Chapter-II

Review relating to Government company

2 Maharashtra Small Scale Industries Development Corporation Limited

Highlights

Maharashtra Small Scale Industries Development Corporation Limited (Company) was established in October 1962 with the main objective of assisting Small Scale Industries (SSI) Units in the State. The Company failed to achieve fully its main objective of assisting SSI units, as there was continuous decline in number of SSI units assisted during 1997-2002.

(Paragraphs 2.1 and 2.6.2)

In the absence of proper documentation of the assets, the Company could not avail the loan from SIDBI which could have been used to repay the short term borrowings from Mumbai Metropolitan Regional Development Authority and avoided penal interest of Rs.41.16 lakh.

(Paragraph 2.4.2)

Due to lack of orders from State Government Departments/Semi Government Organisations to SSI units, Company's sales dropped drastically by nearly 31 *per cent* in 2000-01 as compared to 1997-98, which was the major reason for Company's loss during 2000-01.

(Paragraph 2.5.2)

Under four schemes for raw material assistance to SSI units being implemented by the Company, an amount of Rs.15.88 crore was outstanding against 141 SSI units as on March 2002.

(Paragraph 2.6.3)

Under post dated cheque scheme, cases of irregular assistance to a unit under liquidation, improper credit evaluations and unauthorised extension of credit to units were noticed resulting in blocking of funds to the extent of Rs.2.85 crore.

(Paragraph 2.6.4.1)

Under modified warehousing scheme, due to failure of the Company to ensure safety of the material stored in the units' godown, two units unauthorisely removed material worth Rs.4.71 crore.

(Paragraph 2.6.5)

Failure of the Company to observe the important conditions in assistance to a unit and issue of no objection certificate to another unit to collect payment directly from consignees resulted in non recovery of Rs.43.30 lakh under pledge of bills scheme.

(Paragraph 2.6 .6)

Unusual grant of credit to a unit against the mortgage of immovable property (land), which was not covered under any existing raw material assistance scheme, resulted in non recovery of Rs.33.23 lakh.

(Paragraph 2.6.7)

Percentage of sundry debtors to sales increased every year and was 63.7 in 2000-01 due to severe drop in sales and slow process of realisation of book debts.

(Paragraph 2.9)

2.1 Introduction

The Company was incorporated in October 1962 for rendering assistance to the Small Scale Industries (SSI) with the following objectives:

(i) aid, counsel, assist, finance, protect and promote the interests of SSI to enable them to develop and improve their methods of manufacture, management, marketing and techniques of production;

(ii) enter into contracts for fabrication, manufacture, assembly and supply of goods, materials, articles and equipment and to arrange for the performance of such contracts by sub-contracting with small scale units; and

(iii) effect co-ordination between large industries with a view to procure orders for SSI and to enable them to manufacture parts, accessories, ancillaries, components and other articles required by large industries.

Pursuant to its objectives, the Company undertook the following major activities;

- procurement and distribution of raw materials;
- assistance in marketing of products;
- commercial warehousing;

- assistance in import of raw materials and export of products; and
- running of emporia for handicrafts and production centre.

However, the Company had not rendered any technical assistance to enable SSI units to develop and improve their method of manufacture, marketing and technique of production.

2.2 Organisational set up

The management of the Company is vested in a Board of Directors comprising not less than three and not more than twelve directors including the Chairman. As on 31 March 2002, there were five directors including the Chairman and Managing Director. All the directors were Government nominees/officials without any fixed tenure. The Managing Director is the Chief Executive of the Company and is assisted by a Joint Managing Director incharge of procurement, distribution of raw material and commercial warehousing and one Chief Manager incharge of marketing activity, emporia and exhibition. During 1997-2002, seven incumbents were appointed to the post of Managing Director and their tenure ranged from 2 months to 1 year 5 months; frequent changes in top-level management affected the working of the Company.

As on 31 March 2002, there were 7 divisional offices[*] headed by Divisional Managers, 23 district offices headed by Deputy/Assistant Managers, 12 warehouses[#] headed by Manager/Deputy Manager/Assistant Manager, two emporia (New Delhi and Mumbai) and one production centre (Aurangabad) headed by Deputy/Assistant Manager.

2.3 Scope of Audit

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1996 (Commercial), Government of Maharashtra, which was discussed by the Committee on Public Undertakings (COPU) in December 1998. COPU recommended a detailed enquiry into the matter of loss of interest due to delay in transfer of funds and suggested fixing of responsibility on the involved officials. The action taken report (ATR) submitted by the Company did not indicate responsibility being fixed on the persons concerned.

The present review, which was conducted during the period January to June 2002, covers the working of the Company during 1997-2002, through a test check of records of the Company at head office, four divisional offices[❄], four branch offices[✦]and four godowns[☯] and two emporia[✷].

[*] Nagpur, Pune, Aurangabad, Nanded, Amaravati, Ratnagiri and Nasik.
[#] Mumbai (3), Kalamboli, Thane, Pune, Kolhapur, Nasik, Ahmednagar, Nagpur, Aurangabad and Nanded.
[❄] Pune, Nagpur, Aurangabad, Nasik.
[✦] Thane, Jalgaon, Solapur, Akola.
[☯] Kalamboli, Aurangabad, Nagpur, Pune.
[✷] Mumbai and New Delhi

2.4 Funding

2.4.1 Capital structure

Against an authorised share capital of Rs.10.00 crore, divided into 10,00,000 equity shares of Rs.100 each, the paid up capital of the Company as on 31 March 2001 was Rs.9.13 crore (9,12,829 shares of Rs.100 each), subscribed by Government of Maharashtra (Rs.9.03 crore) and State Trading Corporation of India - a Government of India undertaking (Rs.10.00 lakh).

2.4.2 Borrowings

The Company borrowed loans from State Government, Small Industries Development Bank of India (SIDBI) and other banks to meet working capital requirements and from Development Commissioner, Industries for implementation of its voluntary retirement scheme. The loans outstanding as on 31 March 2001 were Rs.19.46 crore.

The Company borrowed short term loans from Mumbai Metropolitan Regional Development Authority (MMRDA) at 15 *per cent* per annum initially for one year, extended thereafter from time to time. The total short term loan as on 31 March 1997 was Rs.18.00 crore. Of this, the Company repaid Rs.4.00 crore (Rs.2.00 crore each in October 1997 and March 1998). The balance loan of Rs.14.00 crore was due for repayment in October 1998 (Rs.12.00 crore) and April 1999 (Rs.2.00 crore). MMRDA insisted (September 1998) the Company to repay the loan amount of Rs.12.00 crore and refused to extend the loan further. MMRDA demanded (November 1998) 2 *per cent* additional penal interest for the extended period from October 1998 till the date of repayment. The Company could not repay the above loan on the due date (October 1998) and consequently paid penal interest of Rs.24.46 lakh for the period October 1998 to September 1999. MMRDA also claimed Rs.16.70 lakh as penal interest for the period October 1999 to December 2000, which was not paid (June 2002).

It was observed that SIDBI was ready (December 1998) to enhance the credit limit to Rs.10.00 crore from Rs.3.00 crore against a suitable tangible security or State Government guarantee. However, the Company could not furnish the required tangible security as the lease deeds were either not executed or were not registered or original lease deeds were not available with the Company in respect of the plots to be given as security. The Company had neither furnished the Government guarantee nor executed mortgage deed till March 2000. The Company offered (April 2000) various securities which were not accepted by SIDBI due to condition put forth (June 2000) to repay the entire loan of Rs.3.00 crore alongwith interest. Also the Company did not fulfil these conditions and could not avail of the loan.

Thus, in absence of proper documentation of the assets, the Company could not avail the additional loan of Rs.7.00 crore from SIDBI which could have been used to repay the loan to MMRDA and minimise the penal interest paid/payable to MMRDA.

2.5 Financial position and working results

2.5.1 Financial position

The financial position of the Company during 1997-2001 is given below:

Particulars	1997-98	1998-99	1999-00	2000-01
	(*Rupees in lakh*)			
A. Liabilities				
a) Paid-up capital	676.02	699.02	812.83	912.83
b) Reserves and surplus	369.07	2,445.20	2,285.05	1,907.88
c) Borrowings :				
i) Secured loans	150.84	783.40	1,452.48	1,660.09
ii) Unsecured loans	1,853.20	1,844.55	960.88	285.88
d) Trade dues and other current liabilities (including provision)	8,380.64	9,597.96	7,815.61	8,422.63
Total	**11,429.77**	**15,370.13**	**13,326.85**	**13,189.31**
B. Assets				
a) Gross block	617.38	2,680.69	2,755.79	2,780.86
b) Less : Depreciation	202.67	272.73	504.09	737.61
c) Net block	414.71	2,407.96	2,251.70	2,043.25
d) Capital work-in-progress	19.86	33.54	--	--
e) Investment	3.64	1.53	1.53	1.53
f) Other current assets, loans and advances	10,991.56	12,927.10	11,073.62	11,144.53
Total	**11,429.77**	**15,370.13**	**13,326.85**	**13,189.31**
Capital employed✡	3,045.49	5,770.64	5,509.71	4,765.15
Net worth◈	1,053.46	1,106.46	1,272.27	1,217.68

Audit analysis of the above table revealed the following:

(a) During 1998-99, the Company revalued its leasehold land with a view to reflect the true net worth of the Company and enhance the confidence of the prospective investors by keeping in view the State Government's intention to disinvest the shares. Consequently, reserves and surplus and net fixed assets increased steeply during 1998-99 as compared to 1997-98.

✡ Capital employed represents net fixed assets (including work in progress) *plus* working capital.
◈ Net worth represents equity capital *plus* free reserve less intangible assets.

(b) The capital employed decreased in 2000-01 as compared to 1999-2000 mainly on account of loss and reduction in working capital during 2000-01.

(c) The increase in secured loans from Rs.1.51 crore in 1997-98 to Rs.16.61 crore in 2000-01 and decrease in unsecured loan from Rs.18.53 crore in 1997-98 to Rs.2.86 crore in 2000-01 was mainly due to fall in credit rating of the Company by the financial institutions which demanded high value of collateral security for the funds borrowed by the Company.

2.5.2 Working results

The working results of the Company during 1997-2001 are given below:

Particulars	1997-98	1998-99	1999-00	2000-01
	(Rupees in lakh)			
1. Income				
Sales	19,963.27	22,088.70	20,586.78	13,781.17
Other income	785.73	791.34	775.01	643.61
Increase/(Decrease) in Stock	(407.00)	(163.38)	(38.20)	142.31
Total	**20,342.00**	**22,716.66**	**21,323.59**	**14,567.09**
2. Expenditure				
Raw material consumed	25.55	15.98	13.35	11.67
Purchases	18,923.43	21,290.14	19,829.14	13,387.21
Administrative and other expenditure				
1. Employees remuneration and benefits	512.12	531.89	616.99	612.92
2. Selling and distribution expenses	54.04	50.84	51.71	76.37
3. Other administration expenses	226.64	256.00	241.22	257.38
Interest	424.20	383.38	396.53	349.82
Depreciation	22.92	20.06	19.45	24.59
Provision for doubtful debts, loans and advances	20.00	20.00	20.00	--
Total	**20,208.90**	**22,568.29**	**21,188.39**	**14,719.96**
3. Profit/(Loss) before tax and interest	133.10	148.37	135.20	(152.87)
4. Add/(Deduct) prior period adjustment	(36.81)	(17.53)	(17.90)	(11.78)
5. Less: a) provision for taxation	38.00	53.00	55.00	--
6. Profit/(Loss) after tax	58.29	77.84	62.30	(164.65)

Audit analysis of the working results revealed the following:

As compared to 1999-2000, sales decreased by Rs.68.06 crore during 2000-01 whereas selling and distribution expenditure increased by Rs.24.66 lakh during the same period.

(a) The Company earned profit during 1997-2000 but incurred loss of Rs.1.65 crore in 2000-01 mainly due to decline in sales.

(b) During the year 2000-01 the sales compared to that of 1997-98 decreased by nearly 31 *per cent.* This was mainly due to lack of orders from State Government Departments/Semi Government organisations for material supplies and non receipt of orders from State Government *etc.*

(c) As compared to 1999-2000, the sales decreased by Rs.68.06 crore in 2000-01 whereas the selling and distribution expenditure increased by Rs.24.66 lakh during the same period.

2.6 Raw materials assistance schemes

2.6.1 Procurement of raw material

The Company procured raw materials items[✵] from the producers and distributed them to SSI units through its raw material godowns at the prices fixed by the producers. Requirement of raw materials was assessed by the Company on the basis of sales effected to SSI units during previous year.

Due to decontrol of raw material particularly iron and steel, the Company decided (November 1998) that the procurement of raw material valuing up to rupees one crore would be done only against specific and confirmed orders from the SSI units duly supported by relevant documents. No material was to be procured for storage in the Company's godowns for piece-meal sales to the units.

2.6.2 SSI units assisted

The table below indicates the number of SSI units registered with the State Government, units assisted by the Company in procurement of raw material and percentage of assistance during 1997-2002.

Year	Number of units registered and working	Number of units assisted	Percentage of assistance
1997-98	9,587	804	8.4
1998-99	10,988	843	7.7
1999-00	8,438	640	7.6
2000-01	6,589	382	5.8
2001-02	4,919	249	5.0

The Company assisted only 8.4 *per cent* of units registered in 1997-98, which came down to 5 *per cent* in 2001-02. The decrease in the number of SSI units

[✵] Iron and Steel, Pig Iron, PVC resin/polymers, Aluminium wire rods, Zinc, Copper, Cement *etc*.

assisted was attributable to the competition faced directly from steel producers who were selling the material to the SSI units at their stock yard prices.

2.6.3 Schemes for supply of raw material on credit

The Company formulated four schemes for extending assistance to SSI units under the raw material assistance on credit. The scheme-wise details of units assisted, amount disbursed during 1997-2002 and amount outstanding as on 31 March 2002 were as under:

(Amount: Rupees in crore)

Name of the Scheme	Number of units assisted	Amount disbursed	Outstanding as on 31 March 2002	
			No. of units	Amount
1. Post dated cheque (PDC) scheme				
(a) With credit rating (above Rs.5 lakh)	34	23.86	22	4.09
(b) Without credit rating (upto Rs.5 lakh)	187	13.81	66	1.95
2. Warehousing /modified warehousing scheme	22	25.58	14	6.85
3. Pledging of bills scheme	23	41.77	07	0.82
4. Bank guarantee scheme	81	55.51	32	2.17
Total	**347**	**160.53**	**141**	**15.88**

2.6.3.1 Salient features of the schemes

Eligibility, sources of supply

SSI units were eligible to avail the facility for all types of raw material subject to furnishing a written indent and identifying the source of supply in consultation with the Company against furnishing bank guarantee/letter of credit or other form of security.

Supply arrangement

On the basis of firm indent received from the SSI unit, supply of raw material was to be arranged on direct delivery basis for specified minimum quantity. The rates negotiated by the unit with concerned producers were subject to acceptance by the Company. The material purchased was to be cleared and transported by the unit at its own risk/cost. The Company was to make the payment towards the cost of material directly to the producer and raise the bill on the unit at agreed rate (including service charges).

Personal guarantee from SSI unit

The proprietor/partner/director of the SSI unit was to furnish personal guarantee, in addition to the unit's guarantee to the Company in the event of unit’s failure to clear the dues on due date.

Credit period and interest

The credit period allowed under PDC scheme was upto 150 days and for schemes other than PDC scheme it was 270 days. The interest rates varied from 22 to 25 *per cent* per annum in PDC scheme and 19 to 24 *per cent* in schemes other than PDC scheme.

Interest recoveries

The interest accrued for the particular slab was to be recovered before expiry of that credit period slab prior to extending further credit period. In case, the unit failed to pay the interest amount for the preceding slab, further credit was not to be extended and immediate action was to be taken for recovering the advance together with simple interest.

Recovery procedure

Recovery action was to be initiated on expiry of maximum permissible credit period under the above scheme by invoking the bank guarantee and encashing the PDCs.

Default

In case of PDCs getting dishonoured or bank guarantee not being encashable or payment not being made by the SSI unit to the Company, the unit was to be de-registered under the scheme and credit facility granted to the unit was to be withdrawn forthwith and appropriate legal action was to be taken against the unit/proprietors/partners/directors, including the initiation of criminal proceedings under section 138 of the Negotiable Instruments Act,1881. All the expenses incurred in recovery of the amount due were to be charged to the account of the SSI unit.

2.6.4 Post dated cheque scheme

The Company revised (September 1998) PDC scheme for supply of raw material in the following categories:

PDC scheme above Rs.5.00 lakh

PDC scheme upto Rs.5.00 lakh

2.6.4.1 Post dated cheque scheme above Rs.5.00 lakh

In addition to the general conditions mentioned above, the important terms and conditions for this scheme were as under:

SSI unit was to furnish post dated cheques for the amount equivalent to the full cost of raw material to be delivered along with applicable interest for 90 days or to submit Government approved securities of equivalent cost like National Saving Certificate (NSC), Kisan Vikas Patra (KVP), UTI units *etc.*

Credit rating

The credit worthiness of the SSI units was to be assessed by an independent agency (Shriram Investment Agency, Mumbai), appointed by the Company.

Margin money

The material was to be delivered to the SSI units against receipt of margin money equivalent to 20, 25, 30 and 35 *per cent* of cost of material upto Rs.10 lakh, between Rs.10 lakh and Rs.25 lakh, Rs.25 lakh and Rs.50 lakh and above Rs.50 lakh, respectively.

However, the Company deviated from the important conditions provided in the schemes, as detailed below:

CRA was negligent in assessing the proper credit worthiness of the units.

i) The basis of selection of credit rating agency (CRA) and the parameters adopted for verifying the credit worthiness *etc.*, were not made available to audit. Failure on the part of CRA in credit evaluation coupled with other irregularities by Company's officials had resulted in non-recovery of dues, as discussed in paragraph 2.6.4.1.1 to 2.6.4.1.4. The Company had not initiated action against CRA for their negligence.

ii) Though the initial credit rating assessed by the CRA was valid for one year and thereafter was to be renewed every year, the Company permitted two[✤] units to avail credit facility of Rs.20.07 lakh in respect of 24 transactions without extension of credit rating by CRA. Reasons for granting such credit facility without proper extension of credit rating were not available on records.

iii) Two[⊗] units furnished PDCs ranging from 5 to 10 months in respect of 17 transactions without payment of interest for the initial 3 months in contravention of scheme's condition to furnish PDCs separately for principal and interest at the end of 90 days. The excess credit period allowed to units ranged from 2 to 7 months. All the PDCs when presented for payment were dishonoured by the bank with remarks 'full cover not received and exceeds arrangement'. Outstanding dues against the above 2 units were Rs.25.12 lakh (principal: Rs.23.54 lakh; interest: Rs.1.58 lakh) as on 31 March 2002. The matter was in the court for recovery of dues (June 2002).

iv) The prescribed format for the personal guarantee of proprietor/partner/director of unit did not include clause for furnishing property details, encumbrances, percentage of charges *etc.* In absence thereof, personal guarantee could not be legally invoked, thus defeating the very purpose of such guarantee.

v) The Company did not insist upon the units to furnish Government approved securities. This was evident from the fact that not a single unit furnished these securities.

[✤] AST packaging and Super Metal, Aurangabad.

[⊗] AST Packaging and Super Metal, Aurangabad.

2.6.4.1.1 Unwarranted assistance to a unit under liquidation

Due to improper assessment of credit worthiness, financial assistance of Rs.47.63 lakh was extended to a unit under liquidation resulting in non-recovery of Rs.0.72 crore.

Krishna Plastochem Limited approached (November 1999) Thane branch of the Company to finance their raw material requirement under the PDC scheme. The unit was recommended a credit limit of Rupees one crore by CRA. During November 1999 to February 2000, the Company raised 32 sales bills valuing Rs.0.61 crore on the unit against which margin money of Rs.13.37 lakh was remitted by the unit. However, the unit did not make payment even for a single sale bill. The Company thereupon deposited (September 2000) the post-dated cheques in the bank for encashment. However, the unit's banker returned the cheques deposited with the comment: 'account closed'. The Company filed (November 2000) a legal case under section 138 of Negotiable Instrument Act 1881 against the unit for recovery of dues of Rs.0.72 crore (principal: Rs.47.63 lakh; interest: Rs.24.32 lakh). The case was still pending (March 2002).

It was observed in audit that the above SSI unit whose petition was pending for liquidation since 1998 was credit rated for Rs.1.00 crore by CRA without investigating the solvency and credit worthiness. The CRA did not obtain confirmation about the credit worthiness of the unit from its main banker (Canara Bank). In absence of such confirmation from the main banker, the basis of recommending credit limit of Rs.1.00 crore for the unit was not available. This showed negligence on the part of the CRA leading to non-recovery of Rs.0.72 crore from the unit. The Legal Advisor of the Company opined (September 2000) that legal action against the CRA could be initiated. However, no legal action against CRA had been taken by the Company (June 2002).

As per the scheme it was stated 'where the unit failed to pay interest for the earlier credit slab further credit was not to be extended and immediately action was to be taken for recalling the advance granted earlier'. However, it was observed in audit that the unit was extended further credit of Rs.4.55 lakh on 23 February 2000 and Rs.1.22 lakh on 29 February 2000 even though the payment of interest for earlier slabs was not received by the Company. Reasons for extending further credit before the recovery of interest on earlier advance were not available on record. Moreover, the Company deposited the PDCs in September 2000 after a lapse of seven months, when it was found that the unit had closed its account with the bankers. Thus, financing a unit under liquidation and not following the scheme scrupulously had resulted in non-recovery of Rs.0.72 crore.

2.6.4.1.2 Improper credit evaluation and undue favour to a unit

Gadre Steel Works Private Limited was recommended (October 1999) a credit limit of Rs.1.00 crore by CRA. During October 1999 to February 2000, the Company advanced Rs.0.59 crore to the supplier of the unit towards purchase of raw material.

It was observed that three cheques amounting to Rs.15.03 lakh submitted by the unit towards margin money on different occasions between October 1999 and November 1999 were dishonoured by bank for want of funds.

Financial assistance to a unit which defaulted in payment to financial institutions and other parties, resulted in non recovery of Rs.0.62 crore.

Subsequently, the Company recovered Rs.14.97 lakh as margin money through pay order and the outstanding amount remained as Rs.44.32 lakh. Though the Company was well aware (December 1999) of the fact that the unit had disputes with Steel Authority of India Limited and Vikram Barrels regarding outstanding dues and the latter had even filed a case against the unit under Negotiable Instruments Act, yet the Company granted a further credit of Rs.17.92 lakh on 31 January and 3 February 2000. The PDCs furnished by the unit towards principal and interest were also dishonoured (June 2000). On filing (July 2000) a criminal case under Negotiable Instruments Act, the unit furnished an undertaking to the court that it would make entire payment to the Company together with interest. However, the cheque dated 23 December 2000 for Rs.0.56 crore given by the unit was also dishonoured (December 2000).

It was observed in audit that the unit had defaulted in payments to leading financial institutions like Maharashtra State Financial Corporation (MSFC) and Bombay Mercantile Co-operative Bank Limited (BMCB) before applying for credit to the Company. The unit had even suppressed the fact of availing of loan from MSFC and BMCB in its annual accounts for 1997-99 certified by the unit's statutory auditor. However, the CRA failed to investigate the same before recommending a credit limit of Rs.1.00 crore to the unit. CRA did not obtain confirmation regarding credit worthiness of the unit from the unit's main banker (Central Bank of India). The Company did not take any action against the CRA.

Thus, improper credit evaluation by CRA and undue benefits advanced to the unit had resulted in non-recovery of dues of Rs.0.62 crore (principal: Rs.44.32 lakh; interest: Rs.18.13 lakh).

2.6.4.1.3 Unauthorised extension of credit to a defaulting unit

Unique Drums and Containers approached Thane Branch of the Company to finance the unit's raw material requirement under PDC scheme. The Company sanctioned (September 1999) a credit limit of Rs.0.75 crore on the basis of the credit rating by CRA. The credit facility was valid for a period of one year *i.e.* up to August 2000. During November 1999 to October 2000, the Company advanced Rs.0.71 crore to the unit's supplier. The unit issued 14 PDCs amounting to Rs.0.53 crore covering the period October 2000 to May 2001 towards repayment of principal and interest. When the Company presented (May 2001) 6 cheques amounting to Rs.16.38 lakh for encashment, the bank returned the cheques as dishonoured with the comments that 'unit exceeded arrangement'. The Company issued (June 2001) legal notice and filed (July 2001) legal suit under section 138 of the Negotiable Instruments Act, 1881. Dues amounting to Rs.0.67 crore (principal: Rs.47.83 lakh; interest: Rs.19.21 lakh) were outstanding as on 31 March 2002.

Audit analysis revealed the following irregularities in this case:

(i) Though the unit availed credit facility in November 1999, PDCs towards payment were issued by the unit dated as October 2000. The unit which availed credit in November 1999 should have issued PDCs dated March 2000 (as per maximum time limit allowed in the scheme). However, the Branch Manager accepted PDCs dated October 2000 which resulted in unauthorised extension of credit period by 8 months.

(ii) Eight PDCs amounting to Rs.36.86 lakh were not presented to the bank before the expiry of six months (April 2001) and became stale. Reason for not presenting the cheques within the validity period was not available on record.

(iii) The scheme stipulated that 'in case the unit failed to pay interest for the earlier credit slab, further credit was not to be extended and immediate action was to be taken for recalling the advance'. However, it was noticed that in respect of 2 bills (November 1999) amounting to Rs.25.64 lakh, interest of Rs.2.54 lakh due for the period November 1999 to March 2000 was recovered only in August 2000. The branch advanced further credit of Rs.26.03 lakh to unit in March 2000 before recovery of interest (Rs.2.54 lakh) for previous bills; thus allowing undue benefit to the unit.

(iv) The extension of credit facility after one year was subject to renewal of credit rating based on a revised application by the unit, which was a mandatory requirement as per the scheme. However, without renewal of credit rating to the unit, the Company further granted (October 2000) credit facility to the tune of Rs.4.82 lakh to the unit.

2.6.4.1.4 Unwarranted enhancement of credit limit

Sarvodaya Laboratories Limited, Mumbai manufacturing tablets, capsules *etc.* was recommended (April 1999) a credit limit of Rs.0.50 crore by CRA which was subsequently enhanced to Rs.1.15 crore. During September 1999 to March 2000, the Company advanced Rs.0.76 crore to the unit's supplier. PDCs amounting to Rs.0.57 crore due for presentation in bank in January 2000 (Rs.35.15 lakh) and March 2000 (Rs.22.00 lakh) were not deposited on due dates. Instead, the Company further extended (January 2000) credit of Rs.6.13 lakh and Rs.7.68 lakh. The PDCs were deposited in June 2000; which were dishonoured with the remarks as 'funds were insufficient'. It was also noticed that the Company had decided in December 1991 not to assist units dealing in medicinal items in view of its past experience. Since this unit manufactured capsules and tablets, it should not have been considered for assistance under the scheme. Thus, improper assessment and irregularities in loan disbursement to the unit had resulted in non-recovery of Rs.0.84 crore (principal: Rs.0.53 crore; interest: Rs.30.54 lakh) as on 31 March 2002.

2.6.4.2 Post-dated cheques scheme upto Rs.5.00 lakh

The post dated cheque scheme upto Rs.5.00 lakh was operated at divisional level and the units were sanctioned credit facility by the respective Divisional Manager/Stockyard Manager.

In addition to the general conditions mentioned earlier (paragraph 2.6.3.1) the important terms and conditions for this scheme were as under:

- Two PDCs were to be obtained - one towards principal amount covering the cost of the material and second towards interest.
- Unit was not to be granted credit for the second transaction unless full payment (principal *plus* interest) was received against the first transaction.
- Unit was to pay 15 *per cent* of the cost of material as margin money.

It was observed in audit that the Company deviated from the important conditions of the scheme as detailed below:

i) The Company did not collect PDCs amounting to Rs.8.38 lakh for four bills in respect of one[$] unit before giving credit. The total outstanding from the unit was Rs.7.55 lakh as on 31 March 2002.

15 units were permitted credit facility of Rs.0.72 crore before settlement of earlier dues.

ii) The Company permitted credit facility amounting to Rs.0.72 crore to 15 SSI units in respect of 41 bills before earlier transactions were fully settled the details of which are given in Annexure-10. The total outstanding on this account as on 31 March 2002 was Rs.0.83 crore (principal: Rs.0.72 crore; interest: Rs.11 lakh).

Margin money of Rs.9.80 lakh was not recovered.

iii) The Company did not collect margin money amounting to Rs.9.80 lakh for from two[✓] units before giving credit. The total outstanding as on 31 March 2002 in respect of these two units was Rs.12.32 lakh (principal: Rs.9.80 lakh; interest: Rs.2.52 lakh).

iv) The Company's divisions at Aurangabad and Pune extended credit to three[#] units exceeding the credit limit of Rs.5.00 lakh in each case by splitting the bills on the same date. Neither sanction from Head Office was obtained nor was credit worthiness assessed by the CRA

These cases revealed undue favour to the units and possibility of willful negligence could not be ruled out.

2.6.4.2.1 Undue favour to the unit

Bills were splitted to avoid sanction by higher authorities.

The Company's branch at Jalgaon (under Nasik division) assisted Ashok India Agro Products in procurement of raw material valuing Rs.17.67 lakh under PDC scheme. The divisional office, Nasik recovered (December 1999 to January 2001) only Rs.0.75 lakh as margin money against Rs.2.65 lakh (15 *per cent* of the assistance), reasons for which were not available on record. As per the scheme, in case of credit exceeding Rs.5.00 lakh, the credit rating was to be carried out by an independent agency and permission of head office was to be obtained. It was observed that Nashik division issued two bills on

[$] Varibhav pipes Industries, Aurangabad .

[✓] Surya Plastic and Taco Fastners, Aurangabad

[#] Taco Fastners, Raghunandan fit and forget, Aurangabad and S.D. Fabricators, Pune.

the same day aggregating Rs.5.05 lakh, which exceeded the maximum sanctioning limit at the divisional office level. Thus, by splitting the bills, the approval of higher authorities was avoided and undue favour was given to the unit. The unit had furnished (3 December 1999) a PDC of Rs.5.05 lakh but on presentation (December 1999) to the Bank the same was dishonoured. Audit scrutiny further revealed that the defaulter unit was further permitted to avail credit facility for two bills amounting to Rs.5.61 lakh and no legal action was taken by the Company against the defaulting unit.

Moreover, the outstanding dues from the above unit as on 31 March 2002 were Rs.11.20 lakh (principal: Rs.9.16 lakh and interest: Rs.2.04 lakh), the outstanding balance (July 2001) as shown in Nasik division was only Rs.3.75 lakh. Audit scrutiny of the discrepancy revealed that the recovery from the unit was adjusted towards principal amount instead of first adjusting towards the interest due, resulting in undue favour to the unit. This showed complicity of the Branch Manager at Nasik division in granting undue favour to the unit by wrongful adjustment of recovery.

2.6.5 Warehousing cum credit facility scheme for purchase of raw material

The Company introduced (October 1995) the scheme to benefit SSI units desiring to purchase raw material in bulk quantity (20 MTs and above) without paying for the full quantity in one instalment.

In addition to the general conditions mentioned in paragraph 2.6.3.1, the important terms and conditions for this scheme were as under: -

a) Unit was to pay margin money equivalent to 20 *per cent* of the cost of the material indented.

b) The material was to be delivered to the unit in small lots at different intervals as per unit's requirement against payment of balance 80 *per cent* of the cost of material and handling charges with interest.

c) The unit was to pay interest for the credit availed at the applicable rate of interest for the credit period slab in advance. Against specific request from the units, extension for repayment of dues was to be granted to the units subject to the following conditions:

i) Unit was to pay additional margin money of 10 *per cent* of the cost of balance material lying in the godown.

ii) In case of unit's failure to lift the entire material within the extended credit period, the material was to be disposed of by the Company at the risk and cost of the unit.

The scheme was modified (January 1997) to the extent that the raw material was to be stored in the unit's godown instead of Company's godown with a view to curtail the additional expenditure of the units on transportation, loading, unloading and ensure timely delivery of material. The security personnel appointed by the Company were to arrange the watch and ward of unit's godown, the expenses on this account were to be borne by the unit.

However, scrutiny in audit revealed that deviation from original scheme of warehousing without ensuring safety of stock in unit's godown resulted in unauthorised removal of stock by the unit and non-recovery thereagainst, as discussed in succeeding paragraphs.

2.6.5.1 Unauthorised removal of stock by Mehta group of companies at Nagpur

Divisional Office, Nagpur of the Company assisted 5* associated units of Mehta group of companies (group) during 1996-99 through sale of raw material valuing Rs.32.51 crore under the warehousing credit facility scheme.

During this period, the total outstanding dues against the group were Rs.8.23 crore and a quantity of 1,809.24 MTs valuing Rs.2.40 crore procured in December 1997 was also not lifted by the group even after expiry of the 90 days credit period (March 1998).

Mehta group of companies removed stock valuing Rs.3.73 crore unauthorisedly.

Considering such outstanding dues and Managing Director's directives for speedy recovery, the Chief (Raw Material) directed (February 1998) the Divisional Manager (DM), Nagpur not to make any fresh purchases for the group. However, overlooking the instructions, the DM, Nagpur procured (March/April 1998) 3,042 MTs of iron and steel valuing Rs.4.17 crore on behalf of the group from SAIL out of which the group did not lift 970.55 MTs valuing Rs.1.33 crore. The total quantity not lifted by the group in spite of expiry of the maximum credit period was 2,779.79 MTs. In November 1999, the security agency appointed by the Company reported the unauthorised removal of stock (2,779.79 MTs) worth Rs.3.73 crore by the group from the unit's godown. The Company lodged (31 January 2000) a police complaint against unauthorised removal of stock, outcome of which was awaited (March 2002). The outstanding against the group as on 31 March 2002 was Rs.9.95 crore (principal: Rs.4.82 crore; interest: Rs.5.13 crore).

It was observed in audit that:

(i) The Nagpur division procured the material contrary to the specific orders (February 1998) of the HO not to make any fresh purchases for the group. The DM, Nagpur had procured raw materials for more than Rs.10.00 lakh exceeding the delegated authority.

(ii) As the group did not lift the stock even after expiry of the credit period, the division did not dispose of the same at the risk and cost of the group. The division also failed to collect 10 *per cent* additional margin money of Rs.1.06 crore on the stock for the extended period of credit beyond 90 days. The divisional office was completely oblivious of the removal of large stock that too when the keys of the godown were in the custody of divisional office.

* Holum Iron & Steel co, Munis Forge, Prithvi Ispat, Parshawa Engg., Metal Fab.

None of the officials either from divisional office or HO questioned the security agency about removal of stock by the group. The Company did not instruct the security guards that the material stored in the unit's godowns was to be removed in the presence of the Company's representative and only after written authorisation from the Company.

(iii) The divisional office lodged (February 2000) another Police complaint against the group for missing stock of 306 MTs (Iron and Steel) valuing Rs.42.79 lakh. Thus, the total unauthorised removal of stocks by the group was 3,085.79 MTs valuing Rs.4.16 crore for which the Company did not hold any security. The outcome of police investigation was awaited (March 2002).

The Company appointed (October 2000) an Investigating Officer who reported (December 2000/February 2001) that two officers from Head Office and four from Divisional Offices were responsible for the negligence. The Company suspended three officers but did not take action against the then Joint Managing Director (Shri A.N.Shetty) despite charges leveled against him in the investigation report.

2.6.5.2 Unauthorised removal of stock by a unit at Satara

Pune division of the Company entered (September 1999) into an agreement with Khutale Steel Rolling Mills Private Limited, Satara for supply of 500 MTs of ingots/billets under the modified warehousing cum credit facility scheme. The capacity of the unit's godown to stock the material of 500 MTs was certified by the Branch Manager, Satara which was later increased to 900 MTs without any modifications in the godown. The godown's safety was also certified by the then Divisional Manager, Pune. On checking of the stock (March 2000) by the officers of the Company, it was found that 488 MT stock valuing Rs.0.55 crore was missing. The divisional office lodged (15 March 2000) FIR with the Police; outcome of which was awaited (March 2002).

Audit observed the following irregularities in the case.

(i) The divisional office did not object to the unit's placement of indents worth 827.485 MT of raw material (Rs.0.95 crore) during 27 September to 3 November 1999 directly with the supplier instead of routing though the Company. The indents were regularised after receipt of the materials and payments were made by the Company in violation of the provisions of the scheme.

(ii) The godown was open from the top even though the Divisional Manager, Pune certified the godown's safety.

(iii) The material in the godown was guarded by security personnel appointed by the unit and not by the Company, as required under the scheme.

(iv) The Branch Manager, Satara did not supervise the operations at the receiving and delivery end; this work was entrusted to a daily wage employee who was not aware of the procedures of the warehousing scheme. The

Company did not take action against the officers responsible particularly Divisional Manager, Pune and Branch Manager, Satara.

Unit removed stock valuing Rs.0.55 crore unauthorisedly.

Thus, operational deficiencies resulted in unauthorised removal of stock valuing Rs.0.55 crore by the unit. The outstanding dues against the unit including interest were Rs.0.76 crore as on March 2002, for which civil suit had not been filed (March 2002).

2.6.6 Pledge of bills scheme

The Company evolved a scheme for supply of various types of raw material required by the unit on credit against pledge of sale bills. A review of cases under the scheme revealed the following irregularities:

2.6.6.1 Failure to observe the conditions of the scheme

Raw material worth Rs.42.34 lakh was released without obtaining post-dated cheques and irrevocable guarantee from MSEB.

The Company allowed (October 1999) financial assistance to Parc's Electricals Private Limited, Nasik, a SSI unit supplying transformers to Maharashtra State Electricity Board (MSEB) under the scheme. As per the scheme, payment against supply to be effected by the unit was to be released in favour of the Company directly for the sale bills. The unit had submitted bills amounting to Rs.22.34 lakh and two bank guarantees valuing Rs.20.00 lakh against which raw material worth Rs.42.34 lakh was released. In addition to this, the unit also furnished corporate guarantee and personal guarantee. The Company neither obtained post dated cheques nor irrevocable letter-cum-undertaking from MSEB as per laid down procedure. MSEB did not release the payment against the bills, as the unit had not completed the delivery of transformers satisfactorily. Since no irrevocable letter-cum-undertaking was obtained, the Company could not force the MSEB to make the payment. As the unit failed to make repayment within the prescribed credit period, bank guarantee for Rs.20.00 lakh was encashed. However, Rs.27.54 lakh including interest of Rs.7.06 lakh remained outstanding (March 2002).

The Company issued (November 2001) a legal notice to clear the outstanding dues but did not file civil suit against the unit (June 2002). Responsibility was also not fixed for granting credit facility in violation of laid down procedures under the scheme.

2.6.6.2 Undue benefit to the unit

The Company allowed credit facility against the pledge of bills scheme to Reliance Cables and Conductors Private Limited (unit). The unit pledged (February to June 1999) bills raised on MSEB valuing Rs.34.59 lakh against which the Company supplied (August 1999) raw material worth Rs.23.71 lakh to the unit.

As per the scheme, the Company was to receive payment directly from MSEB. However, it was observed that a 'No Objection Certificate' (NOC) was issued to the unit by the Company for the bills amounting to Rs.15.72 lakh which enabled the unit to receive direct payment from MSEB in violation of the

Company could not recover the dues of Rs.15.76 lakh from the unit due to issue of no objection certificate.

scheme. Hence the Company could not recover the outstanding amount from MSEB. The Company did not fix responsibility for issue of NOC (June 2002). As the Company did not receive payment for nearly two years, it deposited (August 2001) PDCs (Rs.13.71 lakh) dated 31 March 2001 which were returned (August 2001) by the bankers stating 'insufficient funds'. Moreover, personal guarantee, which was obtained from unit's directors, had no details of the property and hence no legal action could be initiated. The Company also did not obtain 'irrevocable letter-cum-undertaking' in the prescribed format from MSEB in the absence of which the Company could not enforce payment from MSEB which was directly made to the unit. Thus, deviation from the safeguards resulted in non-recovery of Rs.15.76 lakh. (principal: Rs.12.89 lakh; interest: Rs.2.87 lakh) as on 31 March 2002.

2.6.7 Unusual grant of credit not covered under any existing scheme

Jaswant Steel Rolling Mills Limited (unit), Hinganghat, approached (December 1996) Company's Nagpur division for release of raw material (billets/blooms) on credit. The unit expressed its inability to submit any security like Bank Guarantee/Letter of Credit but offered immovable property (land) as security. The then Joint Managing Director of the Company without obtaining the specific approval of the Board of Directors decided (January 1997) to execute an equitable mortgage deed with the unit and to issue material to the extent of 100 *per cent* of the value of the property assessed by the valuer and to collect PDCs as security in the event of failure of the unit to repay the dues.

Company could not attach the property due to incomplete documents of hypothecation.

The valuer (V.W. Wadegaonkar) assessed the total value of the property as Rs.9.55 lakh and the divisional office delivered material valuing Rs.8.80 lakh in February 1997. The unit failed to repay the dues on due date and when the PDCs valuing Rs.9.50 lakh were deposited in the bank (September 1997), the same were dishonoured. The Company failed to recover the outstanding dues of Rs.8.80 lakh from the unit as it could not attach the property of the unit in the absence of complete documents in hypothecation. It issued (July 1998) a legal notice to the unit and filed (November 1999) a special civil suit for recovery of its dues, the outcome of the case was awaited (March 2002). The Company did not fix responsibility for granting unusual credit as well as failure to recover the dues of Rs.33.23 lakh (principal Rs.8.80 lakh; interest Rs.24.43 lakh).

2.7 Marketing activity

The Company under its Marketing activity assisted SSI units to market their products in Government/Semi Government departments (consignee). The Company participated in various tenders floated by the consignee on behalf of SSI units and secured orders, which were distributed amongst associate SSI units. As such, while the Company remained responsible to the consignee for contractual obligations, the SSI units were in turn responsible to the Company for timely execution of order. The Company granted financial assistance to SSI units in the form of advances, 75 *per cent* against bank guarantee and

80 *per cent* against accepted delivery challans by the consignees. The Company recovered the advance alongwith interest.

2.7.1 SSI units assisted

The table below indicates the number of SSI units registered with the State Government, units assisted by the Company under marketing scheme and percentage of assistance during 1997-2002.

Year	Number of SSI units registered and working	Number of SSI units assisted	Percentage of assistance
1997-98	9587	1,561	16.3
1998-99	10,988	1,886	17.2
1999-00	8,438	1,787	21.2
2000-01	6,589	1,644	24.9
2001-02	4,919	1,436	29.2

The decrease in the number of units assisted was attributable to non-placement of sufficient orders by Government departments/Semi-Government organisations in view of paucity of funds with them.

2.7.2 Unauthorised private marketing

Company's Branch Office at Solapur advanced (January to April 1999) Rs.1.23 crore to Resealack Polymer after recovering Rs.24.54 lakh as margin money towards supply of raw materials for supplying finished products to a private agency, Subhash Project Marketing Limited, Bangalore (SPM). This was tantamount to private marketing and was against the marketing policy of the Company as advance was to be released to the SSI unit only against orders from State Government/Semi Government consignees. Out of Rs.0.98 crore, the Company could recover only Rs.0.86 crore from the unit and the amount of Rs.12.00 lakh remained un-recovered till date (June 2002.)

Unauthorised private marketing undertaken against the marketing policy resulted in non recovery of dues of Rs.12.25 lakh.

The Company received (April 1999) Rs.0.50 crore from the SPM. The Company, instead of adjusting its outstanding dues, passed on the payment of Rs.6.21 lakh to the unit resulting in undue benefit to the unit. Thus, unauthorised private marketing and undue favour to the above unit resulted in non recovery of Rs.12.25 lakh including interest of Rs.0.25 lakh from the unit.

2.8 Commercial warehousing

The Company undertook commercial warehousing of various raw materials produced by Public Sector Undertakings *viz*., Steel Authority of India Limited, Indian Petro Chemicals Limited, Indian Oil Corporation Limited, *etc*. The quantity of raw material handled and earnings thereagainst during 1997-2002 are detailed below:-

Particulars	1997-98	1998-99	1999-2000	2000-01	2001-02
Quantity handled (in MT's)	57,552	57,553	52,671	46,022	47,101
Earnings (Rupees In lakh)	296.10	293.39	299.49	247.10	258.83

The Company had 12 godowns at ten[@] places with a total godown capacity of 1,63,060 sq.ft. and open space capacity of 7,89,178 sq. ft. The capacity utilisation of open space area at Kolhapur, Nashik, Nagpur, Aurangabad and Nanded was n*il* and at Kalamboli and Pune it was negligible; the capacity utilisation of closed godowns at Nagpur and Aurangabad was *nil* during 1997-2002. The low utilisation of the Company's godowns was attributable to the decontrol of iron and steel and drastic reduction in Company's activities. Moreover, the godowns at Nagpur, Thane, Aurangabad, Nasik and Nanded are located within the octroi limits of the respective cities, making the goods expensive due to levy of octroi, hence response by units was poor. Though the capacity utilisation was very poor, the Company incurred Rs.8.64 lakh towards rent, rates, taxes, watch and wards on these godowns without any commensurate benefit.

The Management in interim reply stated (August 2002) that the godown facilities could not be used to the full extent due to sluggish demand and element of octroi in the city limits.

2.9 Sundry debtors

The total debtors of Rs.87.79 crore as on 31 March 2001 consisted of private parties (Rs.31.66 crore) and Government parties (Rs.56.13 crore). Out of this, debtors of Rs.24.78 crore (private: Rs.12.99 crore and Government: Rs.11.79 crore) were more than three years old. The Company had neither obtained confirmation of sundry debtors balances nor analysed the old debts.

The percentage of debtors to sales increased every year and reached 63.7 *per cent* in 2000-01 due to severe decline in sales and slow realisation of debts.

The percentage of book debts to sales ranged between 40.7 and 63.7 during 1997-2001 due to severe decline in sales from Rs.199.63 crore in 1997-98 to Rs.137.81 crore in 2000-01 and slow process of realisation of book debts. Audit scrutiny of debts outstanding for more than 3 years revealed that amounts receivable from private parties increased from Rs.10.65 crore to Rs.12.99 crore and from Government parties increased from Rs.10.12 crore to 11.79 crore during 1997-2001 which implied inadequate efforts by the Company to collect the dues from these parties.

[@] Mumbai(3), Kalamboli, Thane, Pune, Kolhapur, Nasik, Ahmednagar, Nagpur, Aurangabad, Nanded.

The Management in interim reply stated (August 2002) that the Company would obtain confirmation of balances from sundry debtors while finalising the accounts for 2001-02 and the increase in debtors from private parties was attributable to introduction of credit facility under raw material transactions.

2.10 Internal audit

The Company created (April 1991) an internal audit cell to carry out inspection of its various offices at least once in a year. The internal audit system was not adequate and commensurate with the size and nature of the Company. The Statutory Auditors reiterated in their report for the year 1997-98 that internal audit system needed to be strengthened. The Board of Directors of the Company appointed a firm of Chartered Accountants (Aneja Associates) as internal auditors for two financial years 1998-2000, who conducted the internal audit at a remuneration of Rs.6.00 lakh. It was observed in audit that none of the reports submitted by internal auditor was placed before the Board. The internal audit for subsequent years 2000-02 was not conducted despite clear instructions to conduct it on regular basis. The coverage of internal audit during 1998-2000, internal audit reports and follow-up thereon were not made available to audit.

The Management in interim reply stated (August 2002) that the internal audit cell headed by the Senior Officer from Accounts department of the Company with the assistance of experienced officers had started working in 2002-03.

The matter was reported to Government/Management in July 2002; their replies were awaited (September 2002).

Conclusion

The Company established to assist SSI units in the State failed to achieve fully its main objective of assistance to them, as there was continuous decline in number of SSI units assisted during 1997-2002. The Company had not diversified its activities in order to search new avenues for rendering assistance to SSI units. The Company had also not rendered any technical assistance to enable SSI units to develop and improve their methods of manufacture, marketing and techniques of production. The major schemes evolved by the Company were plagued by serious irregularities and wilful negligence on part of the officials and resulted in large blocking of funds.

The Company urgently needs to take a proactive approach to expand/diversify its activities and also to provide technical assistance to the SSI units. The Company needs to take proper follow-up action for recovery of outstanding dues and also to close these godowns where capacity utilisation is nil/negligeble.