products also.

2.20.2 During scrutiny of exemption records in the office of CSIDC we noticed that in two[13] cases the CSIDC allowed 50 *per cent* concession from payment of premium under the IP 2009-14 to rice mill and mini cement plant. As these products were included in negative list of the IP 2009-14, concession amounting to ₹ 21.55 lakh granted to these industries was irregular.

During Exit Conference, the Government stated (November 2016) that the industry is situated in the backward area. As per the IP 2014-19, rice mill situated in backward area was not included in negative list. Further, the product of the other industry was 'cement pipe' which was also not included in negative list.

The reply was not acceptable as the concession was granted under the IP 2009-14 in which rice mill was included in negative list and in other case as per EM part I, the product of the industry was cement.

2.20.3 We found during scrutiny of 157 cases of Electricity Duty exemption, 37 cases of Stamp Duty Exemption, 66 cases of Capital Subsidy and 44 cases of Interest Subsidy in the office of Director (Industries) that the Industries Department granted capital subsidy of ₹ 15.99 lakh to one bakery industry (March 2013) under the IP 2004-09 which has commenced its commercial production from November 2009. Further scrutiny revealed that the industry was granted certificate for mechanised processing for branded packaged products in December 2010. From the above fact it was clear that the industry was producing unbranded bakery products at the time of commencement of

[12] Bhatia Energy Limited and Vedanta Washeries Limited.
[13] Bastar Agro and Krishna Cement.

commercial production. Hence, the industry was not entitled for capital subsidy. However the Department granted the capital subsidy of ₹ 15.99 lakh which is irregular.

During Exit Conference, the Government stated (November 2016) that trade mark of this industry was approved in June 2008 before commencement of commercial production in November 2009. However trademark was issued in December 2010.

The reply was not acceptable because at the time of commencement of commercial production, the industry did not have trademark certificate.

2.20.4 During scrutiny of records relating to exemptions and subsidies in the office of Director (Industries), we noticed that the Industries Department issued the certificate for exemption from payment of stamp duty in November 2007 under the IP 2004-09 to M/s C.G. Coal and Power Limited for the execution of lease for the land admeasuring 4.148 hectare. Since the product of the industry was coal beneficiation and coal dust, which are included in appendix 2, sl. No. 14 of the negative list of the said policy, the exemption allowed was irregular. Further scrutiny revealed that the industry also failed to commence the commercial production within the time prescribed in the exemption certificate with a reason that allotted land was not sufficient for establishment of the industry and applied for the additional land. As the industry not only failed to comply with the terms and condition of the IP 2004-09 but also product of industry was included in negative list. The Department should have recovered the amount of stamp duty with interest. However, instead of recovering the amount of stamp duty with interest, the Industries Department issued another exemption certificate for exemption from payment of stamp duty in August 2014 under another IP 2009-14 considering it as a new industry. The industry availed the exemption of stamp duty amounting to ₹ 1.64 lakh on the execution of two lease deeds.

Thus, the Department allowed the benefit under two different IPs to such industry which was not only included in negative list but also failed to commence the commercial production within prescribed time limit which resulted in undue benefit to the industry.

During Exit Conference, the Government stated (November 2016) that the industry failed to commence the commercial production in stipulated time and therefore demand notice had been issued in July 2016 to recover the amount of stamp duty.

2.21 Irregular exemption allowed on addition of a new product

The Industries Department granted subsidy to an industry on addition of new product treating it as expansion of existing industry.

As per Appendix-I, note (1) of IP 2009-14, addition of new product in existing unit shall not be considered as new industrial unit.

We found during scrutiny of 117 cases relating to Capital Subsidy at DTIC, Raipur that an industry M/s Mohan Feeds and Chemicals Private Limited was engaged in production of cattle feed since 1987. The production capacity of the cattle feed is 12,500 MT per year. The industry expanded its production capacity from 12,500 MT to 25,000 MT by including new products as poultry feed and fish feed. As the industry included new product in the existing unit, it was not to be considered as new industry and was not eligible for any exemption/subsidy under the IP. However, the Industries Department sanctioned the capital subsidy amounting to ₹ 30 lakh in February 2015.Thus, sanction of capital subsidy to a new product included in the existing industry and treating it as a new industry was irregular.

During the Exit Conference, the Government stated (November 2016) that as per IP 2009-14, new product shall be included in existing industry under diversification. The diversified industry was also eligible for grants. The inclusion of poultry feed and fish feed has been treated as diversification instead of new product.

The reply of the Government was not acceptable because as per the production certificate issued by the Department, poultry feed and cattle feed were shown as new products.

2.22 Irregular allowance of subsidy to those industries which have not applied for within the prescribed time limit

The Industries Department granted subsidy to such industries which failed to apply within time stipulated by the notification.

As per notification issued in March 2012 the industries were to apply for fixed capital investment subsidy within one year from the date of commencement of commercial production.

2.22.1 We found during scrutiny of 66 cases of Capital Subsidy and 44 cases of Interest Subsidy in the Director (Industries) that an industry, M/s Thermocare Rockwool (Industries) Private Limited commenced the commercial production from August 2007. As per the notification, the industry needed to apply within one year from the date of commencement of commercial production. However, the company applied for fixed investment capital subsidy in June 2010 i.e., after two and half years stating that the Government granted the status of thrust sector industry only since September 2009. The Industries Department, while accepting the reason for the delay, granted the capital subsidy of ₹ 25 lakh. Further scrutiny of application of the industry revealed that the industry submitted the application for status of thrust sector in February 2009 which was also beyond the prescribed time limit. Thus, the application of the industry should have been rejected.

During Exit Conference, the Government stated (November 2016) that eligibility for special thrust sector status was given in September 2009 by Directorate of Industries. The industry became eligible for grants after the sanction of special thrust sector status and the industry applied within one year (June 2010) from the date of approval of special thrust sector status.

The reply of the Government was not acceptable because the industry did not mention any sufficient reason for the delay in submission of application. Further, the sanction of special thrust area did not specify that the industry may apply within one year from the date of such approval. The committee also while accepting the delay, did not specify any substantive reason.

2.22.2 Similarly scrutiny of 42 cases of Capital Subsidy in the office of the DTIC, Rajnandgaon we found that two industries, M/s Jain Industries Corporation and M/s Jain Industrial Corporation have commenced the commercial production from May 2011. Further scrutiny revealed that these industries applied for the fixed capital investment subsidy in June 2014 with the delay of more than three years. The industries did not mention any reason for the delay in submission of application. As such the application of the industries should not have been considered. However the Department accepted the application without any reason and sanctioned the subsidy of ₹ 4.91 lakh

During the Exit Conference, the Government stated (November 2016) that the application was received in September 2011 within prescribed time limit.

The reply of the Government was not acceptable. As per the acknowledgements of the applications for capital subsidy, the industries had applied for the same in June 2014 only.

2.23 Undue benefit given to industries having no valid documents

The Industries Department issued the recommendation for exemption from payment of electricity duty accepting the commencement of commercial production before the date of approval of the factory layout and factory license.

As per IP 2004-09, new industrial unit means an industrial unit which has commenced the commercial production between 1 November 2004 and 31 October 2009. Further as per IP 2009-14, new industrial unit has been defined an industrial unit which proposes to commence commercial production on or after 1 November 2009 and is in possession of E.M. part-1/I.E.M., letter of intent, industrial license issued by competent authority for this purpose and possesses E.M. part II and commercial production certificate issued by competent authority on commencement of commercial production in industry.

During scrutiny of records relating to exemption, in the office of Director (Industries) we noticed that the Department recommended for exemption from payment of electricity duty to an industry, M/s Aristo Transmission Line Private Limited under the IP 2004-09. Subsequently the Energy Department issued exemption certificate from payment of electricity duty for a period of 10 years from April 2010.

Further scrutiny of the records revealed that the lease deed for the land allotted by CSIDC was registered in February 2010 and the factory building layout was approved in May 2010. The factory license was issued in July 2010. Thus, the commencement of commercial production (April 2010) by the industry before the date of approval of factory layout and factory license was not possible.

The industry availed the electricity duty exemption amounting to ₹ 14.27 lakh from the commencement of commercial production which was irregular.

During Exit Conference, the Government stated (November 2016) that electricity supply of the industry was started since February 2010. Further the industry started various activities since 2009 for establishment of the industry. Thus commencement of commercial production since April 2010 was correct.

The reply of the Government was not acceptable because the possession of land was taken by the factory in February 2010, while the layout and factory license was approved in May 2010 and July 2010 respectively. The commencement of industry without approved layout and license was not possible.

Monitoring Mechanism

There was no proper coordination between the Industries Department, Commercial Tax (Registration) and Energy Department. The necessary data such as list of industries in which exemption was allowed, date of probable commencement of production, location and area of industries and the amount of exemption is to be maintained in the Commercial Tax (Registration) Department. However the requisite data was not being maintained by the Department. The monitoring mechanism which is the most essential part was absent in the Industries Department. Due to this, the Industries Department remained unaware about the industries were which were not set up after availing exemptions and which did not function for the minimum prescribed period of five years after availing subsidies. The Industries Department also remained unaware that the industries did not divert entire land for industrial purpose.

2.24 Lack of coordination, documentation and monitoring

There was lack of coordination between the implementing agency, Commercial Tax (Registration) Department and Energy Department.

The implementation of IPs and the extent of the specific allowance of exemptions and subsidies covered under audit involves three departments i.e. Commercial Tax (Registration) Department for exemption on stamp duty and Energy Department for exemption on electricity duty besides the Industries Department, which while implementing the policies also grants fixed capital subsidy and interest subsidy. Hence for successful implementation of the IPs it is vital that a well-planned and drawn coordination exists among these departments.

Successful implementations of IPs involving various departments necessarily have a detailed procedure/mechanism well documented clearly drawing the responsibilities of each of the departments, since granting of these exemptions/subsidies were not only on fulfilment of certain specific conditions but also were liable to be withdrawn if the industry failed to keep the specific conditions for the period specified under the IP.

During the Performance Audit we noticed that the Commercial Tax (Registration) Department had no information regarding the establishment of the industry or the commencement of the commercial production of those industries to which exemption certificates have been issued. Further, the requisite information to be prepared by the Head of the Department was also not prepared. In absence of such records Commercial Tax (Registration) Department does not have any information as to the status of exemption certificates issued and whether the particular industry had fulfilled the specific conditions of IPs to avail the exemption. Further, the Commercial Tax

(Registration) Department did not initiate any action to maintain/keep/collect such information.

Further, during scrutiny of records relating to stamp duty exemption certificates issued by the Director, Industries under the IP, we noticed that 48 industries were issued exemption certificates during the period 2010-11. On cross verification of these data with that of DTIC, Raipur, Rajnandgaon and Raigarh, we observed that out of the 48 industries, seven industries were not registered, two were under construction, nine were not established and four were closed after issue of exemption certificates. Further DTIC, Raipur stated that one industry which was closed, had availed exemption from electricity duty and interest subsidy. However, the Director, Industries when asked to provide the details of industries which were not functioning or established after the issue of exemption certificates, replied that none of the industries were closed after availing exemption which showed lack of monitoring at the implementing agency level.

As could be seen from the above, there did not exist any such documented procedure to fix responsibility of any Department involved in granting of exemptions/subsidies under the IPs.

Further, during scrutiny of records relating to exemptions given under IP in the office of Director (Industries), DTICs, CEI and SRs, we noticed that there was no coordination between the implementing agency and the departments concerned. Due to absence of coordination and documentation between the departments and absence of monitoring by the implementing department, the following irregularities were noticed:

- The industries which were allotted land for industrial purpose did not fully utilise the land for the purpose allotted but were allowed the exemption/subsidy.(mentioned in Paragraph 2.26)
- There were cases where industries were not set up after availing exemption but no action was taken(mentioned in Paragraph 2.25)
- The CEI allowed exemption to those units which had already taken the benefit under the earlier policy, instead of referring the case back to the Industries Department (mentioned in Paragraph 2.13)

During Exit Conference, the Government stated (November 2016) that the Department started the single window online system since 2016, in which intention for establishment of industry, approval from various departments, and issuance of grants / exemption certificates would be done online. Further, all information regarding the industry such as working, date of connection of electrical energy, commencement of commercial production etc. was also available on same portal.

The Government may consider strengthening the monitoring mechanism, ensure coordination between Industries and other Departments and initiate suitable action to maintain database of the benefitted industries so that the benefits of IPs are not availed by ineligible industries.

2.25 Industry not set up after availing exemption

The Industries Department did not prepare any roster for physical verification of industries benefitted under the IPs. Further, as the yearly returns were not submitted by the industries to the Industries Department, the Department failed to recover stamp duty from such industries which had not commenced commercial production within the time stipulated.

As per the condition of exemption certificate issued by the Industries Department for the exemption from payment of stamp duty, the industries should commence the commercial production within two to five years from the date of issue of such certificates. Failure to comply with the conditions mentioned in the certificate, the industry was liable to refund the exempted amount of stamp duty with interest at the rate of 12.50 *per cent per annum*.

We found during scrutiny of exemption and subsidies cases in the selected DTICs that the industries were not submitting the prescribed returns (audited accounts and production/sale Statement) yearly. The DTICs concerned also did not initiate any action to receive the requisite periodical returns. Further scrutiny revealed that the department did not prepare any roster for physical inspection of the benefited industries under the various IPs**,** leaving the Department vulnerable to risk of misuse of the benefits as mentioned below:

During scrutiny of the registered documents in the offices of the three SR offices we noticed that five[14] industries had availed the exemptions from payment of stamp duty on the purchase of land for setting up of industries. The Industries Department issued the exemption certificates from payment of stamp duty to these industries between December 2007 and March 2014. On cross verification with the Industries Department, it was revealed that four industries failed to commence the commercial production within period specified in the certificates and one industry sold entire land to another industry.

The Commercial Tax (Registration) Department granted exemption from payment of stamp duty on the basis of exemption certificates issued by the Industries Department on the execution and registration of the sale/lease deeds to these industries. As per the Indian Stamps Act and Market Value Guideline, stamp duty amounting to ₹ 4.61 crore was leviable on the sale/lease deed executed by these industries. Neither did the Industries Department initiate any action to recover the amount of stamp duty nor did Commercial Tax (Registration) Department inform the Industries Department for cancellation of these certificates.

Thus, due to inaction on the part of both the departments, stamp duty amounting ₹ 4.61 crore was not realised from the defaulter industries. Besides, interest was also leviable as per the provisions mentioned in the exemption certificate.

[14] Baldeo Energy and Chemicals, Emami Cement, Sona Power, Vandana Ispat limited, and Vandana Vidyut Limited

During Exit Conference, the Government stated (November 2016) that demand notices had since been issued for recovery of stamp duty.

2.26 Partial utilisation of land after availing exemption

The industries failed to utilise the entire land for the industrial purpose as against the condition of exemption certificate. However the Industries Department sanctioned the subsidies.

As per the condition of exemption certificate issued by the Industries Department for exemption from payment of stamp duty, the industries should utilise whole land allotted to the industry. Failure to comply with the conditions mentioned in the certificate, the industry is liable to refund the exempted amount of stamp duty with interest at the rate of 12.50 *per cent per annum.*

2.26.1 We found during scrutiny of 37cases of Stamp Duty Exemption and 66 cases of Capital Subsidy in the office of Director (Industries) that the IndustriesDepartmentissued exemption certificate from payment of stamp duty (November 2008) on purchase of land admeasuring 1.090 hectare to M/s Mahadevi Rice Mill under the IP 2004-09. The industry commenced the commercial production from October 2010. Further scrutiny revealed that the industry did not divert the entire land for industrial purpose and therefore, the Industries Department sanctioned the capital investment subsidy amounting ₹ 23.85 lakh excluding the cost of land. In another case, the Industries Department issued the exemption certificate from payment of stamp duty (July 2007) for the purchase of land admeasuring 3.13 hectare to M/s Tankeshwari Metal Product Private Limited under the IP 2004-09. The industry commenced commercial production from November 2008. Further scrutiny of records revealed that the industry diverted only two hectare land instead of 3.13 hectare. The Department sanctioned the capital investment subsidy amounting ₹ 25 lakh including the cost of land.

As these industries failed to fulfil the terms and conditions of the certificate issued under the IPs, these were not eligible for any subsidy and further exemption. However, the Industries Department sanctioned the subsidy amounting to ₹ 48.85 lakh which was irregular.

2.26.2 Similarly, during scrutiny of records relating to subsidies in the office of DTIC, Rajnandgaon we noticed that the Industries Department issued the exemption certificate from payment of stamp duty (January 2009) for the purchase of land admeasuring 5.40 hectare under the IP 2004-09 to M/s Panchsheel Solvent. As per another condition mentioned in the exemption certificate, the company should have commenced the commercial production within two years from the issuance of this certificate. The industry commenced the commercial production in April 2011. Further scrutiny revealed that the industry diverted land admeasuring 1.56 hectare for industrial purpose instead of 5.40 hectare. As such, the industry not only failed to commence commercial production within prescribed time limit but also failed to utilise entire land for the industrial purpose. Therefore, the industry was not eligible for any exemption/subsidy under the IP. Despite this, the Industries

Department, instead of recovering the amount of stamp duty, sanctioned the fixed investment capital subsidy of ₹ 1.10 crore which was irregular.

The above facts indicate that monitoring mechanism was lacking in the Industries Department to ensure that the benefit of exemption/subsidies were allowed to such industries which had fulfilled the objectives of the policies.

During Exit Conference, the Government stated (November 2016) that necessary action would be taken to recover the amount of subsidy and stamp duty.

2.27 Irregular allowance of subsidy/exemption to such industries which were not functioning continuously

In the absence of monitoring mechanism, the Industries Department allowed subsidy to such industries which were not functioning continuously.

As per notification no. F-14-2/03 issued in July 2003 under the IP it is necessary that the industry availing exemption/subsidy needs to function continuously for five years failing which the subsidy given to it shall be recovered. Further as per para 10 of Chhattisgarh State Fixed Capital Investment Rule, 2009, such industries which has granted the subsidies amounting to ₹ 25 lakh or more have to submit audited account with production/sale details yearly up to five years .

2.27.1 During scrutiny of the records relating to exemption and subsidies in office of the Director (Industries) we noticed that the industry M/s Priyadarshi Rice Product commenced commercial production from July 2010. The Industries Department sanctioned the fixed capital investment subsidy/interest subsidy amounting to ₹ 1.95 crore in March 2013. Further scrutiny revealed that the electricity supply of this industry was disconnected by CSPDCL in January 2013. As such the company was not functioning at the time of sanction of subsidies. However, the Department sanctioned the subsidies of ₹ 1.95 crore.

During the Exit Conference, the Government stated (November 2016) that after it came to notice that the electric supply has been disconnected, the grant was not disbursed.

2.27.2 Further, during scrutiny of the records relating to exemption and subsidies in office of DTIC, Rajnandgaon we noticed that M/s Sawariya Renewable Energy Limited has commenced the commercial production from January 2012. The Industries Department sanctioned (November 2014) the fixed capital investment subsidy of ₹ 80.79 lakh. Further scrutiny revealed that an agreement was executed for selling the industry in March 2014 and the electricity supply of the industry was disconnected in September 2015.

During the Exit Conference, the Government stated (November 2016) that the necessary action would be taken on further verification.

2.27.3 Similarly, the Industries Department issued the exemption certificate from payment of stamp duty to M/s Balaji Vidyut and Sponge Limited in March 2004 for the purchase of land admeasuring 3.242 hectare. The industry availed the exemption of ₹ 1.65 lakh on the purchase of land. Further scrutiny revealed that instead of setting up the industry, the entire land was sold to another industry, M/s Baldev Alloys Limited in August 2006. Hence, allowance of ₹ 1.65 lakh on account of exemption of stamp duty was irregular.

During the Exit Conference, the Government stated (November 2016) that the information regarding sale of the land is not available in the Department. However, necessary action has since been initiated to recover the amount of stamp duty.

As these industries failed to comply with the conditions of the IPs, the subsidies/exemption amounting to ₹ 2.77 crore was recoverable from these industries. However in absence of the monitoring mechanism the department did not initiate any action to recover the amount.

Other issues

2.28 Short levy of land premium

The CSIDC failed to levy the enhanced rate of 10 *per cent* on land allotted to an industry which was situated on 80 feet wide road resulting in short realisation of land premium.

As per para 2.5.14 of Chhattisgarh Industrial Land and Building Management Rule, 2015, 10 *per cent* additional premium shall be leviable on allotment of land situated on corner and beside main road of width more than 80 feet. Further as per terms and condition mentioned in the letter of intent the industry is required to get the lease deed registered within 60 day from the issue of letter of allotment. Further, micro, small and medium scale industry, if established in economically backward areas, is granted exemption/concession of 50 *per cent* on land premium.

During scrutiny of files regarding exemption of land premium in the office of CSIDC we noticed that an industry[15] which was granted exemption of 50 *per cent* on land premium was allotted land admeasuring 48,420 square feet for ₹ 4.95 lakh. Further scrutiny revealed that as per the land allotment letter issued in September 2015 the land is situated on the 100 feet wide road. As such 10 *per cent* additional premium was to be levied. However CSIDC failed to levy the additional premium which resulted in short levy of premium amounting to ₹ 49,483. Further the industry also did not submit the registered copy of the lease deed.

During the Exit Conference, the Government stated (November 2016) that demand notice for recovery of premium has since been issued.

2.29 Objectives for granting the concessions were not fulfilled

The Government failed to achieve the objective of setting up industries in the backward areas, thus depriving them of the benefits provided under IPs.

The Government of Chhattisgarh has introduced IPs for balanced development and growth of industries in the State. Among other objectives, the Government

[15] M/s MRS Industries

also aims to generate self-employment as well as additional employment to the local residents, special efforts towards bringing the poor, backward class people such as SC/ST, females, bringing naxalite affected families into mainstream of economic and industrial development

During scrutiny of records relating to the facilities provided to industries under various industrial policies, we found that though the Government made adequate provisions for establishment of industries in backward areas, but the entrepreneurs did not turn up to establish industries there as a result of which, the backward areas of the State were deprived of the benefits of IPs as shown below in **Table 2.3**:

Table 2.3:Percentage of sanction in backward area

Year	Electricity duty exemption			Stamp duty exemption			Capital subsidy			Interest subsidy		
	Total no. of cases of ED exem-ption	In back-ward areas	Percent-age of sanction in back-ward areas	Total no. of cases of SD exemp-tion	In back-ward areas	Percent-age of sanction in back-ward areas	Total no. of cases of capital subsidy	In back-ward areas	Percent-age of sanction in back-ward areas	Total no. of cases of interest subsidy	In back-ward areas	Percen-tage of sanction in back-ward areas
2011-12	41	3	7.3	8	0	0	29	11	37.90	11	1	9.10
2012-13	36	1	2.8	9	0	0	23	11	47.80	10	2	20.00
2013-14	35	1	2.9	5	1	20	10	2	20.00	6	1	16.70
2014-15	29	4	13.8	3	0	0	4	0	0.00	10	0	0.00
2015-16	16	0	0.0	12	1	8.3	0	0	0.00	7	1	14.30
Total	**157**	**9**	**5.7**	**37**	**2**	**5.4**	**66**	**24**	**36.40**	**44**	**5**	**11.40**

It may be seen from the above table that the percentage of granting exemptions and subsidies in backward areas is very less in comparison to the total number of industries facilitated in the State which indicates that the object of the policies regarding balanced industrial development was not achieved in the State.

Scrutiny of data regarding industries set up by the SC/ST, woman and naxal affected entrepreneurs revealed that the same was not being maintained by the Department. Further, physical verification of 15 industries in selected three DTICs revealed that though the norms regarding employment of domiciles of the State as mentioned in the policies were followed by these industries. To ascertain the domicile status of the employee, the Government was accepting identity proofs such as voter card, ration card etc. However, the domicile certificate is the only criteria to establish the domicile status due to which it could not be ascertained that the domiciles of the State were being benefited under the various IPs.

During Exit Conference, Government stated that the Government had already declared additional incentives for backward areas. Further the Government took many steps such as construction of new railway line and establishment of new steel plant for fast development of backward areas.

The Government may take suitable action for the balanced industrial development for backward areas in the State to achieve the objectives of the policies.

2.30 Conclusion

During the Performance Audit on"Exemptions and subsidies to industries under Industrial Policies", we observed the following:

- The Industries Department did not make suitable provisions in the IP in accordance with the notification issued by Energy Department and Electricity Act, 2003. As a result the Government was not only deprived of revenue of ₹ 6.03 crore, but also ₹ 2.22 crore is pending in the court of law.
- Though the time limit for commencement of commercial production is prescribed in the IP, option by the IP for industries to choose between the policies coupled with lack of provision for treating the exemption already availed in IP allowed exemption to industries in more than one policy.
- As periodical returns and roster for physical inspection were not prepared, the Department failed to monitor those industries which were not set up after availing exemptions and industries which did not function continuously for atleast five years. These industries availed exemptions/subsidies of ₹ 7.38 crore.
- There was lack of coordination between the implementing agency and the departments concerned. Due to lack of coordination and proper implementation of the IPs, the broad objective of IPs were not achieved.
- There was no proper documentation of the industries to which exemptions were allowed by the Commercial Tax (Registration) Department, due to which the Department may not be able to monitor the compliance of the specific conditions of the IP by these industries.

2.31 Recommendations

- **The Government may ensure that the provisions of Industrial Policies are framed in accordance with the departmental notification to avoid the deprivation of Government revenue.**
- **The Government may consider making necessary amendments in the IP so that all the facilities are availed by the industry in one policy only to avoid the delay in the achievement of objectives of the IPs;**
- **The Government while issuing subsequent exemption certificates for payment of stamp duty may consider restricting the time of commencement of commercial production according to the exemption certificate issued initially so that benefits of industrialisation occur in time;**
- **The Government may consider strengthening the monitoring mechanism, ensure coordination between Industries and other Departments and initiate suitable action to maintain database of the benefitted industries so that the benefits of IPs are not availed by ineligible industries; and**
- **The Government may take suitable action for the balanced industrial development for backward areas in the State to achieve the objectives of the policies.**