Chapter-II

Review relating to Government company

2 Maharashtra State Handlooms Corporation Limited

Highlights

The Maharashtra State Handlooms Corporation Limited (Company) was incorporated in October 1971 with the main objective of assisting handloom weavers outside the co-operative fold by providing them with yarn and undertaking the marketing of their products thereby reducing their dependence on middlemen.

(Paragraph 2.1)

The Company incurred continuous losses during 1998-2002. The accumulated loss of the Company at the end of March 2002 was Rs.68.21 crore which was more than four times of its paid-up capital.

(Paragraph 2.8)

The Company failed to fulfil its main objective of supplying raw material to weavers as it could meet only 3 to 22 *per cent* of their requirement for yarn during 1998-2003.

(Paragraph 2.10)

Due to injudicious allotment of work to the weavers in cottages, Company's employees could not get adequate work resulting in payment of idle wages of Rs.76 lakh.

(Paragraph 2.13)

Due to low volume of production, the per unit cost was higher which led to uncompetitive sales prices.

(Paragraph 2.15)

Despite protection provided to the Company by reserving its products for purchase by Government departments, the Company appointed private agents for sale to Government departments and paid a commission of Rs.1.09 crore to them during 1998-2003.

(Paragraph 2.17)

Although, the Government policy did not envisage procurement of cloth by Government departments from traders either directly or through the Company yet the Company supplied the finished goods by procuring the same from traders.

(Paragraph 2.18)

The Company irregularly diverted Rs.4.09 crore received for implementing delinking scheme (Rs.77 lakh), workshed cum housing scheme (Rs.85 lakh), project package scheme (Rs.60.88 lakh) and voluntary retirement scheme (Rs.1.86 crore) towards working capital.

(Paragraphs 2.25-2.27 and 2.32)

Introduction

2.1 The Maharashtra State Handlooms Corporation Limited (Company) was incorporated in October 1971 with the prime objective of assisting handloom weavers outside the co-operative fold by providing them with yarn and by undertaking the marketing of their products thereby reducing their dependence on middlemen.

Objectives and activities

2.2 The main objectives of the Company are:

- to supply improved equipment and accessories to the handloom weavers;
- to supply raw material required for the industry;
- to buy finished products produced by the weavers;
- to install and run dye houses, plants for sizing, bleaching, calendaring, mercerising, printing and shrink processing and other processing plants required for the handloom industry.

The Company functioned as a nodal agency for implementation of various handloom development schemes introduced by Government of India (GOI) and Government of Maharashtra (GOM).

As on 31 March 2003, the Company had two weaving sheds[*] in which production was done by own employees. In addition, there were 20 production centres[$] (4277 looms) through which it supplies yarn to weavers working in their own cottages for manufacture of items like bed sheets, grey

[*] Kamptee and Nagpur.

[$] Adyal, Andalgaon, Bela, Bhandara, Dhapewada, Gumgaon, Kalmeshwar, Kamptee I,II,III, Khapa, Maindargi, Mohad, Mowad, Nagpur, Palandur, Paoni, Ramtek, Sangadi and Umred.

cloth, towels, napkins *etc*. The Company had one dye house[@] for dyeing/bleaching of yarn and 22 sales depots[#] for marketing of its products.

Organisational set up

2.3 The management of the Company is vested in a Board of Directors consisting of one part time chairman appointed by State Government and nine directors of whom four are non-official directors. Out of four non-official directors, three are from political parties and one is a nominee of a financial institution. The Managing Director is the Chief Executive of the Company. Regular Managing Director has not been posted by GOM from October 1999 onwards and the Chief Marketing Officer of the Company has been holding the charge. None of the directors in the Board had technical expertise in the field of handlooms. Managing director is assisted by the officers in-charge of sales, production, accounts, audit, administration and legal sections.

GOM appointed (June 2000) a local politician as the chairman of the Company.

Scope of Audit

2.4 The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1985-86, Government of Maharashtra (Commercial) which was discussed in December 1993 by the Committee on Public Undertakings (COPU). The COPU in its 18th Report of December 1993 recommended as follows:

- instances of unnecessary purchase of assets and non-disposal of obsolete items pointed out in the report should not recur;
- responsibility should be fixed for excess staff appointed;
- closure of the Company to avoid further increase in loss; and
- establishment of co-operative society of weavers for handing over the looms to the society.

The Company while submitting the Action Taken Report to COPU which was discussed by COPU in January 1998 stated that the excess staff has been reduced by implementing the voluntary retirement scheme.

[@] Nagpur.

[#] Akola, Amravati, Aurangabad, Bhandara, Buldhana, Chandrapur, Dattawadi, Dhantoli, Gondia, Jalgaon, Kalachowki, Kamptee, Lalbaug, Nagpur, Nanded, Nerul, Parbhani, Pune, Ramtek, Solapur, Umred and Yavatmal.

The present review covers the activities of the Company for the five years ending 31 March 2003. Out of 20 production centres and 22 sale depots, five production centers* and six sale depots$ were selected for detailed check based on higher money value of production and sales, respectively in addition to test check of transactions of head office.

The audit findings, as a result of test check of records, were reported to Government/Company in April 2003 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the view points of Government/Company could be taken into account before finalising the review. The meeting of ARCPSE was held on 13 May 2003 and their view points had been duly incorporated in the review.

Funding

Capital structure

2.5 As on 31 March 2003, the authorised share capital of the Company was Rs.17 crore and paid-up capital was Rs.15.12 crore (GOM: Rs.13.22 crore and GOI: Rs.1.90 crore). During five years ending March 2003, State Government contributed Rs.2.12 crore towards the share capital of the Company.

Borrowings

2.6 As on 31 March 2003, loans of Rs.30.48 crore obtained from GOM and interest of Rs.25.12 crore thereon were outstanding. No repayment was made to the State Government either towards principal or interest during the five years ending March 2003. In addition, the Company also availed term loans, deposits and cash credit to meet its working capital requirements.

Financial position and working results

Financial position

2.7 Financial position of the Company for the four years ending 31 March 2002 (***Annexure-12***) shows increase in borrowings from Rs.23.83 crore in 1998-99 to Rs.36.01 crore in 2001-02 mainly due to loan received from GOM for delinking and voluntary retirement schemes. Similarly, current liabilities and provisions increased from Rs.15.56 crore in 1998-99 to Rs.34.37 crore in 2001-02 mainly due to increase in interest payable on Government loans. The net worth decreased from

* Kamptee No 1, 2, 3, Dhapewada and Mohadi.

$ Aurangabad, Bhandara, Jalgaon, Lalbaug, Nanded and Umred Road.

(-) Rs.27.94 crore in 1998-99 to (-) Rs.53.29 crore in 2001-02 due to continuous losses.

Working results

2.8 As could be seen in ***Annexure-13***, there was a loss of Rs.9.04 crore, Rs.8.51 crore, Rs.10.52 crore and Rs.8.19 crore during 1998-99,1999-2000, 2000-01 and 2001-02, respectively. The accumulated losses of Rs.68.21 crore were more than four times of its paid-up capital. The loss was mainly due to poor volume of sales and consequently non-absorption of overheads. Poor sales led to a working capital crunch leading to reduction in production and mounting overhead costs per unit of production as discussed in paragraph 2.15. Poor internal resource generation necessitated repeated borrowings and interest burden thereon. Expenditure incurred on delinking scheme discussed in paragraph 2.25, had further aggravated the financial position as the same was funded through high cost borrowings.

Appraisal of activities

Coverage of weavers

2.9 The main objective of the Company was to assist the weavers outside the co-operative fold. The table below indicates the coverage by the Company *vis-a-vis* the number of weavers outside the co-operative fold during 1998-2003:

Year	No of weavers attached to Company (as on 31 March)	Percentage of coverage*
1998-99	7,271	41
1999-2000	5,032	28
2000-01	4,783	27
2001-02	4,407	25
2002-03	4,221	24

* Coverage worked out based on 17,740 weavers outside co-operative fold as per latest census of 1995-96.

It could be seen from the above table that total number of weavers attached to the Company reduced from 7,271 (1998-99) to 4,221 (2002-03) which represents only 24 *per cent*. Thus, Company's role in providing employment to weavers outside the co-operative fold has been diminishing steadily.

Supply of yarn far below required quantity

2.10 The requirement of yarn for handloom weavers attached to the Company and the yarn actually supplied by Company during 1998-2003 was as detailed below:

Year	Yarn requirements for looms attached to the Company	Actual supply of yarn by the Company	Percentage of supply to requirements of looms attached to Company
	(in lakh bundles)		
1998-99	3.44	0.44	13
1999-2000	2.66	0.59	22
2000-01	2.42	0.32	13
2001-02	2.30	0.32	14
2002-03	2.12	0.06	3

Supply of yarn was only 3 to 22 *per cent* of the requirement.

As seen from above table, supply of yarn in respect of looms attached to the Company during 1998-2003 ranged between three and 22 only. The Company thus failed to fulfil its main objective of supplying raw material to weavers. The Company attributed (April 2003) its failure to non-availability of funds.

Production in common sheds and cottages

2.11 On submission of application, the weavers outside co-operative fold can get registered with the Company. Yarn is supplied to weavers in cottages for conversion to products like bed sheets, grey cloth, towels, sarees, *etc.* Eighty nine *per cent* production of the Company was through cottage weavers. Cottages are organised into groups (20 Nos), each group being linked to a production centre. Cottage weavers are paid on piece rate basis. In addition, the Company has its own two sheds wherein weaving is done by its employees.

Production in sheds

2.12 The table below shows the annual average production per loom, production, wages paid and average wages per meter during 1998-2003.

Year	Average production per loom (in metre)	Production (in lakh metre)	Wages paid (rupees in lakh)	Average wages per metre (Rupees)
1998-99	2,564	2.59	20.25	7.82
1999-2000	2,228	1.76	25.21	14.32
2000-01	1,153	0.83	29.94	36.07
2001-02	875	0.42	37.46	89.19
2002-03	739	0.34	24.39	71.74

Abnormal increase in wages per metre was due to rapid decline in volume of production.

From the table, it is seen that the average production per loom declined from 2,564 metres in 1998-99 to 739 metres in 2002-03. The average wages per metre increased from Rs.7.82 per metre in 1998-99 to Rs.71.74 per metre in 2002-03 due to decline in volume of production.

Payment of idle wages

Idle wages of Rs.76 lakh was paid.

2.13 During 1998-2003, the Company paid idle wages of Rs.76 lakh (83,085 idle man days) to its employees working in sheds due to non-availability of yarn/beam *etc.* while work was allocated to the weavers in cottages by providing yarn/beam *etc.* involving wage payment of Rs.2.66 crore. To avoid idle wages, the Company should have ensured optimum utilisation of its employees before allotting the work to weavers in cottages. Thus, due to injudious allotment of work to weavers in cottages, the Company's employees could not get adequate work resulting in payment of idle wages of Rs.76 lakh. The management stated (March 2003) that the weavers engaged in cottages were more in number and create law and order problem in the absence of regular work. It was further stated (May 2003) that items like durries, baskar patti, cotton/silk sarees, bedsheets and towels were produced in cottages and could not be made in sheds. The reply was not tenable as all these items could be produced in sheds (except basker patti) since the looms were wide enough. The Company should have ensured maximum production in sheds and only the balance should have been allotted to cottage weavers.

Production in cottages

2.14 The table below shows the number of production centres, average number of looms attached to the Company, looms utilised, production and average production per loom during 1998-2003.

Year	Number of production centers	Average number of looms attached to the Company	Average number of looms utilised	Percentage of utilisation	Production (in lakh metres)	Average production per loom (metres)
1998-99	31	8,050	6,444	80	10.60	164
1999-2000	29	5,292	3,853	73	14.65	380
2000-01	28	4,697	2,059	44	11.51	559
2001-02	23	4,395	2,225	51	8.61	387
2002-03	20	4,277	2,290	54	2.75	120

The Company had 31 production centres during 1998-99, which declined to 20 during 2002-03 on account of merger of few centres. The average number of looms attached to the centres also declined from 8,050 in 1998-99 to 4,277 in 2002-03 due to delinking of weavers. Despite delinking, the utilisation of the looms declined from 80 *per cent* in 1998-99 to 54 *per cent* in 2002-03. The production declined from 10.60 lakh metres in 1998-99 to 2.75 lakh metres in 2002-03. The Company attributed (March 2003) the decline in production to its bad financial position. As already explained in paragraph 2.8, the bad financial position was due to low production.

Audit observed that in seven[#] production centres, the percentage of non-operative looms to total looms attached to the centres ranged between

[#] Adyal, Maindargi, Mowad, Nagpur, Palandur, Powni, and Umred.

68 and 96 during 2002-03 as against 20 and 37 during 1998-99. In Kalmeshwar production centre, all looms were non-operative from 2001-02.

Cost structure and pricing

2.15 In respect of sales to Government departments, the central stores purchase organisation of the State Government fixed the selling price for some categories and for the rest, the Company fixed rates by adding 30 *per cent* overhead to prime cost while for general sale the price was fixed after adding 100 *per cent* overhead to prime cost (70 *per cent* up to 2000-01). For general sale, 20 *per cent* discount is allowed throughout the year and additional 20 *per cent* discount is allowed during festival season.

The table below shows the production, administrative, selling and financial overheads and the cost of production for four years ended 2001-02.

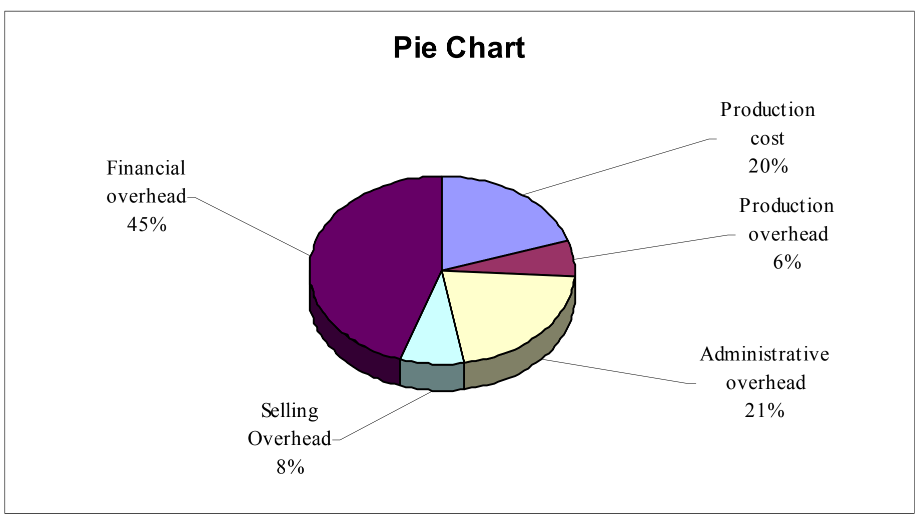
(Rupees in lakh)

Year	Cost of production	Overheads				Total	Percentage of overhead to cost of production
		Production	Administrative	Selling	Financial (interest)		
1998-99	342.85	100.18	196.33	111.20	341.07	748.78	218
1999-2000	414.59	101.30	241.06	143.91	400.31	886.58	214
2000-01	306.70	110.24	282.18	121.04	435.18	948.64	309
2001-02	236.01	72.25	248.90	91.84	528.11	941.10	399

There is a compelling need to increase production to reduce overhead.

Because of steep decline in value of production, the overheads could not be absorbed while fixing the price. There is a compelling need to increase production so that overheads can be absorbed without increase in price.

The production cost structure of the Company as on 31 March 2002 is given below:



As seen from the pie chart above, the overhead cost is 80 *per cent* out of which financial overhead constitutes a disproportionately large part *i.e.*

45 *per cent* of the total cost. There is a need for the Company to become financially viable by increasing sales beyond the breakeven point and generate enough cash to repay the loans.

A comparison of the prime cost of some of the Company's products with comparable products produced by a private co-operative society[•] in Maharashtra is made in the table below:

Sl. No.	Name of the product	Unit	Prime cost[#] of the Company's products (In Rupees)	Prime cost of the Society's products (In Rupees)	Rate difference (In Rupees)	Rate difference in percentage
1.	52 Grey cloth	Metre	24.42	32.47	(-)8.05	(-)24.79
2.	18 x 18 Handkerchief	No.	5.09	7.27	(-)2.18	(-)29.99
3.	18 x 27 Napkins	No.	7.52	9.09	(-)1.57	(-)17.27
4.	54 x 90 Plain check bed sheet	No.	67.89	85.73	(-)17.84	(-)20.81
5.	60x90 check bed sheet	No.	92.23	128.18	(-)35.95	(-)28.05
6.	124 cm x 4.15 mtr. Grey dhoti	No.	47.27	69.11	(-)21.84	(-)31.60
7.	6 yard Indigo cotton saree	No.	182.44	171.95	10.49	6.10
8.	48 Jacquard curtain cloth	Metre	53.04	55.12	(-)2.08	(-)3.77
9.	36 Check shirting	Metre	45.11	38.15	6.96	18.24
10.	58 Grey cloth	Metre	35.60	43.03	(-)7.43	(-)17.27

As seen from the above table, the Company's products prime cost was much lower than that of the society in most cases. However, the selling price of Company's products was much higher as seen from table below:

Sl. No.	Name of the product	Unit	Company's selling price (In Rupees)	Co-operative society's selling price (In Rupees)	Rate difference	Rate difference in percentage
1.	52 Grey cloth	Metre	38.40	35.70	2.70	7.56
2.	18 x 18 Handkerchief	No.	8.80	8.00	0.80	10.00
3.	18 x 27 Napkins	No.	11.20	10.00	1.20	12.00
4.	54 x 90 Plain check bed sheet	No.	107.20	94.30	12.90	13.68
5.	60 x 90 check bed sheet	No.	141.60	141.00	0.60	0.43
6.	124 cm x 4.15 meter Grey dhoti	No.	78.40	76.02	2.38	3.13
7.	6 yard Indigo cotton saree	No.	320.00	189.20	130.80	69.13
8.	48 Jacquard curtain cloth	Metre	72.80	60.65	12.15	20.03
9.	36 Check shirting	Metre	52.00	41.97	10.03	23.90
10.	58 Grey cloth	Metre	59.20	47.33	11.87	25.08

[•] Data obtained from weavers service centre Mumbai -unit of the Development Commissioner for Handlooms, New Delhi.

[#] Prime cost – cost of raw material and wages.

It could be seen from the above tables that despite lower prime cost, the final selling price of the Company was higher. This was due to enormously high (80 *per cent*) overhead cost as shown in the pie chart. The Company needs to address the issue of uncompetitive pricing by increasing production so that unit overhead cost can be reduced.

Sales performance

2.16 The Company's products are sold through 22 sale depots established throughout the State. Apart from sale of Company's products to Government Departments and others, the Company resorted to trading sales by appointing agents to procure goods from market and sell to Government departments. The table below indicates the details of sales during the period 1998-2002.

(Rupees in lakh)

Details of sale	1998-99	1999-00	2000-01	2001-02
Own products				
Sales to Government departments	418.40 (48.85)	533.01 (58.33)	250.55 (22.78)	157.65 (14.16)
Sales to others	382.51 (44.65)	204.14 (22.34)	231.70 (21.07)	175.05 (15.72)
Sub total	**800.91 (93.50)**	**737.15 (80.67)**	**482.25 (43.85)**	**332.70 (29.88)**
Trading sales to Government departments	**55.68 (6.50)**	**176.69 (19.33)**	**617.59 (56.15)**	**780.69 (70.12)**
Total sales	**856.59**	**913.84**	**1,099.84**	**1,113.39**
Breakeven sales	7,209.35	3,520.72[@]	6,674.47	5,475.42
Percentage of sales to breakeven sales	12	26	16	20

(Figures in bracket indicate percentage of sale to total sales)

From the above table, it could be seen that the sale of Company's own product decreased from 93.50 to 29.88 *per cent* during 1998-2002. The percentage of total sales to breakeven sales was not only very low but also had a decreasing trend.

The scrutiny of sales performance revealed the following:

Sales to Government departments

2.17 GOM (January 1992) reserved the purchase of handloom cloth by its departments from the Company and Maharashtra State Handloom Co-operative Federation Limited (MAHATEX), Mumbai. In order to avoid unnecessary competition between the agencies, Government demarcated (January 1999) their area of operation. The departments situated in the

[@] Decrease in breakeven sales during 1999-2000 was stated to be due to huge reduction in closing stock on account of sale to GOM towards Orissa flood relief.

19 districts[❋] were directed to purchase their requirement of handloom products from the Company.

Commission of Rs.1.09 crore towards sale to Government departments was paid to private agents.

Despite protection provided to the Company by reserving its products for purchase by Government departments, the Company appointed private agents for sale to Government departments and paid Commission of Rs.1.09 crore to them at the rate of 12 *per cent* during 1998-2003. The Company justified (March 2003) the appointment of agents on the ground that special efforts were required as the purchasing departments gave last priority for purchase of textile items. The reply was not acceptable as no special efforts were required in view of the reservation as per government policy. Reducing dependence of weavers on middlemen was one of the objectives of the Company. The appointment of agents was, therefore, not in conformity with the role assigned to it to eliminate middlemen.

2.18 Apart from irregular appointment of agents for sale to Government departments, the Company supplied finished goods (trading sale) procured from traders. The policy of the Government regarding procurement of cloth by the Government departments did not envisage procurement from traders either directly or through the Company. It could be seen from the table that trading sale to Government departments increased from 6.50 to 70.12 *per cent* during 1998-2002.

2.19 On test check of 136 cases relating to 1998-2003, it was noticed that in 99 cases, payments from Government departments were realised after delays ranging between one and 17 months. The duty of agents which entitled them to 12 *per cent* commission *inter alia* included obtaining payments from Government Departments. But there were delays as the Company did not stipulate any time period within which payments were to be made.

2.20 Though the Company registered itself with Handloom Promotion Council in August 2002 with the purpose of introducing its products in the export markets, it had not yet succeeded in export of its goods (March 2003). The Company attributed (March 2003) this to acute financial crunch. The fact remained that the Company was not successful in exporting goods so as to develop alternative markets for its products.

Performance of sale depots

2.21 In the year 1998-99, sales targets were fixed for 23 sales depots out of 37 and only one depot achieved the target. The performance of the remaining 22 depots ranged between 0.28 and 47 *per cent.* The Company did not fix any sales targets thereafter. ***Annexure-14*** showing the contribution by sales depots indicates that 8 to 17 out of 22 sale depots had negative contribution during 1998-2003. This includes six depots having continuous negative contribution

[❋] Eleven districts of Vidharbha region, Aurangabad, Dhule, Jalgaon, Jalna, Nanded, Parbhani, Pune and Thane.

during the last three or more years as follows:

Sl. No.	Name of the depots	Continuous negative contribution
1.	Aurangabad and Gondia	last 5 years
2.	Lalbaug (Mumbai)	last 4 years
3.	Nerul, Parbhani and Pune	last 3 years

There is a need to analyse the reasons for continuous negative contribution and to improve performance.

Loss due to sale below cost of production

2.22 The Company agreed (October 1999) to sell 40x40x8 yard patti plain sarees at the rate of Rs.88 to Narayan Synthetics, Amalner, a regular purchaser of the Company, which was sufficient to recover prime cost (cost of raw material and wages) only. On request from the purchaser, the Company agreed (February 2000) to reduce the rate to Rs.80 per saree and again to Rs.78 per saree from August 2001. The Company sold 1.86 lakh sarees below the prime cost. As a result of it, leaving aside the overheads, even the prime cost to the extent of Rs.19.22 lakh remained unrecovered. The Company did not invite tender/quotation for the sale.

The Company stated (March 2003) that apart from commercial activities, the Company had a social objective of providing employment to handloom weavers. The reply was not acceptable in view of the fact that Company's action had resulted in benefits being passed on to a private party.

Non-implementation of recommendations

2.23 In 1990, the Company appointed Kirloskar consultants to recommend comprehensive measures for improvement of organisation and methods, towards which an amount of Rs.2.05 lakh was paid. The consultants recommended *interalia* formulation of marketing plan based on marketing needs, production plan based on marketing plan and purchase plan based on production plan, relocation of sales depots, standardisation of products, training of sales personnel, regular monitoring of products being offered by competitors and prices thereof, weeding out of non-saleable varieties *etc.* The Board of Directors accepted (September 1990) the recommendations of the consultants only to the extent of reduction of staff.

The Company stated (July 2003) that it had taken action for reduction of staff and 101 employees were retrenched. However, the Company had not taken action on other recommendations made by the consultants.

Implementation of schemes

2.24 The Company implemented several schemes for handloom weavers. A review of implementation of these schemes revealed the following:

Delinking scheme

2.25 The Company submitted (February 1998) a proposal to GOM for approval of a scheme to delink 3,000 weavers above the age of 55 who were unable to weave good quality cloth due to advanced age. Weavers were to be paid Rs.10,000 each as *ex-gratia* to delink them from the Company. GOM approved the scheme (November 1998) and sanctioned loan of Rs.6 crore up to November 1999 at an interest rate of 18.5 *per cent* repayable in five equal instalments after a moratorium of two years. The *ex-gratia* was enhanced to Rs.15,000 per weaver by GOM.

- Audit observed that no tangible benefits accrued to the Company by implementing this scheme since the beneficiaries were cottage weavers who would be paid only when assigned work. The entire scheme had gone against the Company's objective of assisting weavers outside the co-operative sector. Further, reduction in number of weavers and consequent decline in production would increase overheads per unit.

The scheme fund of Rs.77 lakh was diverted towards cash credit.

- Out of rupees six crore received from GOM, the Company disbursed Rs.5.23 crore and diverted the remaining amount of Rs.77 lakh to reduce cash credit balance. Since the interest rate on loan was higher than that of cash credit account, the Company suffered interest loss of Rs.8.26 lakh.

Workshed cum housing scheme

2.26 GOI revised (June 1997) norms of the centrally sponsored scheme called workshed cum housing scheme to provide assistance to handloom weavers for construction of workshed/house cum workshed. The terms and conditions for grant of assistance under the scheme, *inter alia,* were as follows:

- For construction of workshed, the maximum subsidy to be released by GOI was Rs.7,000 and Rs.10,000 for rural and urban workshed, respectively.
- The implementing agency had to ensure that title of the land was clearly vested with the weaver.

The Company submitted (October 1997) a proposal to GOM for construction of 6,172 worksheds (4,535 urban and 1,637 rural) involving financial assistance of Rs.5.68 crore of which GOI sanctioned and released Rs.2.25 crore up to July 2002 for construction of 2,784 worksheds (1,000 urban and 1,784 rural). The Company constructed 1,627 worksheds (867 urban and 760 rural) up to March 2003.

A review of implementation of the scheme revealed the following:

The right/title of land did not vest with the weaver.

- On test check of 388 cases involving Rs.35.89 lakh released to weavers attached to the production centres at Kamptee No.1, 2, 3 and Mohadi, it was noticed that, the right/title of the land only in respect of 84 applications was as per the requirement under the scheme. In Dhapewada production centre, the documents proving the right/title of the land in the name of beneficiaries were not maintained. In respect of 12 cases, assistance amounting to Rs.1.20 lakh was granted based on duplicate copy of property tax receipts to more than one member of the family. Thus, benefit under the scheme was given in violation of scheme conditions.

- Assistance of rupees seven lakh was provided to 100 weavers for repairs in Dhapewada production centre in violation of scheme condition that assistance should be given only for construction. In reply (May 2003) it was stated that as the living condition of weavers is bad, all the conditions cannot be insisted upon. The reply was not tenable as the same was against the scheme guidelines.

The scheme fund of Rs.85 lakh was diverted towards working capital requirements.

- The Company did not utilise Rs.85 lakh received (January-July 2002) as the last instalment and diverted the same for its working capital requirements while 320 applications were pending as at the end of March 2003.

Project package scheme

2.27 GOI introduced (1991-92) project package scheme for assisting handloom weavers. Funding under the scheme was to be on the basis of 50:50 between GOM and GOI.

GOI approved 10 projects on the basis of proposals submitted by the Company at a cost of Rs.2.65 crore between February 1995 and March 1996. The project components included providing frame looms, accessories, training stipend to weavers for three months, raw material for training, arranging publicity and exhibitions, construction of worksheds and working capital loan to the Company *etc.*

Review of the implementation of above projects revealed (March 2003) the following:

- GOM delayed release of funds of Rs.1.90 crore by seven to 67 months.

The scheme fund of Rs.60.88 lakh was diverted towards working capital requirements.

- GOM and GOI have not released funds of Rs.26.11lakh and Rs.49.52 lakh, respectively to the Company (March 2003).

- The Company did not utilise Rs.60.88 lakh released in October 2000 and August 2001 and diverted the funds to meet working capital requirements.

- Funds of Rs.25.67 lakh received for frame loom and workshed components were diverted to training, publicity and working capital components of the scheme.

- An expenditure of rupees one lakh was shown in the utilisation certificate of one project (Project No.2/94) under design development component of the project being the salary of two designers at the rate of Rs.5,000 per month for 10 months period but the Company did not have designers on their roll.

- Project No. 2/82 involved supply of frame looms (200 Nos.) at the rate of Rs.6,000 per weaver involving capital outlay of Rs.12 lakh. Though the utilisation certificate submitted by the Company (January 2000) indicated that an amount of rupees three lakh was utilised, audit found that the Company supplied only seven looms valuing Rs.42,000.

Non-completion of project despite lapse of more than seven years.

- As per the scheme, the projects were to be implemented over a period of one to two years. However, all the ten projects were incomplete even after lapse of more than seven years (March 2003), thereby defeating the objective of enhancing the wage earning capacity of the weavers.

Deendayal hathkargha protsahan yojana

2.28 GOI introduced (September 2000) Deendayal hathkargha protsahan yojana, a comprehensive scheme for the handloom sector. Under the marketing incentive component of the scheme, state handlooms corporations shall receive assistance to enable the Company to marginally reduce its price and increase its competitiveness in the handloom sector. The grant would be shared between the Central and State Governments in the ratio of 50:50.

The Company claimed (January and July 2001) subsidy of Rs.52.13 lakh under the scheme. The claim was rejected by the Director of Handlooms, GOM on the ground that the State Government had not made budgetary allocation. Thus, the delay of two years in implementation of the scheme by the State Government deprived the Company of Rs.52.13 lakh towards marketing incentive. The GOM made budget allocation for the scheme effective from the year 2002-03. However, the Company's claim (July 2002) for the year 2002-03 amounting to Rs.17.28 lakh was pending (March 2003) with Director of Handlooms, GOM.

Thrift fund scheme

2.29 In pursuance of Textile Policy, 1985 the GOI introduced (December 1985) a centrally sponsored thrift fund scheme in the nature of provident fund for social welfare of weavers. As per the scheme, 8 *per cent* of wages was to be recovered from weavers and equal matching contribution was to be provided by GOI and GOM (4 *per cent* each). Interest was payable as per rate decided by GOI from time to time. The scheme was implemented by the Company in respect of weavers attached to the Company.

Review of the scheme revealed that an amount of Rs.40.10 lakh was due from GOI/GOM (GOI-Rs.10.54 lakh, GOM-Rs.29.56 lakh) towards matching contribution from 1993 onwards. In view of delay in receipt of matching contribution from GOI/GOM, the Company while making final payment to the weavers allowed interest on Government's matching contribution only to the extent of 60 *per cent.* Test check in seven production centres[$] revealed that the delay in receipt of matching contribution under the scheme deprived 4,375 weavers of 40 *per cent* of interest benefit on Government's contribution amounting to Rs.11.02 lakh.

[$] Bharatmata, Budhwari, Juni, Kamptee I, II and III, Mangalwari and Timki,.

Inventory control

Inventory of cloth

2.30 The inventory of the Company consists of finished goods, grey cloth and processed cloth. The table below gives the inventory position for the four years ending 31 March 2002.

(Rupees in lakh)

Period ending	Stock in terms of months' sales
31 March 1999	7.05
31 March 2000	6.87
31 March 2001	10.03
31 March 2002	14.64

Audit observed that:

- Stock in terms of months' sales showed an increasing trend rising from 7.05 months in March 1999 to 14.64 months in March 2002.

- The Company had no system to carryout age wise analysis of each item of inventory to determine the old stock which should be sold first. Monthly consolidation of stock reports received from sale depots to ascertain stock position was not done and consequently, production of unwanted goods could not be avoided. As a result, despite having sufficient stock to meet the annual requirement, the Company undertook further production of 28 categories of items, the carrying cost (considering stock in excess of six months' sales/consumption and cash credit interest rate) of which was Rs.26.94 lakh. In respect of other items, the inventory carrying cost of stock exceeding six months' sales/consumption during 1998-2003 worked out to Rs.21.63 lakh.

Credit control

Sundry debtors and advances

2.31 Sundry debtors, sales and debtors expressed in terms of months' sales during 1998-2002 are given below:

Particulars	1998-99	1999-2000	2000-01	2001-02 (Provisional)
Total debtors (Rupees in lakh)	248.24	403.54	837.87	973.85
Sales (Rupees in lakh)	737.53	871.53	1,042.70	1,061.15
Total debtors in terms of months' sale	4.04	5.56	9.64	11.01

It could be seen from the table that total debtors and debtors in terms of months' sale were on the increase during 1998-2002. Debtors increased by almost four times during the four years. The age wise break-up of debtors of more than six months old was as under:

(Rupees in lakh)

Particulars	1998-99	1999-2000	2000-01
Over six months to one year	117.42	238.75	604.29
Over one year to two years	23.19	46.87	120.17
Over two years to three years	49.87	50.28	46.81
Over three years	57.76	67.64	66.60
Total	**248.24**	**403.54**	**837.87**

Audit observed that:

- The Company did not have any credit policy. The Company had no system for levying penalty for delay in payments. Consequently, the debtors over six months increased from Rs.2.48 crore in 1998-99 to Rs.8.38 crore in 2000-01.

Ineffective recovery measures resulted in huge outstandings.

- Subsidiary register showing party-wise bills issued, payments received, reminders issued *etc.* was not maintained. On test check, it was found that reminders were sent only once to 28 parties from whom Rs.7.20 lakh was due as on March 2002 whereas in respect of 157 parties from whom Rs.2.47 crore was outstanding as on 31 March 2002, no reminder was sent during 2002-03.

- Legal suits for recovery of dues from private parties were not initiated by the Company.

The management stated (May 2003) that orders were issued for vigorous pursuance and recovery of dues.

Manpower

2.32 A proposal for implementation of voluntary retirement scheme (VRS) was sent to GOM in July 1995 for approval and financial assistance. GOM sanctioned Rs.5.64 crore in 2000-01 and Rs.1.83 crore in 2001-02 as loan carrying an interest rate of 13.25 *per cent* repayable in five equal annual instalments after a moratorium of one year.

Audit observations on implementation of the scheme are as follows:

VRS fund of Rs.1.86 crore was diverted towards working capital.

- The Company diverted Rs.90 lakh during 2000-03 for meeting its working capital requirements.
- Funds amounting to Rs.96 lakh were utilised irregularly for the payment of arrears of salary, earned leave encashment *etc.* of retired employees. Had the Company not diverted the above amounts, it could have settled the VRS claim of at least 93 employees and thereby saved recurring expenditure of Rs.55.24 lakh spent on salary and allowances during May 2002-March 2003.

Management information system

2.33 Audit observed that the management information system (MIS) of the Company was inadequate. The Company did not prepare monthly or quarterly financial statements to have periodic appraisal of the financial position for taking remedial action. Reports of item-wise sales, stocks and collection of dues from sundry debtors were not prepared by the Company and this affected the Company's ability to take timely remedial action.

Internal audit

2.34 The internal audit of the Company was carried out departmentally. However, the officials carrying out internal audit were not adequately trained and professionally qualified. The statutory auditors in their report (January 2002) under section 619(3)(a) of Companies Act, 1956 pointed out that logical and analytical review of affairs of units was not carried out by internal audit.

The internal audit reports (262) were not submitted to the Managing Director but to the Financial Advisor and Chief Accounts Officer. The scope of internal audit was inadequate as head office transactions were not under the purview of internal audit. The Company stated (May 2003) that henceforth internal audit reports would be submitted to Managing Director.

Conclusion

The Company failed to fulfil its main objective of supplying raw material to weavers as it could supply only meager quantity of yarn to meet their requirement. The Company incurred continuous losses and its accumulated losses were much more than its paid-up capital. Despite having a low prime cost, the low volume of production and consequent high unit overheads resulted in uncompetitive prices. The non-recovery of overheads resulted in losses. Poor sales led to a working capital crunch

leading to reduction in production and mounting overhead costs per unit of production. Poor internal resource generation necessitated repeated borrowings and interest burden thereon. Expenditure incurred on delinking scheme aggravated the financial position further as the same was funded through high cost borrowings.

In view of persistent losses and failure to fulfill its main objective by the Company, the Government should either take effective steps to make the Company financially viable or consider its closure to avoid further increase in losses, as also recommended by the Committee on Public Undertakings in December 1993.