CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Introduction

This chapter deals with the functioning of the Government companies. Paragraphs 7.2 to 7.11 give an overview of the Government companies and the Government's investment in the Public Sector Undertakings (PSUs). Paragraph 7.12 contains a review on the Performance of Pondicherry Industrial Promotion Development and Investment Corporation Limited.

7.2 Overview of Government companies

As on 31 March 2007, there were 13 Government companies (all working) including one subsidiary company under the control of the Government of the Union Territory of Puducherry (UT Government) as against 12 Government companies (all working) as on 31 March 2006. During the year, a new Company, Swadeshee-Bharathee Textile Mills Limited has been incorporated. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by the Statutory Auditors, who are appointed by the Comptroller and Auditor General of India (CAG) as per provisions of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit by the CAG as per provisions of Section 619 (4) of the Companies Act, 1956.

7.3 Working Public Sector Undertakings (PSUs)

Investment in working PSUs

Total investment in Government companies in the form of equity and loans as on 31 March 2006 and 31 March 2007 was as under:

(Rupees in crore)

Year	Number of companies	Investment			Total
		Equity	Share application money	Long term loans[1]	
2005-06	12	471.55	2.10	6.81	480.46
2006-07	13	505.35	58.70	40.40	604.45[2]

[1] Long term loans are excluding interest accrued and due on such loans

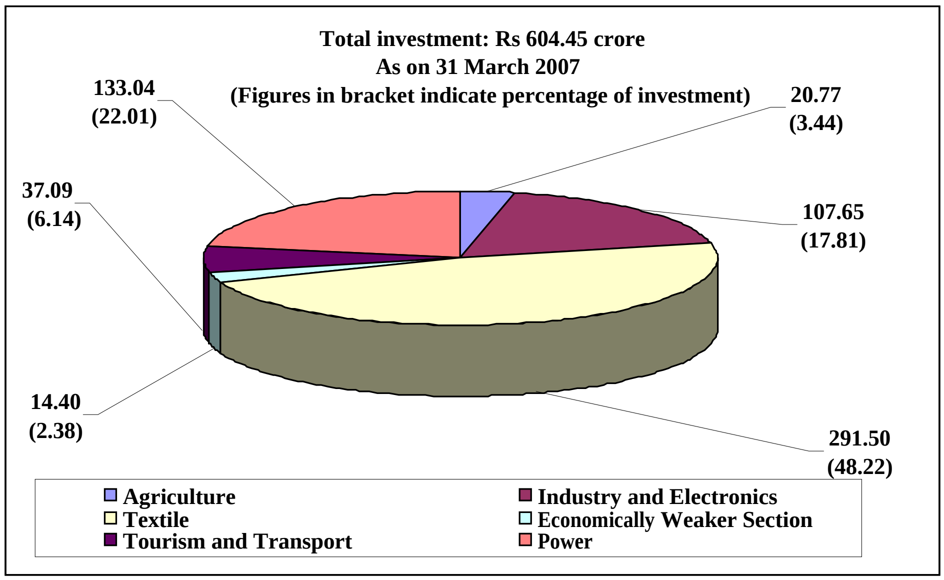
[2] UT Government's investment in working PSUs was Rs 554.63 crore (Others: Rs 49.82 crore). The figure as per Finance Accounts is Rs 569.05 crore and the difference is under reconciliation.

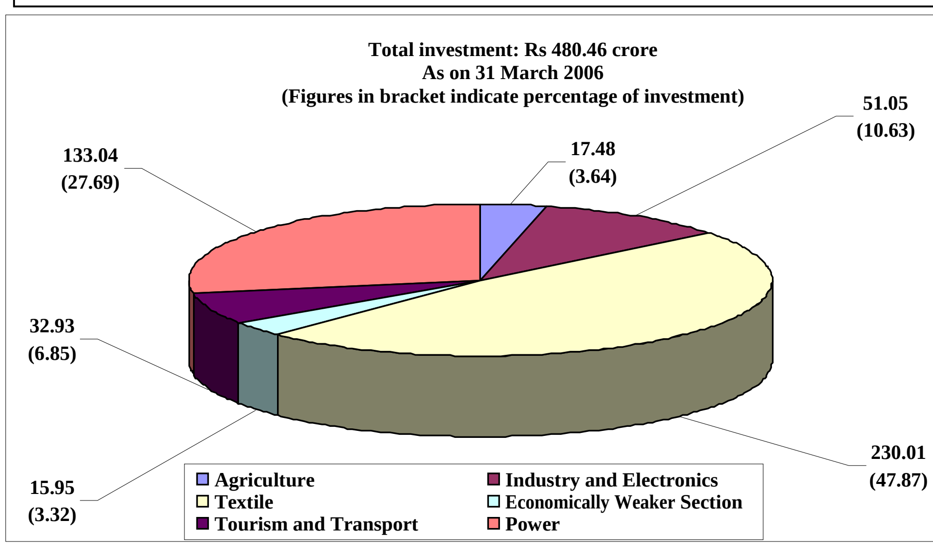
As on 31 March 2007, the total investment in the working Government companies comprised of 93.32 *per cent* equity capital and 6.68 *per cent* loans as compared to 98.58 *per cent* and 1.42 *per cent*, respectively as on 31 March 2006.

The summarised statement of Government investment in the working Government companies in the form of equity and loans is detailed in **Appendix – 7.1**.

The investment (equity and long-term loans) in various sectors at the end of 31 March 2007 and 31 March 2006 are indicated below in the pie charts**:**

SECTOR-WISE INVESTMENT IN WORKING GOVERNMENT COMPANIES





7.4 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details of budgetary outgo, grants/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by the Government to the working Government companies are given in **Appendices – 7.1 and 7.3**.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the UT Government to the working Government companies for the three years up to 2006-07 are given below:

(Rupees in crore)

Particulars	2004-05		2005-06		2006-07	
	Number	Amount	Number	Amount	Number	Amount
Equity capital outgo from budget	8	22.04	8	21.93	9	87.41
Grants	6	6.64	5	21.20	5	18.04
Subsidy towards Projects/Programmes/ Schemes	1	0.40	2	1.13	2	4.94
Total outgo	8[3]	29.08	8[3]	44.26	10[3]	110.39

At the end of 2006-07, guarantees of Rs 2.80 lakh against one working Government company (Pondicherry Adi-dravidar Development Corporation Limited) were outstanding.

7.5 Finalisation of accounts by working PSUs

The accounts of the companies for every financial year are required to be finalised within six months from the end of the financial year under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956, read with Section 19 of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of the financial year.

Out of 13 working Government companies, only two companies finalised their accounts for the year 2006-07 within the stipulated period as can be seen from **Appendix – 7.2**. During the period from October 2006 to September 2007, six working Government companies finalised six accounts

[3] These are the actual number of companies which received budgetary support in the form of equity, grants and subsidy from the Government during the respective years.

for the previous years. The accounts of eleven[4] working Government companies were in arrears for periods ranging from one to three years as on 30 September 2007 as detailed below:

Serial Number	Number of working companies	Period for which accounts are in arrears	Number of years for which accounts are in arrears	Reference to Serial Number of Appendix 7.2
1	3	2004-05, 2005-06 and 2006-07	3	2,9 and 12
2	2	2005-06 and 2006-07	2	8 and 11
3	6	2006-07	1	1, 4, 5, 6, 7 and 13

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within the prescribed period. Though the concerned administrative departments were informed every quarter by Audit of the arrears in finalisation of accounts of PSUs under their administrative control, no remedial measures had been taken, as a result of which the net worth of these PSUs could not be assessed in audit.

7.6 Financial position and working results of working PSUs

The summarised financial results of the working Government PSUs as per the latest finalised accounts are given in **Appendix – 7.2**.

According to the latest finalised accounts of 13 working Government companies, five[5] companies incurred an aggregate loss of Rs 33.48 crore and five[6] companies earned an aggregate profit of Rs 18.28 crore. Details of profit and loss, as per their latest finalised accounts, are given below:

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4 Puducherry Agro Service and Industries Corporation Limited, Pondicherry Agro Products, Food and Civil Supplies Corporation Limited, Pondicherry Industrial Promotion Development and Investment Corporation Limited, Pondicherry Electronics Limited, Pondicherry Textile Corporation Limited, Swadeshee-Bharathee Textile Mills Limited, Pondicherry Adi-dravidar Development Corporation Limited, Pondicherry Corporation for Development of Women and Handicapped Persons Limited, Pondicherry Tourism Development Corporation Limited, Pondicherry Road Transport Development Corporation Limited and Puducherry Power Corporation Limited

5 Pondicherry Electronics Limited, Pondicherry Textile Corporation Limited, Swadeshee-Bharathee Textile Mills Limited, Pondicherry Adi-dravidar Development Corporation Limited and Pondicherry Road Transport Corporation Limited

6 Puducherry Agro Service and Industries Corporation Limited, Pondicherry Agro Products, Food and Civil Supplies Corporation Limited, Pondicherry Distilleries Limited, Pondicherry Industrial Promotion Development and Investment Corporation Limited and Puducherry Power Corporation Limited

Year of latest accounts finalised	Profit earning companies		Loss making companies	
	Number of companies	Amount of profit (Rupees in crore)	Number of companies	Amount of loss (Rupees in crore)
2003-04	1	0.40	1	0.65
2004-05	---	---	1	0.98
2005-06	3	13.82	3	31.85
2006-07	1	4.06	---	---
Total	**5**	**18.28**	**5**	**33.48**

Source: Annual accounts of the companies.

In respect of two[7] companies, the entire loss was met by the UT Government and one company (Pondicherry Tourism Development Corporation Limited) has not yet finalised its first accounts.

7.7 Profit earning companies and dividend

Out of the two[8] Government companies, which finalised their accounts for 2006-07, only one company *viz.*, Pondicherry Distilleries Limited earned a profit of Rs 4.06 crore and declared dividend of Rs 81 lakh for 2006-07. The dividend as a percentage of share capital in this company worked out to 9.59. The total return to the Government by way of dividend of Rs 81 lakh worked out to 0.15 *per cent* on the total equity investment of Rs 553.69 crore by the UT Government in all the 13 Government companies as against the dividend of Rs 1.16 crore (0.25 *per cent*) in the previous year. The Government has not framed any policy for payment of minimum dividend.

7.8 Loss incurring Government companies

Out of the five loss incurring Government companies, three[9] companies had accumulated losses of Rs 258.21 crore, which exceeded their paid up capital of Rs 236.12 crore. Despite poor performance and complete erosion of paid-up capital, the UT Government continued to provide financial support to these companies in the form of equity, grant and subsidy etc. As per available information, the total financial support provided by the UT

[7] Pondicherry Corporation for Development of Women and Handicapped Persons Limited and Puducherry Backward Classes and Minorities Development Corporation Limited

[8] Pondicherry Distilleries Limited and Puducherry Backward Classes and Minorities Development Corporation Limited

[9] Pondicherry Textile Corporation Limited, Swadeshee-Bharathee Textile Mills Limited and Pondicherry Adi-dravidar Development Corporation Limited

Government to these companies during 2006-07 amounted to Rs 29.87 crore (equity: Rs 23.98 crore; grant and subsidy: Rs 5.89 crore).

7.9 Return on capital employed

As per the latest finalised annual accounts of PSUs, the capital employed[10] worked out to Rs 530.83 crore in 12 companies and total return[11] thereon amounted to (-)Rs 11.34 crore, as compared to capital employed of Rs 392.93 crore and total return of (-)Rs 1.85 crore in the previous year. The details of capital employed and the total return on capital employed of working Government companies are given in **Appendix – 7.2**.

7.10 Internal audit/internal control

The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including the internal control/internal audit systems in the companies audited in accordance with the directions issued by the Comptroller and Auditor General of India to them under section 619 (3) (a) of the Companies Act, 1956 and to identify areas, which needed improvement. Directions under the Act, *ibid*, were issued to the Statutory Auditors in respect of 11 Government companies between October 2006 and August 2007 and reports in respect of three Government companies were received (August 2007).

In respect of Pondicherry Textiles Corporation Limited, the Statutory Auditors observed (December 2006) that the Company did not prescribe any internal audit manual and there was no Audit Committee. They further reiterated the need to strengthen the internal audit system in terms of coverage, frequency and follow up.

As regards Pondicherry Adi-dravidar Development Corporation Limited, the Statutory Auditors pointed (November 2006) out that the timing of internal audit was not appropriate and the belated internal audit did not have desired impact on rectification of the lapses in the functioning of the system. The compliance mechanism on the internal audit observations need to be improved.

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[10] Capital employed represents net fixed assets (including capital works-in-progress) PLUS working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).

[11] For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.

7.11 Response to inspection reports, draft paragraphs and reviews

Audit observations noticed during audit and not settled on the spot are communicated to the heads of PSUs and concerned departments of the Government through inspection reports. The heads of PSUs are required to furnish replies to the inspection reports through respective heads of departments within a period of six weeks. Inspection reports issued up to March 2007 pertaining to 11 PSUs disclosed that 133 paragraphs relating to 28 Inspection Reports remained outstanding at the end of September 2007 is given in **Appendix – 7.4**.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who fail to send replies to Inspection Reports/Reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment is taken within the prescribed time, and (c) the system of responding to audit observations is revamped.

INDUSTRIES DEPARTMENT

7.12 Performance of the Pondicherry Industrial Promotion Development and Investment Corporation Limited

Highlights

The Company has been promoting industrial development in the Union Territory since inception (April 1974). The Company's performance in promotion of industrial development was on the decline as it had not planned for the integrated development of industries in the Union Territory. During the period under review, the Company developed only one industrial growth centre at Karaikal partially.

(Paragraphs 7.12.1 and 7.12.8)

Delay in completion of industrial growth centre at Karaikal resulted in cost overrun of Rs 2.28 crore. Selection of location without conducting feasibility study and market survey resulted in lack of demand for plots.

(Paragraph 7.12.9)

The Company failed to review and revise the lease rent periodically resulting in loss of revenue. Failure to revise the rate for maintenance charges periodically and non-inclusion of salary and allowances of maintenance staff while arriving at the maintenance cost resulted in loss of Rs 2.21 crore.

(Paragraphs 7.12.10 and 7.12.11)

Failure to scrutinise the project reports to ensure profitability and marketability of products, sanction of loans to loss incurring units and failure to ensure availability of sufficient working capital by units resulted in non-recovery of dues amounting to Rs 5.48 crore.

(Paragraph 7.12.15)

Poor monitoring and follow up of outstanding dues resulted in non-recovery of dues amounting to Rs 10.79 crore.

(Paragraph 7.12.17)

7.12.1 Introduction

Pondicherry Industrial Promotion Development and Investment Corporation Limited was incorporated (April 1974) to promote industrial development in the Union Territory of Puducherry with investment in the share capital of the Company by the Government of the Union Territory of Puducherry and Industrial Development Bank of India (IDBI).

The Company is presently engaged in the following main activities:

- maintaining the developed industrial estates allotted to the entrepreneurs in the past.
- implementing the Government of India (GOI) schemes like Industrial Growth Centre at Karaikal, "Assistance to States for developing Export Infrastructure and Allied Activities (ASIDE) Scheme" etc.
- extending short term, medium term and working capital loans to industries and monitoring of the assisted projects.

The management of the Company is vested in a Board of Directors (BOD) consisting of eight directors including a Managing Director (MD) who is in charge of the day to day activities. The MD is assisted by Chief General Manager, General Manager (Administration), General Manager (Technical) and Executive Engineer.

The performance of the Company was last reviewed in the Report of the Comptroller and Auditor General of India – Government of Union Territory of Pondicherry for the year ended 31 March 2000. The review was discussed (July 2004) by the Committee on Public Accounts (CPA). The Committee expressed its displeasure on the appraisal system of the Company and wanted to know the position of collection of maintenance charges from the allottees. The Committee also wanted to know whether other monitoring mechanisms, *viz*., participation of Company's nominee in the Board of Directors of the assisted units and obtaining physical and financial reports of these units for ascertaining their financial position were being implemented effectively.

7.12.2 Scope of Audit

The performance review covering the operational performance of the Company during 2002-03 to 2006-07 was conducted during November 2006 to April 2007. The records maintained in the Registered Office of the Company at Puducherry and its unit offices at Mettupalayam and Karaikal were examined.

7.12.3 Audit objectives

The performance review was conducted with a view to ascertain whether:

- the Company has prepared a well rounded plan for integrated development of industries in the State;
- proper surveys and investigations were carried out to assess the requirement of industrial plots by the entrepreneurs, infrastructure, availability of raw material, market, etc.;
- lease rent, maintenance and other charges were fixed judiciously and were collected regularly from the allottees of industrial sheds and plots;

- the project reports/applications for assistance were properly appraised before rendering the financial assistance;
- the dues of principal and interest were collected from the assisted units promptly so as to enable the Company to recycle the funds for further industrial growth; and
- internal control mechanism was efficient and effective.

7.12.4 Audit criteria

The audit criteria adopted for assessing the achievement of audit objectives were:

- Decisions/guidelines of the Government of Union Territory and the BOD of the Company;
- Targets and guidelines fixed for development of industrial estates and growth centres;
- Observations/recommendations of the CPA;
- Targets set by the Company for the recovery of principal and interest from the assisted units;
- Norms fixed for equity participation and loan assistance to assisted units; and
- System of recovery of various charges, *viz*., lease rent, maintenance charges, etc., from the allottees and targets fixed for such recovery.

7.12.5 Audit methodology

The methodology adopted for attaining the audit objectives with reference to audit criteria were examination and review of:

- Industrial policy and directives of the Government of Union Territory and minutes and agenda papers of the meetings of BOD;
- Land acquisition records and files relating to expenditure on industrial estates, fixation of lease rent and its periodical revision, fixation of various charges recoverable from the allottees of industrial plots and sheds;
- Target and budgets, files dealing with sanction of loans and their follow up;
- Management Information System relating to the recovery of principal and interest; and
- Issue of audit enquiries and interactions with the Management.

Audit findings

Audit findings as a result of performance review were reported (August 2007) to the Management/Government and were discussed (September 2007) in the meeting of Audit Review Committee on Public Sector Enterprises (ARCPSE). The Secretary, Industries Department, Government of Union Territory of Puducherry and the MD of the Company attended the meeting. The views expressed by the members during the meeting have been taken into consideration while finalising the performance review.

The Audit findings are discussed in the succeeding paragraphs.

Financial Performance

7.12.6 Financial position and working results

The financial position and working results of the Company up to 2006-07 are given in the **Appendices 7.5 and 7.6**. The net worth of the Company increased from Rs 80.02 crore in 2002-03 to Rs 167.48 crore in 2006-07 **(Appendix 7.5)**. The Company also earned profit during the period of review **(Appendix 7.6)**. The interest on term loans, which is the main source of operational income, however, decreased from Rs 6.54 crore in 2002-03 to Rs 4.74 crore in 2006-07.

7.12.7 Sources and uses of funds

The Company arranges its funds mainly through equity/receipt of grants from GOI/the Government of Union Territory of Puducherry (GUTP) and from recovery of loans and interest thereon, which are used for achievement of its objectives. The budgeted and actual inflow/outflows during the period from 2002-03 to 2006-07 are given in **Appendix 7.7**. It could be seen from the Appendix that:

- The Company did not receive the anticipated assistance from the Government of Union Territory in the form of equity capital except in 2005-06.
- The receipt of grants from the GOI/GUTP declined from Rs 2.85 crore in 2002-03 to Rs 1.11 crore in 2004-05 and no grant was received in 2005-06 as the implementation of the GOI schemes such as Growth Centre and ASIDE scheme were moving at snail's pace. The Company, however, received grant of Rs 55.70 crore from the GUTP in 2006-07 for the purpose of setting up of Special Economic Zone at Sedarapet and Karasur.
- The budgeted recovery of interest every year remained stagnant for the last five years. There was, however, shortfall in the recovery of interest, which varied from 6.57 to 32.29 *per cent*. The stagnant targets and shortfall in the recovery of interest reflect poor collection efficiency.

- There was shortfall in achievement in respect of target fixed for spending under area development and maintenance of industrial estates, which ranged between 80.58 and 98.09 *per cent* of the targets.

- The Company has not ventured into the activities *viz*., investment in shares, venture capital fund, housing, leasing/hire purchase schemes, etc during the review period though the Company had budgeted for Rs 5.25 crore and Rs two crore in 2002-03 and 2003-04 respectively.

7.12.8 Development of industrial estates

The Company has developed three industrial estates, two information technology parks and one industrial growth centre so far (September 2007). The plots and work sheds in these estates/parks were allotted to the entrepreneurs either on premium lease[12] or annual lease basis. It was noticed that the Company had not planned for the integrated development of industries in the Union Territory. During the period under review, the Company developed only one industrial growth centre at Karaikal partially as discussed in **paragraph 7.12.9**.

The details of industrial estates/information technology parks/growth centres developed along with details of land acquired, plots/sheds developed and allotted till August 2007 are given below:

Sl. No	Name of the Industrial Estate	Land acquired (in acres)	Year of comple-tion	Total plots develo-ped	Total sheds develop-ped	Allotment		Vacant	
						Plots	Sheds	Plots	Sheds
1.	Kirumambakkam (KIE)	25.00	1975	14	8	14	8	---	---
2.	Mettupalayam (MIE)	168.00	1976	415	89	415	89	---	---
3.	Sedarapet (SIE)	62.00	1982	187	---	187	---	---	---
4.	Thirubuvanai Electronic Park (TEP)	52.00	1999	123	8	111	8	12*	---
5.	Information Technology Park, Pillaichavady	18.00	1999	---	28	---	23	---	5**
6.	Industrial Growth Centre, Karaikal (Phase-IA)	196	2003	74	---	17	---	57	---

Source: Particulars furnished by the Company.

*** Since February 2007** **** Since July 2007**

It could be seen from the above that the Company is yet to allot 57 plots in the Industrial Growth Centre, Karaikal even after completion of centre four years (December 2003) back mainly due to lack of demand for plots.

7.12.9 Industrial Growth Centre, Karaikal

The GOI announced (1988) setting up of 100 growth centres throughout the country in a five year period *i.e.*, before 1993. Karaikal, being a backward

[12] Premium lease means lease for a period of 99 years.

area, was selected (July 1988) as one of the sites for the purpose. The Company was appointed (November 1990) as the nodal agency for execution of the growth centre at Karaikal.

GUTP gave approval (August 1991) for establishment of the growth centre at Keezhaiyur village (North and South) in Karaikal at a cost of Rs 19.70 crore. The GOI and GUTP were to give grant of Rs 10 crore each for this work. When the process for acquisition of the land was started (March 1994), it was noticed that the land identified in Keezhaiyur village had considerably reduced mainly due to sale of land by land owners to various entrepreneurs for aqua cultural activities. Consequently, the Company changed (May 1997) the proposed location of the growth centre to Polagam village at Karaikal and submitted a revised project report for Rs 25 crore without carrying out any feasibility study and market survey. The revised project was approved (October 1997) by the GOI.

The development work of the growth centre was to be completed by March 1999 in three phases (Phase-IA, Phase-IB and Phase-II). The Company acquired (April to July 1999) 596.65 acres of land in Polagam village at a cost of Rs 5.73 crore against the originally estimated (during 1997) amount of Rs 3.85 crore. The development work under Phase-IA covering 196 acres was completed (2003) at a cost of Rs 14.43 crore leaving some minor works on water and sewerage plant. The work on the other two phases has not been taken up so far (August 2007).

Delay in completion of the project resulted in cost overrun of Rs 2.28 crore

The delay in completion of the project resulted in cost overrun of Rs 2.28 crore over the estimated project cost for Phase-IA. The actuals would far exceed the estimate for all the three phases.

As against 74 plots developed at a cost of Rs 10.61 crore for allotment (December 2003) under Phase-IA, only 17 plots had been allotted (November 2005). As there was no further demand, the remaining 57 plots could not be allotted, so far (September 2007). In view of poor response for industrial plots in the growth centre, the Company decided (September 2006) to divert 300 to 400 acres of land to the port based Special Economic Zone.

Selection of location without conducting feasibility study and market survey resulted in lack of demand of plots in the growth centre

The Management stated (September 2007) that the withdrawal of sales tax concessions, lifting of 25 per cent investment subsidy, changes in Government policies and introduction of uniform tax were the reasons for poor off-take of the plots. It was further stated that demand for the industrial plots was expected to improve once the allotment of plots was converted from annual lease to premium lease. The fact, however, remains that the Company’s selection of site for growth centre at Karaikal appears to be unsatisfactory as there were no takers for 57 plots in Phase-IA since November 2005. This argument is strengthened by the fact that Phase-IB and Phase-II were not taken up as of August 2007.

Maintenance of industrial estates

7.12.10 Non revision of the lease rent

The Company failed to review and revise the lease rent periodically resulting in loss of revenue

The work sheds in Mettupalayam Industrial Estate (MIE), Kirumambakkam Industrial Estate (KIE) and Thirubuvanai Electronic Park (TEP) were allotted to the entrepreneurs on monthly lease rental basis. The lease was initially for a period of three years and renewable after every three years. The Company did not have a system of revising the lease rent periodically for the work sheds.

Audit scrutiny revealed the following deficiencies:

- After fixing the initial rent in 1976 for work sheds in MIE, the Company took 17 years to carry out the first revision of the rent (May 1993). The lease rent was further revised after four years (May 1997) followed by another revision after seven months (January 1998). There has been no further revision of lease rent so far (August 2007).
- In respect of work sheds in KIE, the Company took seven years for the first revision (1982). Subsequently, the lease rent was revised (April 1996) after 14 years and again after five years (September 2001). There has been no further revision of lease rent thereafter (August 2007).
- In case of TEP, the lease rent was revised only once (January 2001). There was no revision of lease rent thereafter (August 2007).
- The terms and conditions of the allotment of sheds and plots did not include a penal clause for default in payment of rent. In the absence of any penal clause, arrears of lease rent, which was Rs 40.49 lakh as on 31 March 2002 increased to Rs 1.35 crore by 31 March 2007.

The Management stated (September 2007) that the revision of lease rent for plot/sheds would be submitted to the BODs after the receipt of guidelines for value/market value of land from the Revenue Department.

Thus, due to non-revision of the lease rent periodically, the Company failed to earn reasonable revenue.

7.12.11 Non revision of the maintenance charges

The Company was recovering the maintenance charges at the rate of 30 paise per square metre per month since April 2000 in respect of MIE and SIE. It was noticed that while arriving at the maintenance charges to be recovered from allottees, the Company did not take into account salary and allowances paid to staff engaged on the maintenance work. The reasons for non-inclusion were not on record. Further, the maintenance charges were to be revised after two years. No revision has, however, been made so far (August 2007), even though there has been increase in the maintenance expenditure.

Failure to revise the rate for maintenance charges periodically and non-inclusion of salary and allowances of maintenance staff while arriving at the maintenance cost resulted in loss of Rs 2.21 crore

It was noticed that as against the maintenance expenditure of Rs 2.71 crore (excluding Rs 1.11 crore towards salaries and allowances of the maintenance staff, which has not been included by the Company in the maintenance cost) incurred during 2000-01 to 2006-07, the Company had demanded only Rs 1.61 crore as maintenance charges leaving balance of Rs 1.10 crore un-recovered. Thus, due to non-revision of the rate for maintenance charges periodically and by not including salary and allowance of the maintenance staff while arriving at the maintenance cost, the Company suffered a loss of Rs 2.21 crore[13]. Even against the demand of Rs 1.61 crore, it could collect only Rs 60.59 lakh so far (September 2007).

The Management stated (September 2007) that the maintenance charges were collected whenever the units approached the Company for various services. The reply indicates that there was no effective system of recovering the maintenance charges. This resulted in increase in the arrears of maintenance charges and it stood at Rs one crore as on 31 March 2007. Further, the Management did not reply to the non-inclusion of salary and allowances of the staff engaged on the maintenance work while arriving at the maintenance cost.

7.12.12 Assistance to States for Developing Export Infrastructure and Allied Activities Scheme

The GOI launched (March 2002) a new scheme titled "Assistance to States for Developing Export Infrastructure and Allied Activities" (ASIDE). The objective of the scheme was to involve the states in export promotion by providing assistance for creation of infrastructure for the development and growth of exports. Funds for creation of infrastructure for export like creation of new export promotion industrial park, equity participation in infrastructure projects, development of roads connecting the production centres with the ports, etc., were to be provided by the GOI to the State Level Nodal Agency nominated by the State Government for the purpose. The Company was the nodal agency for the implementation of this scheme in the GUTP.

- The Company identified (May 2003) a project *viz.*, setting up of an Export Facilitation Centre (EFC) in a prime land owned by the Company at Jawaharlal Nehru Street, Puducherry to provide market intelligence on the export opportunities and guidance on export procedures at an estimated cost of Rs one crore. The project was approved (August 2003) by State Level Export Promotion Committee (SLEPC). The Company decided (September 2004)) to change the design of the building and approval for the revised design was received only in September 2006 from SLEPC. The contract for construction of the building is yet to be awarded (September 2007). An expenditure of Rs 4.40 lakh only has been incurred on the project so far (September 2007).

[13] Rs 2.71 crore *plus* Rs 1.11 crore *minus* Rs 1.61 crore

- The GOI sanctioned (during 2002-03 to 2006-07) Rs 12.20 crore under the scheme but released only Rs 4.50 crore during 2002-03 and 2003-04. As the Company could not utilise this amount fully, no further funds were released by the GOI.

- It was noticed that the Company incurred (September 2006) Rs 1.90 crore on acquisition of land for setting up of a Special Economic Zone (SEZ) at Sedarapet and Karasur. Audit scrutiny revealed that the Company diverted Rs 73.31 lakh for construction of a boundary wall at the Information Technology Park, Pillaichavady and an industrial shed at Electronic Park at Thirubuvanai, which were not covered under the objectives of the scheme. The balance unutilised amount of Rs 1.82 crore was kept in fixed deposits.

The Management stated (September 2007) that two new works *viz*., construction of two buildings at Electronic Park, Thirubuvanai and improvement to the existing BT Road at MIE at a cost of Rs 4.33 crore would be taken up and funds would be utilised. The reply is not tenable as even these two works are also not covered under the objectives of the scheme.

Thus, the Company was able to utilise only Rs 1.94 crore on the projects related to the scheme resulting in the non-achievement of the objectives of the scheme.

7.12.13 Equity participation

During the period under review, no equity participation was made by the Company. The Company had equity holding of Rs 74.37 lakh in nine units as on March 2006 against which the Company made a provision of Rs 55.64 lakh towards diminution in value of investment in their accounts (accounts for 2006-07 are yet to be finalised). The Company had not evolved any disinvestment policy so far (April 2007), though it was pointed out in the earlier review. It was noticed that the Company has not nominated its nominees on the BODs of the units despite recommendations of the CPA to do so. As a result, the Company did not have monitoring mechanism to watch the performance of the units in which the Company had invested in equity shares.

7.12.14 Term loan assistance

Industrial promotion

The Company provides term loan assistance for setting up of new industrial units as well as for expansion, modernisation and diversification of the existing units. On receipt of application along with detailed project report from the intended beneficiary, the Company conducts technical and financial appraisals to assess the economic viability of the project. Loans upto Rs five crore for a project are sanctioned by the Company. Loans are required to be disbursed after verifying the genuineness and adequacy of securities provided by the borrowers.

The details of number of units assisted, amount of loan budgeted and disbursed by the Company during the last five years are given below:

(Rupees in crore)

Year	Number of units	Budgeted loan	Loan disbursed	Percentage of achievement (4) to (3)
(1)	**(2)**	**(3)**	**(4)**	**(5)**
2002-03	92	12.00	13.85	115.42
2003-04	63	12.00	12.61	105.08
2004-05	54	13.50	11.76	87.11
2005-06	51	13.50	13.11	97.11
2006-07	49	9.00	8.83	98.11

Source: Data furnished by the Company

It could be seen from the table that the number of units assisted by the Company in a year steadily declined from 92 in 2002-03 to 49 in 2006-07. During 2002-07, the percentage of disbursement ranged between 87.11 *per cent* to 115.42 *per cent*.

7.12.15 Sanction and disbursement

Details of loan sanctioned and disbursed during 2002-03 to 2006-07 are given below:

(Rupees in crore)

	2002-03		2003-04		2004-05		2005-06		2006-07	
	Number	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Applications pending as on 1 April	22	9.40	13	6.91	26	14.87	19	12.75	29	16.68
Applications received during the year	99	42.41	90	33.03	72	35.17	73	41.26	80	19.05
Rejected/ withdrawn	16	18.64	14	6.92	25	16.42	12	13.80	22	2.38
Sanctioned	92	23.89	63	16.57	54	15.15	51	22.83	49	12.09
Applications pending as on 31 March	13	6.91	26	14.87	19	12.75	29	16.68	38	21.25
Disbursement		13.85		12.61		11.76		13.11		8.83

Source: Data furnished by the Company

It will be seen from the table that the number and amount of loans sanctioned were declining, which was stated to be due to the stiff competition from banks, who were advancing loans of higher amounts at lower rate of interest.

Failure to scrutinise the project reports to ensure profitability and marketability of products, sanction of loans to loss incurring units and failure to ensure availability of sufficient working capital by units resulted in non-recovery of dues amounting to Rs 5.48 crore.

Out of 263 cases of loans sanctioned during the period, 96 sanctions were scrutinised in audit. The following pre-sanction defects were noticed in six cases as detailed in **Appendix 7.8** resulting in non-recovery of overdues to the extent of Rs 5.48 crore.

- Project reports not scrutinised thoroughly to ensure feasibility, profitability and marketability of the products and availability of raw materials.
- Sanction of loans when the units were incurring heavy losses.
- Failure to ensure availability of sufficient working capital by the units, which sought the loans.

A case of non-recovery of overdues on account of defective pre-sanction appraisal is discussed below:

7.12.16 Jayaprakash Co-operative Spinning Mills Limited

The Company sanctioned (March 2003) and disbursed a loan of Rs four crore to a unit (a Co-operative society registered under the Pondicherry Co-operative Societies Act, 1972) to settle the high interest bearing loans availed by the unit from the banks. The unit repaid the major portion of the said loan well in advance and requested (January 2005) the Company to sanction a short-term loan of Rupees two crore to meet its working capital requirement. The loan was sanctioned (March 2005) and it was to be repaid in 12 quarterly instalments commencing after a moratorium period of three months from the date of disbursement. The loan was disbursed in May 2005.

It was noticed that at the time of sanctioning of short-term loan, the unit was incurring losses and this fact was ignored while sanctioning the loan. Consequently, the unit defaulted (April 2006) in repayment of the first instalment of principal and interest and as on 31 May 2007, the dues against the unit accumulated to Rs 1.74 crore (principal Rs 1.44 crore *plus* interest Rs 0.30 crore).

The Management stated (September 2007) that the short term loan was sanctioned in good faith to the unit as the unit had assured to repay the loan immediately on receipt of the grant-in-aid or share capital from the GUTP, as was done while settling the earlier loan. As such the Company did not secure its loans. It was further stated that the Company was taking steps to take up the matter with the GUTP for initiating action to settle the short term loan availed by the unit. The reply is not tenable as when the short term loan of Rupees two crore was sanctioned to the unit in March 2005, it was incurring losses, which should not have been ignored while sanctioning the said loan. Further, there was no guarantee/assurance from the GUTP that it would extend grant-in-aid to the unit. Thus, non-follow up of security norms while sanctioning the loan to the unit resulted in non-recovery of dues of Rs 1.74 crore.

7.12.17 Monitoring and follow up of the assisted units

The follow-up of dues commences from the due date for the payment of first instalment of interest and ceases with the discharging of loan accounts. There is no codified procedure in the Company for monitoring and follow up of recovery from the assisted units. The following procedure, however, was being followed by the Company:

- The assisted units had to submit half yearly/annual audited statement of accounts so as to monitor their performance by the Company. Only few units were submitting the statement of accounts to the Company.
- The officials of the Company had to visit the units. The Company, however, did not prescribe any periodicity for such visits and also did not maintain any record to watch the number of visits and the amount recovered as a result of such visits.

In the absence of guidelines for monitoring the follow-up actions and maintenance of any record to watch the inspections carried out, the effectiveness of monitoring and follow-up could not be ensured in audit. It was also noticed that in majority of the cases there was abnormal delay in taking possession of the units under Section 29 of the SFC Act and also to auction the seized assets.

Poor monitoring and follow up of outstanding dues resulted in non-recovery of dues amounting to Rs 10.79 crore.

During the test check, it was noticed that poor monitoring and follow-up during the period resulted in non-recovery of dues amounting to Rs 10.79 crore (**Appendix 7.9).** Some of these cases are discussed in the succeeding paragraphs.

7.12.18 Rebarzaar Medi Plastics India (Private) Limited

A term loan of Rs 94.59 lakh for the manufacture of disposable syringes was disbursed (February 1998 to July 1999) to the unit. The unit commenced production in June 2000. The performance of the unit was not satisfactory from the beginning as the unit was operating below capacity for want of sufficient working capital. The unit defaulted (June 1998) in payment of the interest and also defaulted (February 1999) in repayment of principal from the first instalment.

The Company took possession (September 2000 to July 2006) of the unit as many as four times for non-payment of the dues, but, released the same on the assurances given by the unit to settle the dues and on receipt of paltry sum ranging from Rs two lakh to Rs five lakh. However, the unit did not honour its assurances and cheques received from the unit were also dishonoured on many occasions. The dues recoverable from the unit mounted to Rs 4.12 crore (including interest of Rs 3.17 crore) by March 2007. The Company decided (March 2007) to seize the assets but again deferred the same based on the request (March 2007) of the unit.

The Management stated (September 2007) that if the seized assets were put to auction, the Company could realise only part amount and for the balance, the Company had to resort to recovery either under the Revenue Recovery Act or under civil suit, which would take its own time. The Company further stated that it had offered an One Time Settlement scheme (OTS) to the unit to be settled by 31 December 2007 and the unit was expected to avail the same. The reply is not tenable as the decision to release the assets (between September 2000 and July 2006) after getting assurance for payment of dues was not justified as the unit has never fulfilled its assurance of payment. Further the unit has not availed of the benefit of OTS so far (September 2007).

Thus, failure to seize the assets in spite of repeated dishonour of cheques received from the unit and its non fulfillment of the commitment to settle the dues resulted in mounting of arrears to Rs 4.12 crore.

7.12.19 Sree Krishna Modern Rice Mill

The Company extended (July 2000) a term loan of Rs three lakh and a working capital loan of Rs 20 lakh to this existing unit at an interest rate of 15 *per cent* per annum for modernisation of the rice mill. Against this, the unit availed Rs 1.88 lakh towards term loan and Rs 20 lakh towards working capital loan between October and December 2000. As per terms and conditions of the sanction, these loans were repayable in 20 quarterly instalments commencing after a moratorium period of six months from the date of first disbursement. The unit defaulted in repayment and requested (February 2004) for rescheduling of the loans. Despite rescheduling of the loans (April 2004), the unit continuously defaulted in payment of the dues on the grounds of scarcity of working capital and non availability of raw material due to failure of monsoon. The unit also complained about high rate of interest charged on the loan as the main reason for its mounting interest burden. Even though, the overdues accumulated to Rs 37.40 lakh (principal Rs 21.63 lakh and interest Rs 15.77 lakh as on 31 March 2007), the Company failed to take possession of the assets of the unit under Section 29 of the SFC Act, 1951. The Company, however, under a general OTS scheme valid upto 31 December 2007, made (July 2007) an offer whereby the unit was to pay Rs 25.57 lakh (principal of Rs 21.63 lakh and 25 *per cent* of interest amounting to Rs 3.94 lakh) with 30 *per cent* of the principal amount payable upfront before 31 August 2007. The unit did not make the upfront payment by the due date.

The Management stated (September 2007) that the promoter of the unit had agreed to settle the dues as per OTS and he was informed that in the event of failure, the action under Section 29 of the SFC Act, 1951 would be taken. The fact, however, remains that the unit had not paid the upfront amount of Rs 6.49 lakh by 31 August 2007 and the Company had not initiated any action under Section 29 of the SFC Act, 1951 so far (September 2007).

7.12.20 Babu Modern Rice Mill

The unit availed (December 1994) a term loan of Rs 19 lakh and working capital loan of Rs 6.50 lakh for setting up of a Modern Rice Mill (MRM) at Nettapakkam Commune, Puducherry. The unit was sanctioned (October 1998) another term loan of Rs 11 lakh and working capital loan of Rs 15.50 lakh for modernisation of the MRM.

Since the unit defaulted in repayment of loans and interest, the assets were taken over (28 March 2005) under Section 29 of the SFC Act by the Company. But the assets were handed over back (30 March 2005) to the promoter on receipt of Rs seven lakh and assurance to settle the balance dues. The unit, however, did not honour its commitment.

The Management stated (September 2007) that the promoter had agreed to clear the dues under OTS and remitted (August 2007) Rs 10.87 lakh as upfront payment under OTS. If the unit failed to settle the balance OTS amount by December 2007, the recovery action would then be initiated.

7.12.21 Recovery performance

The principal amount and interest are collected on quarterly basis from the loanees. Amount collected as a result of recovery of principal and interest is ploughed back for the activities of the Company, which in turn earn further revenue to the Company. The Company fixes annual targets for the recovery of principal and interest on consolidated basis. The targets fixed and actual realisation there against during the period 2002-03 to 2006-07 are given below:

(Rupees in crore)

As on 31 March	Dues (including overdues)			Target	Target as a percentage of dues	Collection		
	Principal	Interest	Total	Principal and interest		Actual	Percentage to target	Percentage to total dues
2003	28.22	43.53	71.75	18.00	25.09	17.99	99.94	25.07
2004	31.03	44.28	75.31	19.00	25.23	16.88[14]	88.84	22.41
2005	31.98	45.83	77.81	19.00	24.42	17.35[15]	91.32	22.30
2006	33.21	46.05	79.26	19.00	23.97	14.19[16]	74.68	17.90
2007	32.58	48.52	81.10	20.00	24.66	14.63[17]	73.15	18.04

Source: Data furnished by the Company

It will be seen from the above that, the target fixed was almost stagnant (Rs 19 crore) over the years and ranged from 23.97 *per cent* to 25.23 *per cent* of the total dues. The total amount collected as a percentage of target declined from 99.94 in 2002-03 to 73.15 in 2006-07. The percentage of amount

[14] Excluding amount of Rs 4.26 crore received on foreclosure of loans.
[15] Excluding amount of Rs 50.20 lakh received on foreclosure of loans.
[16] Excluding amount of Rs 3.03 crore received on foreclosure of loans.
[17] Excluding amount of Rs 7.45 crore received on foreclosure of loans.

collected to the total dues also declined from 25.07 in 2002-03 to 18.04 in 2006-07.

The Management stated (September 2007) that to improve the recovery, it was in the process of setting up of a recovery wing and higher recovery target would be fixed in the ensuing years. The reply is not acceptable since the stagnant targets and declining trend of actual collections led to ever rising accumulation of dues reflecting poor efficiency of the organisation.

7.12.22 Non performing assets

Reserve Bank of India stipulated (April 2001) new norms for recognising the non-performing assets (NPA) as per which the asset of a financial institution would be treated as non-performing if interest and/or instalment of principal remained unpaid for more than 180 days with effect from the year ending 31 March 2002.

The details of NPA, as per above norms, for the five years ending 2006-07 are as under:

(Rupees in crore)

Type of assets	2002-03	2003-04	2004-05	2005-06	2006-07
Total assets/loan balance	54.88	53.41	53.68	54.88	46.33
Less: Standard assets	30.54	29.41	28.31	23.46	18.15
Non performing assets	24.34	24.00	25.37	31.42	28.18
Percentage of NPA to total assets	44.35	44.94	47.26	57.25	60.82

It could be seen from the above details that the NPA which stood at Rs 24.34 crore at the end of 2002-03 increased to Rs 28.18 crore at the end of 2006-07. The NPA increased to 60.82 *per cent* (March 2007) of the total assets from 44.35 *per cent* (March 2003), which is abnormally high and does not indicate a healthy trend.

The Management stated (September 2007) that to improve the recovery performance and further reduce the NPA, it had adopted the one time settlement scheme from time to time and had again reintroduced the one time settlement scheme to be availed by the units before 31 December 2007. The Company added that it expected considerable reduction in NPA with the introduction of the scheme. The reply is not acceptable since it is not a financial prudent policy to first allow the arrears to mount and then introduce OTS routinely from time to time.

7.12.23 Internal control system

Internal control is a management tool to ensure that the objectives are achieved in an effective and orderly manner, assets are safeguarded and rules and procedures are complied with. The internal controls prescribed in the Company were not effective as discussed below:

The time frame prescribed by the Company for processing of the applications for loans ranged from 15 to 30 days depending upon the quantum of the loan. It was noticed that during the four years ending 2005-06, the Company had taken six to 12 months to process 19 applications for assistance of Rs 13.10 crore and more than 12 months to process 24 applications for assistance of Rs 13.47 crore out of 356 applications received. The Company has not analysed the reasons for taking such a long time for processing the applications and taken effective steps to reduce the processing time.

Only sanction files relating to assistance of Rs 25 lakh and below are routed through the Finance wing of the Company, while cases above Rs 25 lakh are kept out of the purview of Finance wing. This is a serious internal control lapse since financial aspects involved in the sanction of high value loans would not be analysed unless the sanction files are routed through the Finance wing.

Thus, the internal control mechanism has to be strengthened to avoid abnormal delay in processing of the applications and to ensure that loans are sanctioned only for viable projects duly scrutinised by the Finance wing.

7.12.24 Conclusion

The contribution of the Company towards the industrial growth in the Union Territory of Puducherry was on the decline. The Company has not prepared an integrated plan for the industrial development of the area. The Company has developed only one growth centre at Karaikal during 2002-03 to 2006-07. Delay in development of growth centre resulted in time and cost overruns. Failure to carry out feasibility study and market survey before selecting the location for growth centre resulted in lack of demand for plots from the units. The Company failed to review and revise the lease rent periodically resulting in loss of revenue. Failure to revise the rate for maintenance charges periodically and non-inclusion of salary and allowances of maintenance staff in the maintenance rates resulted in loss of revenue. The defective pre-sanction appraisals of the projects and ineffective follow-up and monitoring of the assisted units by the Company resulted in non-recovery of overdues and increased Non-Performing Assets. The internal control system in the Company was not effective.

Recommendations

- The Company must take a proactive role in industrial development of GUTP through aggressive publicity and more easier paper work and liberalised rules if it has to compete with banks.

- The Company should learn from mistakes made in selection of sites of growth centres and industrial estates. Fact is that there are no takers for plots. Though loans are given and available, the beneficiaries default in payments, which means that selection of beneficiaries was not correct.

- The Company should revise the lease rent and maintenance charges periodically so that the Company is not put to financial losses.
- Existing and successful units should be encouraged to expand. Further new units should be monitored to see whether they have started production or the owners are using plots only for investment.
- The Company has to strengthen the monitoring and follow-up procedure to ensure timely recovery of its dues and reduce the non-performing assets.

(SHANKAR NARAYAN)

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