Chapter-II

Review relating to Government company

2 Maharashtra Agro Industries Development Corporation Limited

Highlights

Maharashtra Agro Industries Development Corporation Limited (Company) was incorporated in December 1965 to assist, promote and develop agro industries and its connected activities in Maharashtra.

(Paragraph 2.1)

The Company has been incurring operational losses since 2000-01. Manufacturing and trading of fertilisers, which contributed to profits up to 2001-02 turned unprofitable from 2002-03. The operations relating to animal feed and fruits and vegetables processing factory at Nagpur continue to be a drag on the profits of the Company.

(Paragraph 2.6)

The controllable idle hours showed an increasing trend during 1999-2004 and were as high as 81 *per cent* in 2003-04. The cost of idle labour in fertiliser factories has been adversely affecting the profitability of the Company.

(Paragraph 2.8)

Single super phosphate plant at Jalna purchased for Rs.1.29 crore was lying idle which resulted in interest loss of Rs.54.56 lakh on idle investment during May 2001 to March 2004.

(Paragraph 2.9)

Capacity utilisation of fruits and vegetables processing factory at Nagpur was far below the break-even point resulting in loss of Rs.5.09 crore during 1999-2004.

(Paragraph 2.10)

In the entrustment of fruit processing plants at Katol and Morshi valued at Rs.9.75 crore to a private party, the agreement was silent on the action to be taken in the event of default in redemption of preference shares and payment of dividend. The party was allowed to raise loans against the

assets without ensuring that the funds were fully invested in the plant and not diverted.

(Paragraph 2.11)

The Company failed to avail of cash rebate of 18 *per cent* fully in purchase of fertilisers despite being attractive. This has resulted in loss of Rs.44 lakh even after allowing interest on cash credit.

(Paragraph 2.14)

The arrangement for sale of fertilisers was prone to delays in remittance of sale proceeds and misstatement of the prices at which the sale took place. In the context of several benefits extended to the dealers, the dealers' margin was rather high. For every one hundred rupees reduction in dealers' margin, the Company would save Rs.2.43 crore per annum.

(Paragraphs 2.18-2.19)

Advertising contracts worth Rs.1.81 crore were awarded during 2002-03 to a single firm without calling for tenders, thus, violating the norms of transparency. Expenditure of Rs.41.10 lakh on advertisement proved infructuous besides affecting the Company's image due to non sale of advertised products.

(Paragraph 2.24)

Introduction

2.1 Maharashtra Agro Industries Development Corporation Limited (Company) was incorporated in December 1965 as a Government company to assist, promote and develop agro industries and its connected activities in Maharashtra.

Objectives

2.2 The main objectives of the Company as envisaged in the Memorandum of Association are to:

- organise, conduct or manage engineering, repair shop or workshop of all description and to manufacture, import, export, buy and sell agricultural equipment, fertilisers, manures, insecticides, pesticides, *etc.*

- aid, assist, promote, develop and manufacture agricultural implements, machineries and other equipment required for fisheries, poultry, sheep, cattle and dairy development in Maharashtra and in India;

- aid, assist, finance, protect and promote the interest of agro industries and its connected activities in Maharashtra.

The main activities undertaken by the Company are development of agricultural implements, manufacturing of nitrogen phosphorous potash (NPK) fertilisers, animal feed, fruit and vegetable products and trading of fertilisers, pesticides and agricultural implements.

Organisational set up

2.3 The management of the Company is vested in a Board of Directors (BOD). As on 31 March 2004, the BOD consisted of fourteen directors (eight non-official and six official) of whom thirteen were appointed by the State Government and one by Government of India (GOI). The Managing Director is the chief executive of the Company and is assisted by eight[®] Heads of Department. The production activities at factory level are managed by the Factory Manager and marketing activities are coordinated through the network of twelve regional offices[$] and two sub-regional offices[$$].

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 ended 31 March 1987 (Commercial), Government of Maharashtra. The present review conducted during December 2003 to April 2004 covers the examination of records for the period 1999-2004 at head office, test check of records of seven[✱] out of 14 regional/sub regional offices, three[×] out of six fertiliser factories, one[◊] out of two animal feed factories, agro engineering division and fruits and vegetables processing factory (Nagpur Orange Growers Association-NOGA).

The audit findings as a result of test check of records were reported to Government/ Company in May 2004 with a specific request to attend the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE). The meeting of ARCPSE was held on 23 July 2004 and their viewpoints had been duly incorporated in the review.

[®] Fertiliser and Pesticides, Finance and Accounts, Animal Feed, Engineering, Administration, NOGA, Planning and Audit Department.

[$] Akola, Amravati, Aurangabad, Chandrapur, Jalgaon, Kolhapur, Nagpur, Nanded, Nasik, Osmanabad, Pune and Ratnagiri.

[$$] Bhir and Thane.

[✱] Akola, Amravati, Kolhapur, Nagpur, Nanded, Pune and Thane.

[×] Kolhapur, Nanded and Rasayani.

[◊] Pune.

Funding arrangements

Share capital

2.5 As on 31 March 2004, the authorised share capital of the Company was Rs.8 crore and paid up capital was Rs.5.50 crore which was contributed by the State Government (Rs.3 crore) and GOI (Rs.2.50 crore). There was no contribution towards share capital during 1999-2004, both by the State Government and GOI.

Financial position and working results

2.6 The financial position and working results of the Company for five years up to 2003-04 are detailed in **Annexure-8**.

The table below shows the profitability of the Company during 1999-2004:

(Rupees in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04 (provisional)
Operational profit♦ (+) /loss (-)	(+) 2.55	(-) 8.17	(-) 8.41	(-) 9.51	(-) 9.42
Other income	5.30	12.24	10.09	7.95	10.09
Profit (+)/loss (-)	(+)7.85	(+) 4.07	(+)1.68	(-)1.56	(+) 0.67

The Company has been incurring operational losses since 2000-01. The operational losses increased from Rs.8.17 crore to Rs.9.42 crore. The profit during 1999-2002 was on account of other income which mainly included refund of Sales Tax and interest income. It was noticed that interest income on fund received from Government for disbursal to beneficiaries under various schemes was being wrongly shown as income of the Company.

The segment-wise profitability worked out for the four years 2000-04 is given below:

Profit(+)/loss(-)

(Rupees in crore)

Activity	2000-01	2001-02	2002-03	2003-04 (provisional)
Fertiliser	(+)4.07	(+)0.99	(-)1.96	(-)2.25
Pesticides	(+)0.94	(+)1.16	(+)1.29	(+)1.69
Agro engineering	(+)2.14	(+)2.01	(+)1.14	(+)2.80
Animal feed	(-)1.08	(-)0.68	(-)1.21	(-)0.96
NOGA•	(-)2.00	(-)1.80	(-)0.82	(-)0.61
Total	**(+)4.07**	**(+)1.68**	**(-)1.56**	**(+)0.67**

♦ Profit excluding other income.

• Fruits and vegetables processing factory at Nagpur.

Manufacturing and trading of fertilisers, which contributed to profits up to 2001-02 turned unprofitable from 2002-03 due to reduction in sales. The operations relating to animal feed and NOGA continue to be a drag on the profits of the Company.

Production

Production of fertilisers

2.7 The Company has six[•] NPK fertiliser factories. Factories at Rasayani and Jalna have the facilities to produce both NPK as well as single super phosphate (SSP) fertilisers.

Idle working hours

2.8 The Company manufactures NPK fertilisers in its NPK factories by mixing basic fertilisers such as urea, dia ammonium phosphate, SSP, muriate of potash, *etc*. The working hours[*] available in the NPK factories were not utilised fully resulting in idle labour cost. The summarised position of working hours and idle hours in six NPK factories during 1999-2004 was as under:

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04 (Provisional)
Total available working hours	39,840	39,288	45,192	44,424	45,144
Hours utilised	24,880	24,233	24,646	18,602	22,027
Idle hours	14,960	15,055	20,546	25,822	23,117
Percentage of idle hours to total working hours	**37.6**	**38.3**	**45.5**	**58.1**	**51.2**
Labour cost per hour (Rupees)	1,250	1,299	1,152	1,103	1,107
Controllable idle hours (due to absence of production programmes and non availability of raw materials)	7,305	7,642	13,635	19,208	18,725
Percentage of controllable idle hours to total idle hours	**48.8**	**50.8**	**66.4**	**74.4**	**81.0**
Idle labour cost (Rupees in crore) (5 x 6)	0.91	0.99	1.57	2.12	2.07

High idle labour cost is a drag on the profits of the Company.

The idle hours increased from 37.6 *per cent* in 1999-2000 to 58.1 *per cent* in 2002-03. This resulted in increase of idle labour cost from Rs.91.31 lakh in 1999-2000 to Rs.2.12 crore in 2002-03. The controllable idle hours ranged

[•] Jalna, Kolhapur, Nanded, Pachora, Rasayani and Wardha
[*] No. of working days x 24 hours x six factories (sixth factory added in 2001-02).

from 48.8 to 81 *per cent* of total idle hours. The Company stated that the increase in idle hours was due to decrease in production. Given the increasing cost implications, there is a need to curtail idle labour cost.

Purchase of second hand fertiliser plant from a private party

Purchase of second hand NPK/SSP plant resulted in shifting the burden of bad investment from the promoter to the Company.

2.9 The Company purchased (January 2001) NPK and SSP plants for Rs.1.71 crore (including building Rs.72.91 lakh) from SICOM Limited who auctioned the plant of HIMCO Fertiliser Private Limited, Jalna. The purchase was approved by the Board of Directors. The Company started operation of NPK plant in May 2001 after incurring capital expenditure of Rs.42.57 lakh. The actual production of NPK fertiliser was 17,183 MT (2001-02) and 16,959 MT (2002-03), which was 57.3 and 56.3 *per cent*, respectively of the installed capacity. SSP plant taken over in May 2001 has been lying idle and the loss of interest on idle investment (Rs.1.29 crore) worked out to Rs.54.56 lakh[¶]. The Company stated (July 2004) that the plant was purchased to meet the expected increase in demand for fertilisers.

The reply is not tenable as:

- The purchase of the plants was not in the interest of the Company, as it was not utilising the capacity of its own existing plants fully.
- The purchase resulted only in shifting the burden of bad investment from the promoter to the Company.
- The transaction only helped the private party to discharge its liability to SICOM Limited.

Processing of fruits and vegetable products

2.10 The Company has a fruit and vegetable-processing factory (NOGA) at Nagpur for manufacturing squashes, syrup, jam, fruit juices, tomato ketchup *etc*. The production performance and working results of NOGA factory during 1999-2004 were as under:

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04 (Provisional)
Production performance					
Installed capacity (MT)	4,950	4,950	4,950	4,950	4,950
Actual production (MT)	2,059	1,390	1,758	1,471	1,806
Percentage of utilisation	**42**	**28**	**36**	**30**	**36**
Working results		***(Rupees in crore)***			
Total expenditure	9.68	8.79	8.09	6.72	7.28
Total income	8.94	7.00	6.49	6.16	6.88
Loss*	**0.74**	**1.79**	**1.60**	**0.56**	**0.40**

[¶]Worked out at the rate of 14.5 *per cent* (cash credit rate) on Rs.1.29 crore from June 2001 to March 2004.
*This does not include head office overheads.

Audit observed the following:

Capacity utilisation was far below the break even point which resulted in losses.

- The production in 1999-2000 was as low as 42 *per cent* of the installed capacity. There was further decrease in capacity utilisation during the subsequent years.
- The Company has to compete with private parties in sale of its products. Cost control is crucial for surviving in a competitive market. The Company can recover its fixed cost fully only if production is increased up to 4,413 MT *i.e.* 90 *per cent* of capacity based on data for 2002-03. The capacity utilisation was far below 90 *per cent*. The total loss of NOGA during 1999-2004 was Rs.5.09 crore. The Company while accepting (August 2004) the facts stated that the level of 90 *per cent* break even point could not be achieved with the present traditional equipment and machinery. The fact remains that by not taking remedial measures, the Company has been incurring regular loss on this activity.

Deficiencies in entrustment of fruit processing plants to a private party

2.11 In December 1999, the State Government decided to entrust the operation of fruit processing plants at Katol and Morshi to Scientechnic India Private Limited, Mumbai (SIPL). The decision was not implemented. The Company executed (April 2001) an agreement with SIPL for transfer of assets of both the plants based on revised conditions. The assets of Katol plant were handed over in May 2001 but the Morshi plant was not taken over by SIPL.

Audit observed the following:

The agreement was silent as to what action would be taken against the party in the event of default in payments.

The party was allowed to raise loans against the assets without ensuring that the funds were not diverted but fully invested in the plant.

- The assessed value of Rs.9.75 crore (Katol-Rs.8.07 crore, Morshi-Rs.1.68 crore) was to be treated by SIPL as "Seed Capital" and was to be refunded after five years from the date of possession with interest at the rate of 14 *per cent* per annum. This condition was modified (April 2001) treating the seed capital as Cumulative Redeemable Preference Shares payable in six yearly instalments starting from fifth year with 14 *per cent* dividend per annum to be calculated from third year. Due to change of this condition, the benefit passed on to the party was Rs.2.26 crore due to waiver of interest for the first two years. The agreement was silent as to what action would be taken against the party in the event of default in redemption of preference shares and payment of dividend.
- The security was impaired due to revised condition permitting SIPL to mortgage the assets with financial institutions with first charge on the assets. Further, this changed condition facilitated the private party to raise loans without ensuring that the funds were not diverted but fully invested in the plant.

The plant at Morshi is lying idle.

- As per the agreement, SIPL was to start Morshi project within two years from the date of agreement. There was no clause in the agreement for penal action for not taking over the plant. The Company has also not operated the plant. Consequently, the plant at Morshi (value Rs.1.68 crore) has been lying idle since 1997.

The Company stated (July 2004) that the entrustment of the plants to the private party was not done by the Company's Board but by the State Government. The selection of party was stated to have been done by the private consultant engaged by the State Government. However, the fact remains that many of the initial contract conditions were modified to the detriment of Company's interest.

Production of animal feed

2.12 The Company has two animal feed factories (AFF) located at Chinchwad (Pune) and Yeotmal. The installed capacity of each factory was 30,000 MT per annum. Review of production performance of the plant at Yeotmal which was taken on lease in 1983 from Alap Cattle Feed Manufacturing Company Private Limited revealed that the actual utilisation of installed capacity (30,000 MT) ranged from 3.2 to 8.7 *per cent* during 1999-2004 due to lack of demand in the Vidarbha region and thus remained grossly underutilised. The animal feed produced at Yeotmal factory was marketed by the Company at a loss ranging from Rs.723 to Rs.1,753 per MT. The total loss during 1999-2003 was Rs.61.34 lakh.

The Company has not returned the plant so far and continued to incur losses. The Company stated (July 2004) that the unit has not been returned as an amount of Rs.53.72 lakh *plus* interest due from the party has not been received and a case has been filed in the court of law (November 1994). Pending this, effective steps are required to increase production and to sell the products in other regions. This would also be helpful to the Company in improving the recovery of fixed cost from the increased production.

Purchases

Purchase of fertilisers

2.13 The Company procures raw material required for production and finished products for trading by inviting tenders at head office level. The materials are procured by field offices and payment is released by head office.

Non availment of cash rebate

2.14 Apart from in-house production, the Company purchases fertilisers from outside sources. During March-September 2002, the Company placed orders for the purchase of dia ammonium phosphate (DAP) and SSP on nine suppliers♠. The suppliers offered credit period of 45 to 90 days. For cash payment, a discount of 18 *per cent* was offered by the suppliers. The Company had a sound liquidity position. Even if cash credit facility at the rate of 14.5 *per cent* was availed of to make cash payment, the rebate would have

♠Indian Potash Limited, Gujrat State Fertiliser and Chemical Limited, Paradeep Phosphates Limited, Indogulf Corporation Limited, Indian Farmers Fertiliser Co-operative Limited, Nirma Limited, Rama Krishi, BEC Fertiliser and Shiva Fertiliser.

The Company suffered a loss of Rs.44 lakh due to non availment of cash rebate.

been beneficial. The Company did not avail of cash rebate of Rs.2.27 crore on these purchases. Audit noticed that the Company could have saved Rs.44 lakh by opting for cash rebate even if cash credit facilities with interest at 14.5 *per cent* were availed.

The Company stated (July 2004) that the sales and collection eroded during 2002-03 and availing cash discount became difficult. The reply is not tenable as the Company could have availed minimum cash rebate of Rs.44 lakh by availing cash credit facilities.

Failure to purchase on consignment basis

2.15 The Company purchases fertiliser and pesticides from private parties. In respect of products whose marketability is untested the basic principle to safeguard the financial interest of the Company is that such purchases should be on consignment basis. Cash payment in such cases is clearly not in the interest of the Company. Audit observed that the Company deviated from this sound principle and purchased certain products on cash basis as discussed below. It took a long period to sell the material with the result that apart from loss of interest on delayed realisation from sales there was deterioration in unsold stock.

Product (supplier)	Period of supply	Purchase value (Rupees in lakh)	Remarks
Bio-fertilisers (M/s. Sona Agrovet Labrotaries, Mumbai)	1999-2002	74.59	As per terms of purchase orders, unsold stock was not returned to supplier. The carrying cost of inventory was Rs.11.67 lakh up to March 2004. Stock valuing Rs.11.18 lakh was lying in damaged condition (August 2004).
Fertilisers (Microplex India, Wardha)	2000-01	39.36	The product was new in the market. It took four years to sell material valuing Rs.32.73 lakh. Stock valuing Rs.6.63 lakh was lying in damaged condition.
Petisides-Prahar (M/s. Green farm organic, Warora)	2001-02	21.15	Originally, it was proposed to purchase the material on consignment basis. However, at the instance of the then Managing Director, it was purchased on cash basis. Out of 9,946 litres purchased for Rs.21.15 lakh, the Company could sell only 1,568 litres for Rs.3.27 lakh as against purchase cost of Rs.3.31 lakh. The remaining stock (8,378 litres) purchased for Rs.17.84 lakh was lying in damaged condition.

The Company stated (July 2004) that efforts were being made to sell the damaged stock and it has decided to purchase such untested products on consignment basis in future.

Marketing activities

2.16 Marketing activities are carried out by 14 regional/sub regional offices of the Company through dealers.

Marketing of fertilisers

2.17 Fertiliser was the major constituent (74-75 *per cent)* of the Company's total turnover during 1999-2004. The details of fertilisers marketed by the Company during the period are as under:

Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04 (Provisional)
Manufactured NPK fertilisers					
Quantity sold (MT in lakh)	2.87	2.47	2.50	2.01	2.30
Value (Rupees in crore)	169.33	148.00	148.25	123.38	140.73
Traded fertilisers*					
Quantity sold (MT in lakh)	4.19	3.64	3.24	2.53	2.18
Value (Rupees in crore)	183.80	183.47	167.19	123.80	115.25

It could be seen from above that there was downward trend in the sale of fertilisers, (manufactured/traded) during 1999-2004.

The Company attributed fall in sale to drought conditions and increasing competition from private manufacturers. The reply is not tenable as the total demand for NPK fertiliser in the State has increased from 5.53 lakh MT in 1999-2000 to 6.73 lakh MT in 2002-03 whereas the share of the Company in the market for NPK fertiliser has come down from 52.68 *per cent* in 1999-2000 to 29.80 *per cent* in 2002-03.

Realisation of sales proceeds

2.18 Deficiencies were noticed in the system of sales through dealers. Apart from the sale of its own fertilisers (manufactured fertilisers), the Company also trades in fertilisers procured from outside (traded fertilisers). For sale of fertilisers, stock is kept with dealers on consignment basis. The dealers are allowed credit period of 30 to 105 days for payment from the date of sale of traded fertilisers. For sale of fertilisers manufactured by the Company, the dealer is not allowed any credit period and payment is on cash basis. Prices

*Dia ammonium phosphate (DAP), Urea, Muriate of potash (MOP), Single super phosphate (SSP), Nitrogen phosphorous potash (NPK) fertilisers *etc*.

were revised from time to time. The price increase during 2002-03 was as high as Rs.150 per tonne (rupees three per day for 50 days average sale period). There is no mechanism to ascertain the exact date of sale and the quantity sold on that date for ensuring that:

- credit period is correctly regulated, and
- payment by the dealer is exactly the same as the sale price applicable on the date of actual sale.

The arrangement for sale of fertilisers was prone to delays in remittance of sale proceeds and misstatement of the prices at which the sale took place.

The Company relies solely on the dealer for the correctness of critical information relating to actual date of sales and the quantity sold. The present procedure stipulates verification of stock with the dealer twice a year during March and August. Shortfall in stock is treated as credit sales (30 days credit) to dealers. This procedure does not safeguard the Company's interest in ensuring realisation of sales proceeds at the sales price applicable on the date of sale and prompt realisation of dues. The system is prone to delays in remittance of sales proceeds and misstatement of the prices at which the sales took place.

Dealers' margin

2.19 There is no upfront payment by dealers. The sale is on consignment basis and the dealer is paid godown rent. In spite of various benefits extended to the dealers, the dealers' margin ranged from 20 to 23 *per cent*. For ascertaining the reasonability of margin, a study of marketing arrangement in another central public sector undertaking *i.e.* Rashtriya Chemicals and Fertilisers Limited (RCFL) located in Maharashtra was undertaken. Dealers' margin in RCFL for sale of fertilisers was Rs.200 per tonne as against more than Rs.1,000 per tonne given by the Company for sale of NPK fertilisers.

The Company stated that comparison with RCFL was not appropriate as the products were different. The reply is not tenable. The margin of Rs.1,000 is rather high. To boost sales, part of the margin could have been reduced to lower the Maximum Retail Price (MRP) so that the farmers could have benefited directly in a transparent manner. Had the margin been restricted to Rs.200, part of the benefit would have also accrued to the Company. For every one hundred rupees reduction in dealers' margin, the benefit to the Company would be Rs.2.43 crore[∝] per annum. Besides, the sales to dealers by RCFL is on upfront basis and not on consignment basis. Therefore, the scope for misstatement of actual data of sales in case of RCFL was minimal.

Godown rent

2.20 The Company pays godown rent at the rate of Rs.12 per month per tonne for five months (season period) on the one-third quantity sold by the dealer in the season. The unstated assumption in the formula for godown rent is that the material on an average is stored with the dealer for a period of 50 days. There is a need to fix the godown rent taking into account the period

---

[∝] 2.43 lakh MT (Average sale of Manufactured fertilisers during 1999-2004) x Rs.100.

for which the material is actually stored based on detailed study. The Company stated (July 2004) that the formula for godown rent will be reviewed taking into account the audit observations.

Non collection of bank guarantee (BG) from private dealers

2.21 As per the Company's policy for sale of fertiliser, private dealers have to submit bank guarantee/security deposit (BG/SD) of minimum of rupees one lakh at the time of their appointment.

Failure to obtain bank guarantee facilitated default of Rs.49.59 lakh by dealers.

- On test check, Audit noticed that three regional offices did not obtain initial BG/SD of rupees one lakh from 28 private dealers.[*] The Company stated (July 2004) that the policy is not strictly implemented. The reply is not tenable as the Company violated its own policy. As a result of this laxity, the amount recoverable for more than six months from these dealers was Rs.26.37 lakh[#] (including Rs.10.40 lakh for more than three years old) as on 31 December 2003.

The sales policy for NOGA products stipulated that NOGA products will be supplied to the distributor on credit only on submission of BG and in exceptional cases two times of BG.

- Audit noticed that the Company supplied NOGA products to nine dealers without obtaining BG. This lapse facilitated default by the dealers as the amount outstanding for more than three years, as on 31 March 2003 was Rs.23.22 lakh. The Company stated (July 2004) that strict instructions have been issued to obtain BG.

Insufficient bank guarantee from private dealers

2.22 As per the Company's policy, sale of fertilisers/pesticides on credit to private dealers should not exceed the amount of BG furnished by them as security.

Insufficient BG resulted in increased unsecured debts.

On scrutiny of transactions with 15 private dealers from two regional offices (Akola: six and Nanded: nine) during April 2000 to January 2004, audit noticed that credit per dealer in excess of BG allowed by Regional Managers ranged from Rs.3.45 lakh to Rs.83.51 lakh. In eight cases as against BG of Rs.30 lakh, the arrears increased to Rs.2.98 crore (January 2004) from Rs.1.39 crore (March 2002). Thus, by deviating from the laid down sales policy the Company has been increasing its unsecured debts as detailed in **Annexure-9.**

---

[*] Pune-eight, Amravati-nine, Nasik-one and Sub-regional office Thane-ten.

[#] RO Pune : Rs.11.48 lakh, RO Amravati : Rs.0.57 lakh, Nasik : Rs.10.40 lakh and Sub-RO Thane : Rs.3.92 lakh.

Non verification of grade of co-operative dealers

2.23 As per Company's policy, dealers from co-operative sector with 'A' grade• certification are allowed exemption from submission of bank guarantee. Audit noticed that the Company was not verifying audit certificate before allowing exemption. Out of 121 dealers, 108 dealers were exempted without verification.

The Company while admitting (July 2004) the facts stated that other public sector undertakings were not insisting on such certificate. The reply is not tenable as the Company is violating its own policy of exempting only eligible dealers.

Award of advertising contracts

2.24 For expenditure involving public money, transparency demands calling of tenders. The Company selected Swayam Communication Private Limited, Mumbai (Ratna Publicity) without calling rates from other agencies for various types of publicity works and awarded (August-September 2002) advertising contracts for marketing green peas and basmati rice. The work consisted of hoardings (Rs.21.13 lakh), printing of pouches (Rs.5.30 lakh), campaign theme (Rs.5.25 lakh), electronic cylinder (Rs.3.96 lakh) and others (Rs.5.46 lakh) totalling to Rs.41.10 lakh.

Since no competitive tenders were called, it is not clear whether the rates charged were the best that could have been obtained. The entire expenditure of Rs.41.10 lakh proved to be infructuous besides denting the Company's image as the marketing of green peas and basmati rice was not undertaken. The Company stated (July 2004) that the work was awarded to the party based on its assessment during presentation.

Audit observed the following:

- The short listing/selection of advertising agencies up to 2001-02 was done through tendering system. Short listed agencies were called for media presentation and works were awarded at the lowest acceptable rates. However, in 2002-03, the tendering system was not followed and four agencies were called for media presentation.

Award of advertising contracts worth Rs.1.81 crore repeatedly to a single firm without calling for tenders violated the norms of transparency.

- The quotations were not obtained from the parties before the presentation but after selection of the party.
- The same firm was repeatedly selected for various other advertising works during 2002-03 valued at Rs.1.40 crore without obtaining competitive rates from others. The publicity expenditure mainly consisted of advertisements and tender notices (Rs.36.04 lakh), laminated boards, leaflets and posters (Rs.23.17 lakh), campaign theme (Rs.16.28 lakh), radio broadcast (Rs.12.28 lakh), banner and brochures (Rs.7.14 lakh) and

---

• Sound liquidity position.

others (Rs.45.09 lakh). In the absence of tenders, the reasonability of rates could not be verified.

Analysis of sundry debtors

2.25 The agewise position of sundry debtors for the five years ending March 2004 was as under:

Sundry debtors as on 31 March

(Rupees in crore)

Particulars	2000	2001	2002	2003	2004 (Provisional)
Agewise breakup					
Less than one year	34.15	43.31	52.76	56.12	46.93
One–three years	1.54	2.15	3.18	6.07	7.16
More than three years	2.25	2.48	2.79	3.22	3.93
Total	**37.94**	**47.94**	**58.73**	**65.41**	**58.02**
Sales	471.41	441.30	424.83	332.33	342.99
Percentage of debtors to sales	8.1	10.9	13.8	19.7	16.9

It could be seen from above that there was deterioration in recovery performance. Percentage of debtors to total turnover increased from 8.1 *per cent* in 1999-2000 to 16.9 *per cent* in 2003-04. At the end of March 2004 sundry debtors included private parties (Rs.30.54 crore) and co-operative societies (Rs.4.69 crore), out of which Rs.4.73 crore (private: Rs.3.80 crore and co-operative: Rs.93.48 lakh) were one to three years old and Rs.2.75 crore (private: Rs.2.12 crore and co-operative: Rs.62.97 lakh) were more than three years old.

The Company stated (July 2004) that the deterioration in debt recovery was due to non recovery of dues for supplies made under various schemes at the instance of Government. The reply is silent on the action taken to recover the dues of Rs.35.23 crore from private parties and co-operative societies.

Establishment expenditure

2.26 The scrutiny of establishment expenditure of the Company revealed the following:

- Promotion of junior officers was effected in May-June 1999 despite non availability of sanctioned posts. As a result, the Company has 88 persons actually working against the sanctioned strength of 29 middle level management posts. The Company stated (July 2004) that the promotions of officers were upheld by High Court. The reply is not tenable. The Court case merely arose because the Company decided to cancel the promotions on the ground that the approval of Board of Directors was not obtained and the honourable High Court only directed to restrain the reversion of already promoted persons. The limited issue before the Court was whether promotions could be effected without obtaining Board's approval. The basic fact remains that the promotion of officers without availability of sanctioned posts was irregular and should have been avoided.

Extra payment of Rs.39.65 lakh was made in violation of Government directives.

- As per the Fifth Pay Commission's recommendations, casual leave (CL) of eight days is permitted. But the Company allowed CL of 12 days. Further the benefit of encashment of CL for seven days was given at double the rate on the grounds of agreement with the labour union. However, the State Government while permitting the implementation of the Fifth Pay Commission directed (February 2001) that all allowances should be at par with that given to the State Government employees and any other allowances payable should be stopped. Audit observed that the Company paid extra amount of Rs.39.65 lakh on account of such encashment to its employees of seven* regional offices and six⌒ factories during 2001-02 to 2002-03.

- House rent allowance (HRA) and city compensatory allowance (CCA) are allowances of compensatory nature and therefore, any payment of HRA/CCA in a year cannot exceed twelve times the monthly allowance. The Company's rules permitting payment of HRA and CCA on privilege leave (PL) encashed is thus not justifiable. Financial burden on this account was Rs.15.78 lakh during the three years ended March 2003.

The Company stated (July 2004) that the provision of encashment of PL/CL will be reviewed in the light of audit observations.

The matter was reported to the Government (May 2004); their reply had not been received (December 2004).

Conclusion

Manufacturing and trading of fertilisers, which contributed to profits, turned unprofitable from 2002-03. The operations relating to animal feed and fruits and vegetables processing factory continue to be a drag on profits of the Company. The idle labour cost in NPK factories has been affecting adversely the profitability of the Company. The capacity utilisation of fruits and vegetables processing factory was far below the breakeven point resulting in losses. Serious deficiencies were noticed in the transfer of the fruit processing plants at Katol and Morshi to a private party. The arrangement for sale of fertilisers was prone to delays in remittance of sale proceeds and misstatement of the prices at which the

---

*Nanded, Akola, Amaravati, Nagpur, Kolhapur, Pune and Thane.

⌒Rasayani, Kolhapur, Nanded, NOGA Factory, Animal Feed, Pune and Agro Engineering Pune.

sale took place. In the context of several benefits extended to the dealers, the dealers' margin appears to be rather high.

The Company should either improve the operation of animal feed and fruits and vegetables processing factories or consider their closure. The Company should evolve a system for timely remittance of sale proceeds and ensure correct declaration of sale price of fertiliser by the dealers. Dealers' margin needs to be rationalised.