CHAPTER II

REVIEWS RELATING TO GOVERNMENT COMPANIES

2A KERALA STATE BEVERAGES (MANUFACTURING AND MARKETING) CORPORATION LIMITED

Highlights

The Company which was incorporated in 1984 with the objective of undertaking activities connected with the acquiring of existing business, manufacturing and trading in all kinds of alcoholic and non-alcoholic beverages, etc., had undertaken the business of purchase and trading in Indian Made Foreign Liquor (IMFL) and Beer only.

(Paragraphs 2A.1 and 2A.2)

Allowing of prices higher than the quoted rates in respect of 17 brands of 13 suppliers during 2000-01 resulted in unintended benefit of Rs.0.38 crore to the suppliers and additional burden of Rs.2.21 crore on the consumers.

(Paragraph 2A.7.2(iv))

Unnecessary retention of excise staff even after abolition of bonded warehouse system from 1 April 1999 resulted in avoidable expenditure of Rs.1.39 crore for the period up to March 2001.

(Paragraph 2A.7.5)

Failure to restrict the transfer of goods from bond according to requirement and as per instructions of head office resulted in avoidable payment of Rs.0.95 crore as excise duty.

(Paragraph 2A.7.6)

Tie-up arrangement allowed to outside State suppliers for supply of beverages from within the State resulted in undue benefit of Rs.13.40 crore to the suppliers and additional burden of Rs.77.45 crore on the consumers.

(Paragraph 2A.7.7)

The working of 14 retail shops of the Company during the period from 1996-97 to 2000-01 resulted in a cash loss of Rs.83.71 crore.

(Paragraph 2A.8.4)

The inept management of funds resulted in unnecessary availing of loans against term deposits and avoidable payment of interest to the extent of Rs.1.67 crore during the period from 1997-98 to 1999-2000.

(Paragraph 2A.9.2)

2A.1 Introduction

Kerala State Beverages (Manufacturing and Marketing) Corporation Limited was incorporated on 23 February 1984 as a fully owned Government Company to provide genuine liquor at reasonable prices through Government agencies and consumer protection by stopping exploitation by middle men.

2A.2 Objectives

The main objects envisaged at the time of incorporation of the Company were:

(i) Purchase, take over and otherwise acquire and manage all or any of the business of distilling, brewing, blending, manufacturing, packing, selling and distributing toddy, wine, arrack, Indian Made Foreign Liquor (IMFL), rectified spirit, denatured spirit and all other kinds of alcoholic and non-alcoholic beverages in the State of Kerala.

(ii) Carry on the business of manufacturing, processing, purchasing, distilling, brewing, blending, packing, stocking, selling, importing from and exporting to other States in India and dealing in toddy, wine, arrack, Indian made foreign liquor, rectified spirit, denatured spirit and all other kinds of alcoholic and non-alcoholic beverages.

(iii) Procure, collect, arrange, buy, stock, distribute, sell, import from and export to other States and generally deal in molasses, rectified spirit, denatured spirit, raw/dried tapioca, starch, glucose and other raw materials used for preparation of toddy, wine, spirit, arrack, Indian made foreign liquor and all other kinds of alcoholic and non-alcoholic beverages.

In February 1984, an amendment was made in the Kerala Abkari Act, 1967 whereby the wholesale distribution of IMFL and Beer within the State was entrusted to the Company. Effective from 1 April 1984, the Company is the sole agency for purchase and distribution of IMFL and Beer within the State. No other activity envisaged in the objectives had been undertaken by the Company.

2A.3 Organisational set-up

The Company is managed by a Board of Directors consisting of six Directors (five part-time) including the Managing Director. The Managing Director is assisted by the functional heads viz., Finance Manager, the Internal Audit Officer, the Company Secretary and the Administrative Officer.

As on 31 March 2001, the Company was operating 14 warehouses for storage and distribution of IMFL and Beer to the licensees under various categories. The Company was also operating 14 shops (one in each district) for retail sale of the products to consumers. The warehouses and shops were also controlled by three Regional Managers stationed at Kollam, Ernakulam and Kozhikode.

2A.4 Scope of Audit

The working of the Company has not been reviewed since its inception in 1984. The present review covers the working of the Company for the five years up to 31 March 2001. The results of the review are discussed in the succeeding paragraphs.

2A.5 Finance and resources

2A.5.A Share capital

The authorised share capital of the Company was Rs.5 crore divided into 50,000 shares of Rs.1000 each. The paid-up capital of the Company remained at Rs.1.03 crore as at the end of all the five years up to 2000-01 and was contributed entirely by the State Government.

2A.5.B Borrowings

The Company had no borrowings except for loans taken against fixed deposits with banks which ranged between Rs.8.29 crore and Rs.11.50 crore as at the end of the three years up to 1999-2000.

2A.6 Financial position and working results

The accounts of the company was finalised and audited only up to the year ended 31 March 1999. For the year 1999-2000 provisional figures as confirmed by the Company have been taken.

Annexure 10 summarises the financial position of the Company under broad headings as at the end of the five years up to 1999-2000. It could be seen from the Annexure that the capital employed increased from Rs.3.10 crore in 1995-96 to Rs.23.19 crore as on 31 March 2000, mainly on account of increase in the availability of working capital. Similarly, the net worth increased from Rs.3.10 crore as on 31 March 1996 to Rs.12.69 crore on 31 March 2000, on account of increase in reserves and surplus by Rs.9.59 crore.

The working of the Company during fifteen out of sixteen years from 1984-85 to 1999-2000 resulted in profit. The working results of the Company for the five years up to 1999-2000 are summarised in Annexure 11.

It is noticed from Annexure 11 that the profit zoomed from Rs.1.06 crore in 1995-96 to Rs.7.71 crore in 1997-98 but declined to Rs.4.16 crore in 1999-2000 despite increase in price and corresponding increase in sale. The dividend declared and paid to the Government during the 13 years up to 1998-99 amounted to Rs.4.52 crore including Rs.2.78 crore paid during the last four years. It can be further seen from Annexure 11 that the Company made a contribution of Rs.3413.19 crore to the State exchequer during the five years up to 1999-2000 on excise duty, import fee, sales tax, surcharge on sales tax, turn over tax, vending fee, licence fee and rental for retail shops.

2A.7 Purchase policy and procedure

2A.7.1 Selection of suppliers

Open tender system did not serve the desired purpose

The Company had not evolved a system of assessing the requirements of each brand/product to be purchased and sold through its various outlets. Annual tenders for the supply of IMFL/Beer to the designated depots of the Company are invited restricting the submission of tenders only to manufacturers owning distilleries, breweries or blending units. However, the Company was not using any discretion in deciding on the brands/products to be purchased and sold but was accepting the offers for all the brands/products without ensuring the lowest possible rate based on standard quality parameters. As a result of this, the invitation of open tenders did not serve any purpose other than identifying new suppliers. Many of the suppliers were not effecting supplies of any or all the brands for which they had given offers. Out of 612 brands quoted for supply during 2000-01 by 86 suppliers, only 246 brands had been registered with the Excise Department (up to January 2001) and of these 218 brands only (200 brands of IMFL, 12 brands of Beer and 6 brands of wine) supplied during 2000-01. Of the 86 registered suppliers for 2000-01, 12 suppliers had not registered their brands and 3 suppliers did not effect supply after registering their brands, the reasons for which were not on record.

The Company was well aware that 30 brands of IMFL products and five brands of Beer were fast moving and contributing to more than 75 *per cent* of the sales. The possibility of confining the purchase and sales to these brands and a few other brands on individual merits has not been explored by the

Company so far. Though such a policy would have maximised the profits as well as revenue of the State by minimising inventory holdings, the Company has not even considered a change in the purchase policy during these years.

2A.7.2 Fixation of price

(i) As per the tender conditions, the tenderers were to quote the brand-wise rates for delivery in any of the warehouses of the Company and to include all charges up to unloading but not to include Kerala import fee, Kerala excise duty and Kerala sales tax. The Company had no mechanism to assess the cost of production of each product quoted by the suppliers and to fix the purchase price giving a margin on such cost. The Company was not following a uniform policy for fixation of purchase price. Variation in prices was being made each year on *ad hoc* basis with reference to previous year's supply rates. While no increase in price was allowed during the years 1996-97, 1998-99 and 2000-01, the rates were increased by 25 *per cent* and 5 *per cent* respectively over previous years' rates during 1997-98 and 1999-2000. In the case of new products, the quoted rates were being accepted invariably. During the year 1999-2000, the Company also fixed a minimum price of Rs.235 per case of IMFL. Thus, a system of assessing the cost independently and fixing the supply price on that basis has not so far been evolved and as such, the Company was not ensuring the reasonableness of price agreed/increase granted periodically.

(ii) An analysis in audit revealed that out of 75 brands of brandy supplied during 2000-01, 46 were in the lower price range of Rs.112 to Rs.200 per bottle of 750 ml, 18 brands were in the price range of Rs.201 to Rs.250, eight brands were in the price range of Rs.251 to Rs.400 and three brands were above Rs.401. As regards whisky, the popular brands were costly items priced above Rs.250 (23 out of 31 brands) and for rum more than 50 *per cent* of the supplies (41 out of 79 brands) was in the lower price range up to Rs.130 per bottle. Thus the Company was doing the business mainly in low premium popular brands instead of products having higher premium.

(iii) Based on an assessment made by the Company it was concluded that no manufacturer could supply a brand for a price less than Rs.235 per case using quality inputs. The Company decided not to accept any new products during 1999-2000 and 2000-01 the quoted price of which for 750 ml bottle was less than Rs.235 per case of 12 bottles. However, the Company had no mechanism to ensure the quality of inputs used in the manufacture of the products irrespective of the price paid.

Additional burden of Rs. 2.21 crore passed on to consumers due to higher prices fixed

(iv) The price list approved by the Company during 2000-01 included 41 brands supplied by 24 firms who had quoted prices lower than that for the year 1999-2000 and also furnished brand-wise cost data along with the quotations. However, the Company fixed prices higher than the quoted rates with a view to protect Government revenue in these cases resulting in unintended benefit of Rs.38.26 lakh in respect of 17 brands supplied by 13 suppliers during the year. The additional burden passed on to the consumers due to the above sales

inclusive of excise duty, sales tax and whole sale margin amounted to Rs.2.21 crore.

There was absence of proper quality assurance

(v) Though the Company was in the business for the last sixteen years, it had not yet established own facilities for checking the quality of the products purchased. The quality analysis was being done through Government Analytical Laboratory limiting to a few samples only. In the absence of proper quality assurance, the Company could not ensure that the products supplied were in conformity with the quality parameters and higher prices paid for various brands were justifiable.

2A.7.3 Loss due to extension of validity period of transport permits

At the time of abolition (April 1999) of bonded warehouse system, the State Excise department fixed the validity period for transport permits issued to suppliers as 7 days without due relevance to the Kerala Liquor Transit Rules. This was further enhanced (April 1999) to 10 days without assigning any specific reason. Though the increase in period led to unnecessary blocking up of funds on excise duty, no efforts were made by the Company to get the period reduced. The interest loss @ 13 *per cent* per annum suffered by the Company due to excessive transit period on 10284 transport permits involving excise duty of Rs.192.35 crore during the year 1999-2000 and on 19549 permits involving excise duty of Rs. 255.53 crore during 2000-01, was to the extent of Rs. 20.55 lakh and Rs. 27.30 lakh respectively.

2A.7.4 Inadequate control over the issue and use of transport/import permits

Though the rules do not allow revalidation of permits except for delay in delivery on account of break down /accident to carriers, the Company was permitting revalidation or cancellation of permits after levying a fee of Rs.5000 per permit without enquiring into the circumstances leading to non-supply of goods within the validity period of such permits. A scrutiny in audit revealed that the Company was not exercising effective control over the permits as indicated below:

(i) Though the supply against the Transport (3)/Import (2) permits issued during December 1997 to February 2000 to three suppliers had not been effected and permits were not returned even after expiry of validity period, the Company failed to take any action to recover the amount of excise duty (Rs.2.77 lakh)/Import fee (Rs.0.37 lakh) paid, for which there were no reasons on record.

(ii) A Transport permit was issued to M/s.Seven Seas Distillery in May 1999 for supplying 550 cases of IMFL to Nedumangad warehouse for which the Company paid Rs.2.64 lakh as excise duty. Suppliers claimed that they had supplied IMFL on the said permit. The Company, however, had not received the same. Similarly two loads of IMFL covered by permit No.8587 dated 8 July 1998 issued to M/s Amrit Distilleries and permit No.8968 dated 12 August 1998 issued to M/s Ajudhia Distilleries had not been delivered at

Alappuzha and Ernakulam warehouses respectively. Though the responsibility of delivering the goods rested with the suppliers, the Company had not taken action to recover from the suppliers the amount (Rs. 6.71 lakh) of duty paid to Government.

(iii) Two permits each issued to M/s Super Star Distilleries and M/s Rhea Distilleries in March and May 1999 respectively and five permits issued to M/s Cassanova Distilleries in February 2000 were surrendered for cancellation. However, these permits remained to be cancelled. An amount of Rs.15.20 lakh towards excise duty and Rs.0.40 lakh being import fee paid by the Company was pending recovery from the firms. The fee for cancellation is not even sufficient to cover the interest loss of Rs.4.09 lakh on locked up funds, calculated at the rate of 18 *per cent* per annum for the period up to March 2001.

(iv) The Company was allowing revalidation of permits without any time limit after levying a fee of Rs.5000. An analysis revealed that as against Rs.1.25 lakh realised on revalidation of 25 permits during 1999-2000, the loss of interest at the rate of 18 *per cent* per annum on locked up amount in excise duty and import fee paid was Rs.4.23 lakh.

2A.7.5 Extra expenditure due to avoidable retention of excise staff

As per the provisions of Kerala Abkari Act, 1967, the movement of liquor from suppliers' works to the warehouses of the Company was to be regulated through permits issued by the State Excise Department. The permits were issued at the request of the Company. Out of 14 warehouses of the Company for effecting wholesale of IMFL/Beer to various retailers and to own FL 1* shops, 12 warehouses were having bond facilities with FL 9** premises. Warehouses at Thiruvalla and Pathanamthitta were being operated as duty paid warehouses. Liquor was first brought and stored in the bonded warehouses which were under the control of Excise staff. Duty had to be paid only when goods were transferred to FL 9 premises. However, the Board of Directors of the Company decided (February 1996) to change warehouses into FL 9 premises so as to serve the licencees better. As requested by the Company, Government ordered (January 1999) abolition of bonded warehouse system. Thereupon, the entire stock of liquor available in the 12 bonded warehouses was transferred during February and March 1999 to FL 9 premises.

There was idle excise establishment charge of Rs.1.39 crore

Despite abolition (January 1999) of the bonded warehouse system and transfer (March 1999) of stock to FL 9 area, the Company unnecessarily retained the services of the excise staff and incurred avoidable excise establishment charges amounting to Rs.1.39 crore during the period from April 1999 to March 2001.

* FL 1 – Licence for retail sale of IMFL/Beer in bottles
** FL 9 – Licensed premises for storage of duty paid liquor

2A.7.6 Loss due to accumulation of inventory in FL 9 premises

Unnecessary transfer of stock to FL 9 premises resulted in avoidable excise duty payment of Rs.0.95 crore

In order to speed up the delivery of IMFL to the retailers, the warehouses used to keep some products in FL 9 premises by paying duty in advance, without linking the same with the indents of licencees. The rate of excise duty was reduced to 100 *per cent* of the landed cost with effect from 1 April 1997 from the prevailing rate of 200 *per cent*. In the wake of impending reduction of excise duty, there were instructions (5 March 1997) from the Company's head office to minimise the stock of duty paid goods. As efforts were not made to exhaust the stock of duty paid goods, the Company lost Rs.95.43 lakh on this account, which could have been avoided if the system of transferring the goods from bond to FL 9 premises strictly as per indents and instructions of head office had been adhered to. The Company has not identified the persons and fixed responsibility for the loss.

According to the Company (August 2001) the system was changed due to operational constraints. However, the bonded warehouse system had been in vogue from 1984-85 to 1998-99 and such constraints had not affected the Company's business during the period.

2A.7.7 Undue benefit to suppliers due to tie-up arrangements

Substantial portion of the purchases effected by the Company was from firms outside the State and the suppliers had to pay export fee (fee levied by the concerned States for transporting IMFL to other States), central sales tax and heavy transportation charges which were included in their quoted rates as those expenses were incurred by the suppliers. However, since 1996-97, the Company allowed tie-up arrangements to the suppliers for bottling and supply of IMFL from units within the State. During the five years up to 31 March 2001, the number of suppliers from outside the State who availed of the facility of tie-up arrangement for blending and bottling of 18 to 54 brands with 8 distilleries in the State, ranged from 4 to 15. The Company did not insist on the exclusion of export fee, Central sales tax and savings in freight from their quoted rates for beverages.

Undue benefit of Rs.13.40 crore passed on to suppliers

There was additional burden of Rs. 64.05 crore to the consumers due to wrong pricing policy

Even after introduction of tie up arrangement, the suppliers included the component of export fee in prices quoted by them. The avoidable payment of export fee made to suppliers though actually did not incur any expenditure on this account was to the extent of Rs. 13.40 crore, for 41.13 lakh cases supplied by 17 suppliers during the 5 years ended 31 March 2001. This had cascading effect on counsumers by way of excise duty, sales tax and margin, to the extent of Rs. 64.05 crore. Besides this, benefit on account of freight to suppliers and impact on consumers could not be quantified.

2A.7.8 Non-registration of brands

Under the Foreign Liquor (Registration of Brand) Rules, 1995, any manufacturer of foreign liquor in the State or elsewhere in India who supplies foreign liquor to the company, had to register with Excise Department the

brand of foreign liquor manufactured and supplied to the company since 1 April 1995. Such registration had to be renewed annually. The fee prescribed for each brand was Rs.25000, which was enhanced to Rs.50000 during the year 2000-01.

Compliance of brand registration rules not ensured.

A review of the stock position and sales during 2000-01 revealed that though brands supplied to the Company during the year were registered, it had sold out of the stock held from previous year, 110 brands of IMFL during the year without registration of brands including 10 brands of Kerala manufacturers. Similarly out of the closing stock at the end of the previous year, 56 brands not sold during 2000-01 and held in stock had no valid brand registration. The Company should have ensured the remittance of registration fee to Government even by adjustment from sales proceeds due to the suppliers. The failure of the Company to ensure the compliance had resulted in non-collection and remittance of Rs. 83 lakh towards registration fee of brands sold as well as held in stock without registration.

State Government lost brand registration fee of Rs.0.83 crore

2A.7.9 Hiring of space/godown for warehouses

For storage of IMFL/Beer, the Company was having 14 hired warehouses and the storage capacity thereof was assessed as 333.33 sq.ft. per 1000 cases. Taking into account the standard size of one IMFL/Beer case, 20 *per cent* area for alley ways and a stack height of 7 ft., the area required for storage of 1000 cases had been worked by Audit as 215 sq.ft. While the storage space actually used for 1000 cases in three of the 14 warehouses (Ernakulam, Kottayam and Attingal) was less than 215 sq.ft., in the remaining 11 warehouses the space hired, with reference to the average monthly sales in the respective location, was in excess of requirement resulting in avoidable payment of hire charges of Rs.1.56 crore during the four years up to 1999-2000.

Unnecessary hiring of godown resulted in avoidable expenditure of Rs.0.46 crore

It was also noticed in audit that the Company decided (March 1998) to hire a godown of 30000 sq.ft. capacity at Thiruvalla for a period of 7 years when another godown in the same district at Pathanamthitta was catering to the requirement of only a few licensees. The operation of godown was rendered possible by diversion of some of the existing licensees from Pathanamthitta and Kottayam. The unnecessary hiring of godown at Thiruvalla resulted in avoidable expenditure of Rs.45.95 lakh towards rent, cost of excise establishment and salary of staff during 1998-99 and 1999-2000 and its continued (April 2001) operation lacked justification.

2A.8 Sales policy and performance

2A.8.1 Sales Policy

The Company had no sales policy of its own. Whatever products made available by the suppliers were being sold to the licensees on the basis of indents placed by them. Thus the Company was not doing any marketing activity and it was left to the supplier to propagate the sale of their products. As the eligibility for replenishment orders for each supplier was decided on

the basis of the total sales performance of all the products, it was for the supplier to see that the products were sold out as quickly as possible. Further, the payment to the supplier was to be effected after 45 days of delivery or sale of goods whichever was later. The choice of brands and place of supply were determined exclusively by the suppliers. The terms and conditions of the contract provided that the entire stock of IMFL and Beer should get exhausted through sales within 90 days from the date of receipt and for the quantity not sold within 90 days storage charges at the rate of Rs.4 per case per month (Rs.2 per case up to March 1997) were to be levied on the supplier. If the stocks are not sold within 180 days from the date of receipt, the Company was at liberty to sell the same on discount or by auction. Thus, the suppliers were to ensure speedy disposal of their products to get early payment, to get further orders and to avoid levy of storage charges and other possible losses on disposal of stock by auction, on discount, etc.

2A.8.2 Sales performance

The table below indicates the sales performance of the Company for the five years from 1995-96 to 1999-2000:

Year	**Sales quantity in lakh cases**		**Value (including excise duty) (Rupees in crore)**
	IMFL	**BEER**	
1995-96	32.69	32.14	280.61
1996-97	32.42	30.85	445.04
1997-98	57.24	27.93	580.58
1998-99	62.95	27.28	644.89
1999-2000 (Provisional)	64.52	25.22	676.26

The increase in value of sales during 1996-97 was on account of changing the pattern of charging excise duty from Rs.20 per proof litre to 200 *per cent* of landed cost. The increase in sales of IMFL from 1997-98 onwards was due to ban on arrack sales introduced by Government.

2A.8.2.1 Analysis of sales

The Company was catering to the requirements of various categories of licensees on the basis of licences issued by Government. The table below gives the number of licensees under each category during the five years up to 2000-01:

Year	Details of licencees					Total
	FL 1 *	FL 3**	FL 4A#	FL 11 ##	FL 12 @	
1996-97	230	427	4	56	3	720
1997-98	230	428	4	57	3	722
1998-99	231	430	4	58	3	726
1999-2000	228	445	4	59	3	739
2000-01	231	458	4	40	3	736

In addition to the above, the Company had been given the FL 1 licence to operate 14 retail shops at the rate of one in each district on rental as fixed by Government year after year. The Company was not maintaining database as to sales effected in each of the licensed outlets with a view to arrive at the licence fee to be fixed by the Government.

2A.8.3 Delay in implementation of revised prices

Loss due to delay in implementation of price revision was Rs.0.25 crore

The Company decided in its Board meeting (16 May 2000) to increase the margin on the sale of IMFL from 25 *per cent* to 30 *per cent* with immediate effect. However, sale at the revised price was started by warehouses from 25 May 2000 only. A test check in audit revealed that due to delay in implementing revised prices, the loss incurred during the period from 17 May 2000 to 24 May 2000, in Kollam and Ernakulam warehouses was Rs.25.04 lakh including sales tax of Rs.11.51 lakh. As there was no system of fixing the maximum retail price (MRP) and marking the same on bottles/labels, the sale at lower rates was beneficial only to the private retailers and not to the consumers. The Company's lapse thus resulted in unintended benefit to private retail licensees. No action has been taken by the Company to fix responsibility for the lapse.

2A.8.4 Loss in running of retail shops

The table below indicates the overall performance of retail shops (Company owned) during the period from 1996-97 to 2000-01:

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* FL 1 – Foreign liquor licence for retailers in bottles.

** FL 3 - Licence for retail sales in peg measurement (issued to classified hotels and restaurants of category 'two star and above')

FL 4A- Club licence issued to certain clubs satisfying the prescribed conditions.

FL 11 – Beer and wine parlour licences issued to Kerala Tourism Development Corporation Ltd.

@ FL 12 – Beer retail outlets for sale in bottles without permission for consumption within the premises (issued to Kerala State Co-operative Consumer Federation Limited)

		1996-97	1997-98	1998-99	1999-2000	2000-2001
		(Rupees in crore)				
1	Gross sales	59.57	78.62	104.84	114.67	129.71
2	Sales tax	25.10	33.36	44.56	49.66	59.60
3	Net sales	34.47	45.26	60.29	65.01	70.11
4	Retail margin	5.74	7.55	10.05	10.84	11.69
5	Direct expenses	0.73	1.01	0.86	1.03	1.42
6	Kist (Rental)	7.28	12.04	15.05	18.81	23.51
7	Surcharge	2.51	3.34	4.46	4.97	5.86
8	Turnover tax	2.98	3.93	5.24	5.73	6.44
9.	Administrative overheads in proportion to sales	0.38	0.47	0.70	0.83	NA
10	Total of expenses, rental and taxes (5+6+7+8+9)	13.88	20.79	26.31	31.37	37.23
11	Net loss (10-4)	8.14	13.24	16.26	20.53	25.54

The working of retail shops resulted in cash loss of Rs. 83.71 crore

Thus, the total loss incurred on running of the retail shops during the period from 1996-97 to 2000-01 worked out to Rs.83.71 crore. Though the gross sales through the retail shops increased from Rs.59.57 crore during 1996-97 to Rs.129.71 crore during 2000-01, the loss during the corresponding period increased from Rs 8.14 crore to Rs.25.54 crore. The losses could be attributed to the following:

(i) The FL 1 licences for running of retail shops were being issued to the highest bidders in shop-wise auction conducted annually. Up to 1995-96, the rental/kist for retail shops operated by the Company was being fixed by Government by adding 25 *per cent* over the State average rental fetched for other shops. However from 1996-97 onwards, the rental for Company's retail outlets was fixed arbitrarily at higher level as indicated below:

Year	Number of FL 1 licensees	State average rental obtained on auction	Rental per shop fixed for the Company	Excess rental per shop	
				Amount	Percentage
		(Rupees in lakh)			
1996-97	230	31.09	52.00	20.91	67
1997-98	230	48.55	86.00	37.45	77
1998-99	231	41.93	107.50	65.57	156
1999-2000	228	49.49	134.37	84.88	172
2000-01	231	53.23	167.96	114.73	216

Arbitrary fixation of rent since 1996-97 led to excess rental charges of Rs. 45.30 crore

The excess rental paid for the 14 shops during the five years up to 2000-01 when compared to the average amount of rental fetched in auction, was Rs. 45.30 crore. The Company had not represented to Government for reduction in the high rate of kist so as to make the working of retail outlets viable.

(ii) The amount of rental of individual shops varied from Rs.5 lakh to Rs.125 lakh per annum. Considering a retail margin of 25 *per cent* on

purchase price to recover the rent alone, each of the licensees should have effected purchases for at least four times the value of rental as assessed by Audit. A comparison in Audit of the off take of the FL 1 licensees from Kollam and Ernakulam warehouses of the Company with their corresponding rental indicated that the value of off take of licencees at Kollam was five to ten times lesser than that at Ernakulam and did not even cover the actual rental paid. Evidently, the lower off take and higher rental paid by licensees in Kollam indicated the possibility of sale of clandestine or illicit liquor. The Company was not watching the off take of the licensees with reference to rental and reporting suspected cases to excise vigilance wing with a view to curb malpractices, if any, by licensees.

The margin available for retail shops of the Company was just 38 paise on a selling price of Rs.159 per bottle against Rs.18.56 available for the private retailers on the same price. This was mainly due to payment of sales tax on retail selling price instead of on wholesale price for Company's own shops.

The additional payment of sales tax on retail business during the five years up to 2000-01 was Rs.83.71 crore which eroded the margin available on the wholesale business.

(iii) The licence fee for FL 3 bar licences issued to classified hotels and restaurants was enhanced from Rs.5 lakh to Rs.10 lakh during 1996-97, to Rs.12 lakh during 1998-99 and to Rs.13 lakh from 1999-2000. The figures of off take of FL 3 licensees from the warehouses at Kollam and Ernakulam were analysed in Audit and it was revealed that the off take by the bar licensees was very high and disproportionate to the licence fees and in many cases it exceeded that of FL 1 licensees. The Company had no system of analysing the sales of FL 3 licensees with reference to the licence fees prescribed and recommending to Government periodical enhancement in licence fees corresponding to turnover and margin of profit.

2A.8.5 Extra expenditure on loading/unloading charges

(i) Contrary to the trade practice of payment of loading charges by the purchasers, the Company without any contractual obligation started sharing a portion of loading charges of IMFL and Beer sold to private retail licensees. The decision to share the loading charge at Ps. 58 and Ps.70 per case respectively on sales made from the Kollam and Ernakulam warehouses during the year 1999-2000 resulted in avoidable expenditure of Rs.8.49 lakh.

(ii) In its own FL 1 shop at Ernakulam, the rate of unloading charges for IMFL fixed by the Company, in consultation with the Trade Unions was Rs.2.29 per case effective from March 1999. Against this, the rate prevailing at Kollam shop was Rs.4.31 per case. During the period from April 1999 to December 2000, FL 1 shop at Kollam paid Rs.4.62 lakh as unloading charges for 107139 cases of IMFL and Beer at the higher rate of Rs.4.31 per case resulting in additional expenditure of Rs.2.16 lakh. The wide disparity in the

rates of payment for the same type of work indicated absence of proper negotiation to protect the interests of the Company.

2A.9 Funds Management

2A.9.1 Delay in transfer of funds

Sale proceeds of the Company at district level were being remitted into current accounts with local banks and as per instructions, the bankers were to make telegraphic transfer of the balances in such accounts to Head Office bank account at Thiruvananthapuram, twice a week.

Delay in transfer of funds resulted in interest loss of Rs.0.50 crore

A test check in Audit of the transfer of funds with reference to the 'funds in transit' as at the end of the five years up to 1999-2000 revealed that there was delay up to 20 months in transfer of funds and the amount involved ranged between Rs. 1.57 lakh and Rs.75 lakh. By properly monitoring the transfer of funds in time and investing the amounts in fixed deposits, the Company could have earned interest of Rs.49.93 lakh in 36 cases @ 11 *per cent* per annum.

It was noticed in audit that Rs.5 lakh and Rs.6.17 lakh transferred from Aluva (January 1993) and Kannur (period not known) respectively had not been received (February 2001). Similarly, in the absence of details, remittances aggregating Rs.24.09 lakh relating to the period November 1987 to January 1993 had not been accounted for by the Company. According to Management (August 2001) the matter was still pending since the bankers could not confirm the credit particulars.

2A.9.2 Loan against fixed deposit

Unnecessary loans against term deposits resulted in avoidable payment of interest of Rs.1.67 crore

The Company was operating current account with banks at unit level for collection of funds and huge funds transferred to Head Office account used to be in transit through out the year. At the same time since 1995-96 the Head Office of the Company followed a system of depositing the surplus funds in short term deposits and avail of loans therefrom to meet immediate requirements. Though the intention of the Company was to save interest, it was noticed in audit that in the absence of proper monitoring of funds availability and fund transfers the Company was actually borrowing against term deposits from banks when there was sufficient balance in current accounts with the same banks at various units and also when huge funds transferred were in transit. While the Company availed of loans at Head Office level to the extent of Rs.10.30 crore, Rs.8.29 crore and Rs.11.50 crore respectively as on 31 March of the 3 years ending 1999-2000, there was a balance of Rs.22.76 crore, Rs.9.61 crore and Rs.28.01 crore respectively in current account at unit level and as funds in transit on the same date. The same position continued through out the period. Thus the inept management of funds transfer and its utilisation resulted in availing of unnecessary loans against term deposits and avoidable payment of interest to the extent of Rs.1.67 crore during the period 1997-98 to 1999-2000. The Company could have avoided this by approaching the banks for 'value date' realisation

facilities i.e., only credit balance in any of the branches/head office could be off set against debit balances in any other branches/head office on day to day basis to arrive at actual net amount overdrawn and the interest payable, if any, on net debit in the bank account.

2A.9.3 Avoidable expenditure on bank charges

Till the end of 1998-99 when the Company was maintaining bonded warehouses the excise duty was being remitted from the concerned warehouses based on the value of beverages removed from the Bond. Excise duty was being remitted by each warehouse in the concerned District Treasury by way of demand draft drawn on Canara Bank/State Bank of Travancore (SBT) payable at the same station since current accounts were being maintained with branches of these banks for remittance purposes.

From 1996-97 onwards, branches of Canara Bank started levying commission/bank charges at their usual rates for the demand draft drawn for paying excise duty. The total amount of commission thus charged during the three years ended 1998-99 was Rs.21.55 lakh. As the treasury transactions in the State were being routed through SBT, it was not necessary for the Company to pay excise duty by way of demand draft drawn on Canara Bank located at the same station by paying commission. Funds could have been remitted in the branches of SBT having treasury transaction and remittance of duty effected through transfer credit by issuing self cheques. Had this procedure been followed, the Company could have avoided payment of bank charges of Rs.21.55 lakh. The management stated (August 2001) that the request for refund of bank charges was being pursued and the Company was hopeful of getting it.

2A.9.4 Payment of vending fee

According to Rule 15(A) of the Foreign Liquor Rules 1953, the FL 9 licensees had to pay vending fee (gallonage fee) at such rates as prescribed by Government from time to time as per the recommendations of the Company. The vending fee paid during the five years ending 1999-2000 ranged between Rs.4.87 crore and Rs.10.60 crore.

Delay in remittance of vending fee resulted in avoidable interest payment of Rs.0.16 crore

In July 1997, Government introduced levy of interest for delayed payment of vending fee and accordingly if vending fee was not remitted in full before the tenth day of April, interest @18 *per cent* per annum was to be paid on the entire amount from the first day of April. It was noticed in Audit that though sufficient funds were available there was delay in remittance of the vending fee (Rs.10.25 crore) in part or in full during the year 1997-98 to 1999-2000 resulting in avoidable payment of interest of Rs.15.58 lakh.

The Management stated (August 2001) that the delay in payment was due to corresponding delay in fixing rates of vending fee by the Government.

2A.9.5 Loss due to advance payment of rental

According to Rule 6(25) of the Abkari shops (disposal in auction) Rules 1975, rental (kist) of FL1 shops for the period from 1st April of the year to 31 March of the year following is to be paid in 10 equal monthly instalments. The instalments shall be payable on or before 10th day of each English Calendar month beginning from 1st April. The Company was not availing the above instalment facility and was making payment of rental in advance as detailed in Annexure 12.

Unnecessary advance payment of rental resulted in loss of interest of Rs.1.70 crore

As the Company *suo moto* made advance payment of rental (kist) it involved heavy outflow of funds and consequent avoidable loss of interest amounting to Rs.1.70 crore at 11 *per cent* per annum for the period 1995-96 to 1999-2000. In reply to an audit query the Company stated (December 2000) that the payment of rental ahead of requirement was made to Government only. The reply is not tenable as the unnecessary payments in advance in the above cases were at the cost of default of payment towards vending fee, for which the Company had to bear penalty.

2A.9.6 Amount pending recovery from suppliers

As per the contract terms, the payment against purchase was to be made to the suppliers after 45 days or actual sales, whichever was later. Therefore, the personal account of suppliers should show credit balances only. However, a scrutiny in audit indicated debit balances against the personal accounts of various parties and the total amount of such debit balances as at the end of the three years up to 31 March 2000 was Rs.2.92 lakh, Rs.56.87 lakh and Rs.54.54 lakh respectively. These debit balances were not being reflected in the annual accounts as the net credit balance alone was exhibited in the final statement of Accounts.

No action for periodical reconciliation of personal accounts and for recovery had been initiated during the five years ending 31 March 2001 resulting in accumulation of large amounts under the suppliers' accounts. Increase in debit balances in the personal accounts over the years indicated ineffectiveness in the system of financial control.

2A.10 Internal Audit

The Internal Audit of the Company's operational system, adherence to the procedures prescribed for receipts, inventory holdings, sales/issue of beverages, maintenance of registers/records and cash collection/remittances is conducted by the Internal Audit Department headed by the Internal Auditor. However, the internal audit reports were not being placed before the Board of Directors. Though general guidelines for conducting Internal Audit and a check list had been prescribed, an internal audit manual prescribing the range and extent of coverage by Internal Audit has not been prepared. Moreover, the transactions of the Head Office are not subjected to Internal Audit.

The Statutory Auditors of the Company have been repeatedly commenting on the need for an Internal Audit system commensurate with the size of the Company and the nature of its business. However necessary action in that direction had not been taken so far (March 2001).

The above matters were reported to Government in June 2001; their replies had not been received (August 2001).

Conclusion

The Company which was formed in 1984 with the objective of undertaking all the activities connected with the manufacturing, acquiring existing business, trading, etc., of beverages, undertook only the business of purchase and distribution of IMFL and beer in the State. The policy of purchasing beverages from all the suppliers at their quoted rates and fixing high margin without proper justification led to uneconomic buying and selling. There was no system for watching the supply of liquor within the prescribed period against permits issued and to avoid misuse of permit by suppliers. Allowing of tie-up arrangement for outside State suppliers, besides causing drain on the revenue of Government, provided undue benefit to the suppliers. Ineffective management of funds also resulted in heavy loss by way of interest, bank charges, etc.

The Company has to diversify its activities in conformity with the objectives instead of confining only to trading of beverages. The purchase and sales policy requires to be revamped to the advantage of the consumers. The possibility of confining the point of incidence of sales tax to wholesale value of goods transferred to retail shops should be explored. Confining the trading activity to fast moving products has also to be explored to improve the sales and reduce inventory holding. Funds management needs to be strengthened by introducing appropriate system.

2B. KERALA FOREST DEVELOPMENT CORPORATION LIMITED

Highlights

Delay of 5 to 8 years in extraction of crop (pulpwood) resulted in crop loss of Rs.0.43 crore and postponement of revenue of Rs.1.11 crore with consequent interest loss of Rs.0.91 crore.

(Paragraph 2B.6.2)

The shortfall in yield of eucalyptus compared to the projected yield resulted in loss of revenue of Rs.37.17 crore.

(Paragraph 2B.6.3.1)

Extra expenditure on replanting failed plantation due to absence of coppice growth or poor stand per ha. amounted to Rs.1.41 crore.

(Paragraph 2B.6.4)

Delay in fixing sale price of eucalyptus and raising invoices in 3 cases resulted in non-raising of invoices amounting to Rs. 1.81 crore and interest loss of Rs.1.31 crore.

(Paragraph 2B.6.6.1)

The shortfall in yield of cardamom compared to the State average resulted in reduction in revenue amounting to Rs.28.35 crore.

(Paragraph 2B.7.1)

Fall in production of green tea leaves due to lower yield compared to the norms of United Planters' Association of South India (UPASI) resulted in shortfall in revenue of Rs.2.34 crore.

(Paragraph 2B.8.1)

Adoption of higher conversion ratio for fixation of selling price of green tea leaves supplied to a private party, resulted in loss of Rs.0.53 crore.

(Paragraph 2B.8.3.1.1)

2B.1 Introduction

Kerala Forest Development Corporation Limited, Kottayam was incorporated as a fully owned Government company in January 1975 with the main objects of raising forest plantation of all species for the development of wood based industries in the State, raising plantation like rubber, cashew, cardamom and other agricultural crops and to maintain and manage forests with a view to maximise production of timber and other forest produce on a sustained basis.

The Company raised plantations of pulpwood, softwood, cardamom and tea in a total area of 10931 ha. in the forest land, leased by Government. An area of 112 ha. of matured eucalyptus plantation raised by Forest Department in Pamba area was leased to Company in May 1998. In August 2000, the Company took over 477 ha. of coffee plantation raised by Forest Department in three estates in Wynad district, thus, taking the total area to 11520 ha. as on 31 March 2001.

In addition to the above, the Company has been managing 80 ha. of plantations of different species in Akamalavaram in Palakkad district since July 1994.

2B.2 Organisational set-up

The Company is managed by a Board consisting of eleven Directors of whom seven are official and four non-official. Managing Director is the Chief Executive of the Company who is assisted by the General manager and Secretary-cum-Finance Manager at headquarters level and Divisional Managers (8 nos.) at field level.

2B.3 Scope of Audit

The activities of the Company were reviewed and included in the Report of the Comptroller and Auditor General of India for the year 1989-90 (Commercial) – Government of Kerala. This Report has not been discussed by Committee on Public Undertakings (COPU) as yet (August 2001). The present review conducted during December 2000-March 2001 covers the activities of the Company for the five years up to 2000-01. The results of the review conducted at the head office and five divisional offices are discussed in the succeeding paragraphs.

2B.4 Finance and Resources

2B.4.1 Share capital

Against the authorised capital of Rs.10 crore, the paid-up capital as on 31 March 2001 was Rs.7.68 crore contributed by State Government. (Rs.6.75 crore) and Central Government. (Rs.93.00 lakh).

2B.4.2 Borrowings

The total borrowings of the Company as on 31 March 2001 was Rs.3.51 crore consisting of Rs.1.20 crore from Government for various schemes (pulpwood, cardamom, firewood, etc.) Rs.0.03 crore from Tea Board, Rs.0.90 crore from Union Bank of India under National Bank for Agriculture and Rural Development (NABARD) refinance scheme for cardamom plantation, cash credit of Rs.1.33 crore and vehicle loan of Rs.0.05 crore. The defaulted instalments of principal and interest on Government loans amounted to Rs.0.28 crore and Rs.2.01 crore respectively.

The working capital requirement was met by borrowing from commercial banks on cash credit account.

2B.5 Financial position and working results

The Company had finalised its accounts for the period up to 1998-99 only. The financial position and working results of the Company for the four years up to 1999-2000 are given in Annexures 13 and 14.

The profit decreased from Rs.1.37 crore in 1996-97 to Rs.0.32 crore in 1999-2000

It may be seen from Annexure 14 that the profit decreased from Rs.1.37 crore in 1996-97 to Rs. 0.32 crore in 1999-2000. The above profits were reckoned after excluding the accumulated losses amounting to Rs.7.41 crore in respect of cardamom plantation in Pampa and Gavi shown as recoverable from Government. The decrease in profit during 1998-99 and 1999-2000 was on account of decrease in sale of pulpwood and increase in expenditure on management and plantation maintenance work. Further, Current assets, loans and advances (vide Annexure 13) included an amount of Rs.6.59 crore representing unbilled supplies of wood billets vide instances discussed in paragraph 2B.6.6.

2B.6 Pulpwood Project

2B.6.1 Area under plantation

The main objective of taking up pulpwood plantation was to increase the production of timber and pulpwood for meeting the requirements of paper and pulp industry. This is facilitated through an accelerated programme of conversion of mixed irregular forests into plantation of quick growing species and also through intensive management of plantation of such species already raised by Forest Department. The Company raised plantation of pulpwood in the entire area of 6881 ha. in the districts of Thiruvananthapuram, Kollam, Pathanamthitta, Idukki and Thrissur during the period from 1976 to 1984. No further area could be planted after 1984 as land was not made available by the Government. Similarly no area of plantation already raised by Forest Department has also been handed over to the Company for intensive management (as envisaged in the Project Report (1975), prepared by the

Company) except 112 ha. of matured eucalyptus plantation in Pamba leased in May 1998.

The extraction from the matured pulpwood plantation started from 1988-89 onwards and the area felled was 5078 ha. in the first rotation and 2298 ha. in 2nd rotation up to 1999-2000. The total area under plantation under various species after regeneration of coppice* in the felled area under augmentation/replantation as on 31 March 2001 was as follows:

(Area in hectare)

Species	Trivandrum	Punalur	Thrissur	Munnar	Total
Eucalyptus and other pulpwood	1397	927	1136	878	4338
Others	379	877	…	335	1591
Natural Growth/Misc. trees	511	441	…	…	952
Total	**2287**	**2245**	**1136**	**1213**	**6881**

2B.6.2 Delay in allotment and extraction

Delay in extraction of crop resulted in crop loss of Rs.0.43 crore and delayed realisation of revenue of Rs. 1.11 crore

In the Project Report, the crop rotation period was envisaged as 10 years. Later on (1981) the Government reduced the crop rotation period to 8 years. This was further revised to 6 years from April 1993. However, it is seen during the audit that the Company initiated action for disposal of the matured trees after a period of minimum 8 years. The delay in felling of first rotation ranged from 5 to 8 years in 682 ha., out of a total area of 4650 ha. extracted during the five years up to March 2001. Based on the average yield of 22 MT per ha. the loss of crop of one rotation in 190 ha (due to eight years delay) worked out to Rs.42.80 lakh (4180 MT at average price realisation of Rs.1024 per MT).

Further, on account of delayed realisation of revenue (Rs.1.11 crore) from sale of crop from 492 ha. (*i.e.*,10824 MT) loss of interest at the cash credit rate of 16 *per cent* worked out to Rs.90.83 lakh .

2B.6.3 Yield

2B.6.3.1 Shortfall in yield

The Project Report estimated an average yield of 100 MT pulpwood per ha. for the first crop from seedling plantation as well as from the subsequent two crops from the coppice generation. During the period between 1995-96 and 2000-01 the Company extracted eucalyptus trees from 1324 ha. of seedling plantation (1st crop) and from 3326 ha. of coppice plantation. The total

* Coppice – regeneration from the stumps of the felled seedling plantation

quantity of pulpwood obtained was 101998 MT, giving average yield of 22 MT/ ha., against 100 MT projected. While the yield from the first rotation crop was 29 MT/ha, the same from the 2nd rotation was 19 MT only. The low yield was despite additional years of growth ranging from 3 to 8 years in the case of 1st rotation crop, and extensive augmentation done in the areas after first felling. The very low yield in respect of 1st rotation plantation was stated to be due to heavy causalties of plants in the initial years, for want of maintenance work which resulted in very low stand per ha. The seedlings gap filled in the plantation after felling also did not grow well which was stated to be due to the suppressional effects of coppice growth and miscellaneous trees.

Shortfall in yield of eucalytpus resulted in loss of revenue of Rs.37.17 crore

Compared to the projected yield of 100 MT/ha., the shortfall in yield from 4650 ha. was 363002 MT. Calculated at the average price realisation of Rs. 1024 per MT for the period from 1995-96 to 1999-2000, the revenue loss in respect of 363002 MT amounted to Rs. 37.17 crore.

2B.6.4 Loss of crop rotation - extra expenditure on replanting

Three crops are to be obtained from eucalyptus plantation initially raised, with the crop rotation of eight years in the case of first felling and seven years for the subsequent two coppice crops.

Extra expenditure on replanting of failed plantations amounted to Rs.1.41 crore

It was, however, noticed in Audit that in the area under Thiruvananthapuram and Punalur Divisions only one crop was obtained from 556 ha. and two crops from 846 ha. out of total area of 3595 ha. extracted which was stated to be due to either absence of coppice growth or very poor percentage of stand per ha. These areas were replanted after first/second crop either with same species (*i.e.,* Eucalyptus) or other species (Accacia, Casuarina, Cashew, Teak, Mangium, etc.). Thus, the Company failed to get the required number of crops rotation and this necessitated preponing of replanting by 14/7 years. At the average cost of planting @ Rs.10040 per ha. the extra expenditure on such replanting of failed plantation amounted to Rs.1.41 crore in respect of 1402 ha. replanted.

2B.6.5 Augmentation

Gap filling done was rendered futile due to absence of subsequent maintenance

As a part of augmentation, the Company had undertaken gap filling in the eucalyptus felled areas. During the period 1995-98, 353.19 ha. was taken up for gap filling at a cost of Rs. 35.46 lakh. This entirely failed as the Company could not maintain the same in the subsequent years due to paucity of funds.

Thus, undertaking the gap filling work in areas where the stand per ha. was 30 to 40 *per cent* less than normal without arranging for adequate funds for their maintenance rendered the expenditure infructuous.

2B.6.6 Sale of Eucalyptus

The sale of eucalyptus is made on the basis of yearly allotment and at prices fixed by State Government to the user industries viz. Hindustan Newsprint

Limited , Kottayam, Grasim Industries Limited (Pulp Division), Kozhikode and The Western India Plywoods Limited , Kannur for the manufacture of paper pulp, rayon grade pulp and for hard board respectively. The following points were noticed in this regard.

2B.6.6.1 Heavy outstanding due to non-billing of sales

(i) Sale to Grasim Industries Limited (GIL)

The Company supplied 34004 stacked tonnes* of eucalyptus to Grasim Industries Ltd.(GIL) during the period 1994-95 to 1997-98. The Company also collected advance of Rs.2.19 crore based on the rates fixed by the Government for supplies from Forest Department. In January/May 1998 Government fixed the rates for supplies made from Company from 1994-95 onwards. Based on the actual supplies and after considering the advance collected, the amount due from GIL worked out to Rs.1.05 crore. The Company has not raised any invoice for the sales nor claimed the amount due by issue of debit note. Thus the Company lost the opportunity of reducing the interest burden on cash credit by Rs.65.57 lakh on the amount due.

Since the GIL has been under lockout since July 1999, the chances of recovery appeared doubtful (August 2001).

(ii) Sale to Hindustan Newsprint Limited (HNL)

Similarly, for supplies effected during December 1994 and July 1995, the Government issued orders fixing the final price only in February 2001. Based on the revised price, the amount to be claimed from HNL worked out to Rs. 21.06 lakh which had not been billed so far(August 2001). Consequently additional interest burden on cash credit worked out to Rs. 19.38 lakh.

(iii) Sale to The Western India Plywoods Limited (WIP)

Delay in raising invoice for sale of eucalyptus in 3 cases resulted in interest loss of Rs.1.31 crore

For the supplies (14871 stacked tonnes of eucalyptus) to WIP for the period April to December 1995, Government directed (August 1994) the Company to negotiate and fix the price. Such price to be fixed by negotiation should not be below that paid by HNL and GIL. The Company did not negotiate and in turn requested (August 1995) Government to fix the price. The Company finally fixed (June 1999), the price at Rs. 1060 per $2M^3$ stack (one stacked tonne) and the amount recoverable including Forest Development Tariff and sales tax worked out to Rs. 1.77 crore. After adjusting the amount of Rs. 1.22 crore collected as advance, the Company did not raise invoice for the balance amount of Rs. 0.55 crore. Thus, the failure of the Company to fix the price before making supplies based on Government directives resulted in losing the opportunity of additional cash generation to the extent of Rs. 0.55 crore and reduction of interest on cash credit to the extent of Rs. 46 lakh.

* One stacked tonne is equal to 2 M^3

Thus, delay on the part of Government/Company in finalising the sales price in the above 3 cases resulted in non-raising of invoices for Rs. 1.81 crore and loss of interest thereon amounting to Rs. 1.31 crore.

2B.7 Cardamom Plantation

2B.7.1 Low yield of cardamom

The Company had four cardamom estates with a total area of 1831 ha. as on 31 March 2001 as shown below:

Estates

Description	Pachakkanam	Kanni Elam	Nelliampathy	Mankulam	Total
	(in hectare)				
Area proposed	1000	1000	1000	1000	4000
Area originally planted	913	521	259	265	1958
Area under cultivation	842	484	245	260	1831
Area under commercial yield	447	60	89	229	825
Area under developmental stage	158	10	15	28	211
Unproductive area	237	414	141	3	795

While the total area of the Company's cardamom plantation constituted 4.4 *per cent* of the total area (41320 ha) under cardamom plantation in Kerala and the total yielding area of 825 ha. constituted 2.7 *per cent* of the total yielding area (30695 ha) of the State, as on 31 March 2001, the total yield of 23.551 MT of the Company was only 0.31 *per cent* of the total production of 7555 MT of the State.

Cardamom plants start flowering from the third year of planting and commercial production commences from the fourth year. As per the Project Report prepared by the Company, the yield was estimated at 100 kg per ha. The actual average yield ranged from 13.75 kg per ha to 43.22 kg per ha. whereas the average yield for the State as a whole was between 149 kg and 214 kg per ha during the period from 1996-97 to 2000-01. The details of the Company's estate-wise total yield, average yield, average yield in the State, and the loss of revenue suffered due to low average yield compared to State average yield during the five years up to 2000-01 are given in Annexure 15.

Shortfall in yield of cardamom compared to the State average worked out to 677.684 MT valued at Rs.28.35 crore

It may be seen that the shortfall in yield of cardamom in the Company's estates compared to the average yield in the State amounted to 677.684 MT valued at Rs.28.35 crore.

Reasons for low yield were stated to be due to :

(i) damages by wild life from surrounding forests

(ii) wind and soil erosion in hilly areas

(iii) low-productivity of labour and

(iv) lack of timely and adequate maintenance by the Company due to financial constraints.

2B.7.2 Sales below average selling price of State

As the Company had no arrangements for direct sales to the consumers or export of cardamom, it had been effecting the sale of cured cardamom, mainly through the Cardamom Marketing Corporation (CMC), a private agency at Vandanmedu in Idukki. The agency was arranging weekly auction of cardamom of different varieties and quality from various estates in the State.

The table given below summarises the quantity of cardamom sold by the Company, value fetched, rate per kg and the overall average auction price in Kerala as per the details of Spices Board, Ernakulam, during the five years ending 31 March 2000:

Shortfall in revenue due to lower sales realisation for cardamom amounted to Rs 0.55 crore

Years	Quantity sold (kg)	Value realised	Rate per kg	Overall average price in Kerala	Shortfall in revenue
		(in Rupees)			
1995-96	11072.75	1775875	160.38	207.27	519201
1996-97	12610.15	4258743	337.72	370.36	411595
1997-98	36021.30	7868506	218.44	283.18	2332019
1998-99	25502.80	13617376	533.96	586.23	1333031
1999-2000	19012.43	8272001	440.34	488.79	921152
Total					**5516998**

Based on the overall average rate of selling price in Kerala, the Company suffered a shortfall in revenue amounting to Rs.55.17 lakh during the five years up to 1999-2000.

The Company has not analysed the reasons for persistent lower price realisation in order to take remedial measures to improve the position.

2B.7.3 Lower rate of recovery of dry cardamom

Lower rate of recovery of dry cardamom from green cardamom resulted in loss of Rs.0.15 crore

The green cardamom collected from the estates are spread in curing houses for 24 hours for drying by applying hot air. When fully cured, dry cardamom is usually recovered at the rate of 20 to 25 *per cent* from green cardamom. The recovery of dry cardamom from green cardamom ranged from 17.69 to 19.49 *per cent* only during the four years up to 1999-2000. The resultant loss of revenue on the shortage of 4643 kg worked out to Rs. 15.34 lakh during the above period.

The Company has not analysed the reasons for the low recovery.

2B.8 Tea Project

2B.8.1 Area and yield

The Project Report for Tea Plantation approved by the Company in 1980 envisaged raising of tea plantation in 410 ha. in Kambamala, in Wynad District for the economic upliftment of tribals in the area. The planting operation with high yielding clonal varieties of tea was started in 1979 and after raising 100.67 ha. up to 1983, no further area was planted due to doubts expressed by Government regarding the viability of the project.

The Company started obtaining yield from the plantation from 1982-83 onwards and the entire area became mature for plucking from 1986 onwards. According to the Project Report the yield expected from the plantation was at the rate of 3000 kg of made tea per ha.

The consultant engaged by the Company from the United Planters Association of South India (UPASI), Wynad reported (June 1990) that the yield should have crossed the 3000 kg mark by then and that if proper agronomic practices recommended by UPASI were followed the yield could be raised to 3500 kg (15000 kg of Green Tea leaves (GTL)) per ha. The yield of GTL obtained for the period of 5 years up to 2000-01 and the shortfall in yield with reference to the possible yield of 15000 kg are as follows:

Year	Crop obtained (kg of GTL)	Average yield per ha. (kg)	Shortfall from UPASI norms (kg per ha.)
1996-97	792037	7868	7132
1997-98	1107059	10997	4003
1998-99	1050233	10432	4568
1999-2000	1099430	10921	4079
2000-2001	985070	9785	5215
Total			**24997**

Shortfall in production of green tea leaves resulted in loss of revenue of Rs.2.34 crore

The loss of revenue on account of shortfall in yield from 100.67 ha as compared to the UPASI estimates amounted to Rs.2.34 crore at the average price realisation of Rs.9.32 per kg on short fall in production of 25.16 lakh kg of GTL for five years up to 2000-01.

The Consultants opined (June 1996) that the main reasons for the low production were low productivity of labour, non-completion of the optimum number of plucking rounds and consequent delay in plucking, inefficiency in plucking, defects in the pruning done, inadequate manuring including delay in supplementing deficiencies in micro nutrients, absence of proper shade management with thinning of trees, etc.

Although these deficiencies in plantation management were pointed out earlier by the consultant appointed in May 1990 also, no concerted efforts on these lines were taken by the management. As these factors were controllable, low yield and consequent loss of revenue lacked justification.

2B.8.2 Loss due to low labour productivity

According to UPASI, the plucking average of workers in the tea estates in Wynad area is 26 kg per worker per day. A review of the performance of the workers engaged by the Company in tea plantation during the period between 1996-97 to 1999-2000 showed that the plucking average per worker per day varied between 21.04 kg to 24.88 kg., giving an overall average of 22.66 kg. vide details below:

Year	Quantity collected (kg)	No. of workers engaged	Average per worker (kg)
1996-97	792037	37641.5	21.04
1997-98	1107059	47874.5	23.12
1998-99	1050233	48973.0	21.45
1999-2000	1099430	44189.5	24.88
Total	**4048759**	**178678.5**	**22.66**

At the rate of 26 kg per worker per day, the number of worker days required for collecting 4048759 kg of GTL was 155721.5 as against 178678.5 worker days actually utilised, resulting in excess deployment of 22957 worker days during the four years up to 1999-2000. The extra expenditure incurred on account of excess deployment of workers amounted to Rs.13.09 lakh at the average wage rate of Rs.57 per day.

2B.8.3 Sale of green tea leaves

2B.8.3.1 Sale of green tea leaves to Priyadarshini Tea Estate

As the Company was not having any facility for processing, the green tea leaves obtained were sold to private tea companies up to July 1993 and thereafter mainly to Priyadarshini Tea Estate (PTE) of Mananthavady Tribal Plantation Co-operatives Ltd. as per Government order of May 1991.

The following points were noticed in this regard:

2B.8.3.1.1 Loss due to adopting a higher conversion ratio between green tea leaves and made tea

In the agreement with PTE the conversion ratio between green tea leaves and made tea adopted up to 6 September 1998 was 5:1 and thereafter 4.5:1 till date.

Adoption of higher conversion ratio for sale of green tea leaves resulted in loss of Rs.0.53 crore

The above ratio was adopted on the assumption that 5/4.5 kg of GTL would constitute one kg of made tea. However, as per the report (May 1986) of the Regional Manager of the Tea Project, the percentage of made tea to green tea leaves ranged between 23 and 26 (i.e., up to 4.35:1). The ratio generally followed in the tea industry was 4.3:1 as intimated by UPASI. Reckoned at the conversion factor of 4.3:1 adopted by UPASI, the loss of revenue on account

of adopting a higher conversion ratio (5:1 for the sale of 35.88 lakh kg of GTL up to 6 September 1998 and 4.5:1 for the sale of 14.60 lakh kg of GTL from 7 September 1998 to 31 March 2001) worked out to Rs.53.35 lakh.

2B.8.3.1.2 Loss due to change in pricing formula

The Company was supplying green tea leaves to PTE based on the average price of made tea in Coonoor market. However, from May 1996 onwards for the purpose of price fixation, average price of made tea produced by PTE themselves was adopted without obtaining the approval of Pricing Committee. From October 1998 onwards the finalisation of average rate as per Coonoor market was again adopted.

The adoption of PTE's rate, instead of Coonoor market rate, during the period from May 1996 to September 1998 without the approval of the Pricing committee, resulted in loss of revenue of Rs. 11.92 lakh.

2B.8.3.1.3 Compensation for levy of central excise duty

The Pricing committee in November 1999 fixed the processing cost allowance of green tea leaves at Rs. 13.60 per kg, taking into consideration the enhanced rate of Rs. 13.50 per kg (which included the increased excise duty of Rs. 2 per kg) worked out in February 1999. Notwithstanding the fact of having allowed enhanced excise duty in the processing cost allowance, the Pricing Committee had also deducted this enhanced excise duty from the average selling price of made tea as per Coonoor market. This resulted in dual benefit viz. allowing of enhanced excise duty through increased processing allowance and also by way of reduced selling price. The undue benefit to PTE on this account worked out to Rs. 10.66 lakh on the quantity (24.21 lakh kg) supplied from August 1999 to March 2001.

2B.8.3.2 Sale to other parties

During the period from 26 February 1998 to 22 August 1998 when the supply to PTE was disrupted following the closure of the factory, the Company sold the GTL to two private firms viz., M/s.Amco Tea (Pvt) Ltd. and P.Albert, the quantity being 2.75 lakh kg and 1.91 lakh kg respectively.

While the price for supply to the former was based on Coonoor average rate, a flat rate of Rs.8 per kg. of GTL(which was less than the Coonoor average rate by Rs.1.39 to Rs.3.73 per kg) was adopted for the latter. Due to the above sale, Company incurred a loss of Rs.6.26 lakh on 1.91 lakh kg sold, on the basis of difference between the price obtained and that as per Coonoor average rate.

2B.9 Lease Rent

Govt. ordered (March 1989) that 10618.897 ha. of forest land handed over to the Company for raising of pulpwood, softwood, tea and cardamom from 1976 onwards would be on lease for a period of 25 years from 1976 onwards, and the Company was liable to pay lease rent at the prescribed rate and subject to other terms and conditions stipulated in the order. The lease rent payable per ha. was @ Rs.250 up to 17 December 1978, Rs.475 from 18 December 1978 to 17 December 1981 and Rs.615 from 18 December 1981 to 17 December 1987 and @ Rs.1300/ha. thereafter and interest payable @ 2.5 *per cent* per annum for belated payment.

Lease rent of forest land payable as of March 2001 was Rs. 29.95 crore

But the Company had neither got executed the lease deed so far nor made any payment. The total amount accumulated was Rs.29.95 crore up to 31 March 2001 including interest of Rs.6.55 crore. The request of the Company to Government that lease rent be collected only @ Rs.50 per ha. as provided in the approved project report, has not been considered by the Government so far (March 2001).

2B.10 Sale of windfallen trees - loss due to delay in disposal

On the request made (May 1997) by the Company, Government gave sanction for sale of 1120 nos. of windfallen trees in Pachakkanam Estate (subsequently Pampa & Gavi) marked during 1993, 1995 and 1996 by inviting competitive tenders. The details of trees offered for sale, estimated yield of timber and firewood and their value were as follows:

Class	No. of trees	Timber (M^3)	Firewood (M^3)	Value as per seigniorage* rate of 1996-97 (in Rupees)
Hardwood	336	484.923	545.657	2813275
Softwood	784	1549.616	1623.437	6291366
Total	**1120**	**2034.539**	**2169.094**	**9104641**

In the tenders invited in August, 1997, the Company, however, included 72 nos. of standing trees also for sale. The timber and firewood expected from it was estimated at 60.586 M^3 and 42.049 M^3 respectively valued at Rs.26393 at 1996-97 seigniorage rate. Though the sale was confirmed in the name of the highest tenderer who quoted an amount of Rs. 66.65 lakh, the bidder did not come forward to remit one third of the sale proceeds or execute the agreement as it involved extraction of 72 standing trees which required permission of the Central Government (according to Supreme Court order dated 12 December 1996 on Writ Petition (Civil) No.202/95). Instead he filed (December 1997) an OP in the High Court praying for direction to the Company to obtain permission of Central Government for extracting the standing trees. The High

* Seigniorage rate is the per M^3 rate fixed by Government for sales made out of forest timber.

Court in its judgment observed (May 1998) that since the permission of the State Government was for extraction of windfallen trees only, it would be better for the Company to invite fresh tenders for the same and freed the tenderer from his obligation under the tender.

Even though the Company again invited (December 1998) tenders for windfallen trees alone, the highest offer received was very low. The Company, therefore, proposed to include windfallen trees of 1998 also in the tender and call fresh tenders. But in the meanwhile the Chief Conservator of Forests directed the Company to stop the sale as it was against the Supreme Court Order. But the Honourable High Court of Kerala in its judgement dated 20 May 1998 disposing of the OP 22524/97 had clarified that the Supreme Court order applied only to standing trees and there was no restriction on removal of wind fallen trees. However, the request of the Company to review the decision and allow the sale of windfallen trees has not been acceded to so far (March 2001).

Delay in disposal of wind-fallen trees resulted in loss of Rs.0.43 crore

Because of the inclusion of standing trees in the tender, disposal of windfallen trees was also delayed. On the basis of enumeration conducted by the Company in January 1999 the actual quantity of timber available for disposal was indicated as 1064 M^3 quality timber and 1501 M^3 firewood from 709 trees against 2035 M^3 timber and 2169 M^3 firewood available as per original estimation. Consequent to the delay in disposal, 971 M^3 of timber and 668 M^3 of firewood was lost possibly due to deterioration. Based on the seigniorage rate for 1996-97, the loss on account of deterioration of above quantity of timber and firewood worked out to Rs 42.91 lakh. Had the Company complied with the Government direction by inviting tenders for windfallen trees alone, the delay in disposal and consequent loss due to deterioration could have been avoided.

2B.11 Management Information System

The Company has not developed an adequate Management Information System enabling the management to make available information regarding the plantation activities of different Divisions, Areas and Fields periodically, so that the information can be analysed, proper planning made and corrective steps taken, whenever necessary. Data on human resources available, their deployment and productivity, details of compensation, etc., are also not furnished from the divisional offices periodically.

The Company was not maintaining a sales register of different produce with value obtained, customer-wise for any given period.

Revenue earned and expenditure incurred on Akamalavaram and Pachakkanam estates which are managed by the Company were also not made available to the management on a periodical basis.

As per the Manual of Procedures approved by the Board of Directors, Managing Director will present a progress report on revenue and expenditure

to the Board. No such reports of progressive nature was, however, presented to the Board of Directors.

The system of preparing separate Profit & Loss account for each activity was discontinued from 1990-91. In the absence of activity-wise profit and loss statement, the working result of each such activity was not available with the management.

2B.12 Internal Audit

The Company did not have a separate internal audit department. The internal audit of the Company for 1998-99 and 1999-2000 was entrusted to a firm of Chartered Accountants. An Accounts Manager and three office assistants in the Accounts section have been entrusted with the internal audit work for the year 2000-01.

The following observations are made on the Company's internal audit system..

(i) There was no internal audit in the Company up to 1997-98

(ii) Though the Board expressed (March 2000) the view that internal audit should be concurrent and there was no use conducting it after the close of the relevant year, internal audit for 2000-01 was in arrears in eight out of ten units (March 2001).

(iii) The Company did not have an internal audit manual, prescribing the nature and extent of checks to be exercised in internal audit.

(iv) As both preparation of accounts and internal audit for the year 2000-01 has been entrusted to the Accounts Manager and his assistants, the internal audit lacked independence.

The above matters were reported to the Company/Government in June 2001; their replies had not been received (September 2001).

Conclusion

Due to inadequate maintenance during initial years, the yield from the Company's pulpwood plantations was very low compared to the projections in the project report, resulting in loss of revenue. The delay in harvesting of crop after the prescribed rotation period resulted in heavy loss of crop and consequent revenue loss. In respect of cardamom plantation the yield per hectare, rate of recovery of dry cardamom from green cardamom and the sale price realised were far less than the State average. This had contributed to the declining trend in profit over the years. Norms for production of tea prescribed by UPASI could not be achieved due to low production on account of low productivity of labour, non-completion of optimum rounds of plucking, defects in pruning, inadequate manuring and protection of plants.

The Company has to take urgent and adequate measures for improving the yield of pulpwood and cardamom as also production of tea, by proper care and maintenance of plantation and by overcoming controllable adverse factors.