CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Introduction

This chapter deals with the results of Government Companies and a Departmentally-managed commercial undertaking. Paragraphs 7.2, 7.3 and 7.4 deals with general view of Government Companies, investment in Public Sector Undertakings and Departmentally-managed commercial undertaking. Paragraph 7.5 contains a review on Pondicherry Industrial Promotion Development and Investment Corporation Limited and Paragraph 7.6 contains a Sectoral review on the implementation of Gas-based Power Project by Pondicherry Power Corporation Limited.

7.2 General view of Government Companies

As on 31 March 2000, there were 10 Government Companies (including two subsidiaries) and one Departmentally-managed commercial undertaking as against same number of Government Companies (including two subsidiaries) and Departmentally-managed commercial undertaking as on 31 March 1999 under the control of the Government of Pondicherry. The accounts of the Government Companies (as defined in Section 617 of Companies Act, 1956) are audited by Statutory Auditors appointed by Government of India on the advice of the Comptroller and Auditor General of India (CAG) as per provision of Section 619 (2) of Companies Act, 1956. These accounts are also subject to Supplementary Audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956. There were no Statutory Corporations in the Union Territory of Pondicherry.

The accounts of the Departmentally-managed commercial undertaking are audited solely by the CAG under Section 13 of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

7.3 Investment in Public Sector Undertakings

7.3.1 Government Companies

Total investment in 10 Companies (including two subsidiaries) was Rs 331.74 crore (equity : Rs 322.08 crore; long term loans*: Rs 6.33 crore; share application money : Rs 3.33 crore) as against total investment of Rs 286.56 crore (equity: Rs 279.97 crore; long term loans : Rs 6.12 crore; share application money: Rs 0.47 crore) as on 31 March 1999 in 10 Government Companies (including two subsidiaries). The increase in

*** Long term loans mentioned are excluding interest accrued and due on such loans.**

investment of Rs 45.18 crore in 1999-2000 was mainly due to increase in textiles sector (Rs 23.09 crore) and power sector (Rs 13.65 crore).

The classification of the Government Companies was as under:

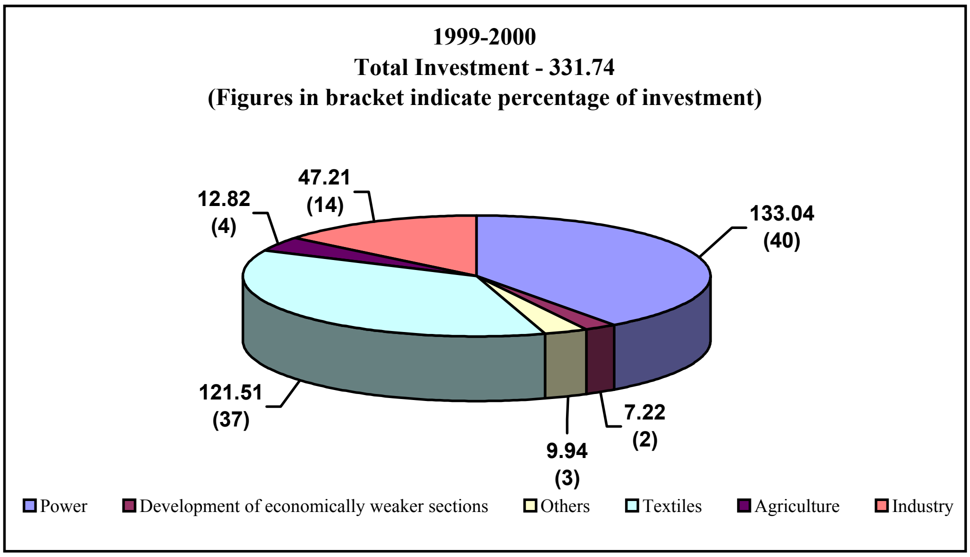
Status of Companies		Number of Companies	Investment (Rupees in crore)	
			Paid-up capital	Long term loans
(a)	Working Companies	10 (10)	325.41 (280.44)	6.33 (6.12)
(b)	Non-working Companies	NIL (NIL)	NIL (NIL)	NIL (NIL)
Total		**10** **(10)**	**325.41** **(280.44)**	**6.33** **(6.12)**

(Figures in bracket are previous year figures)

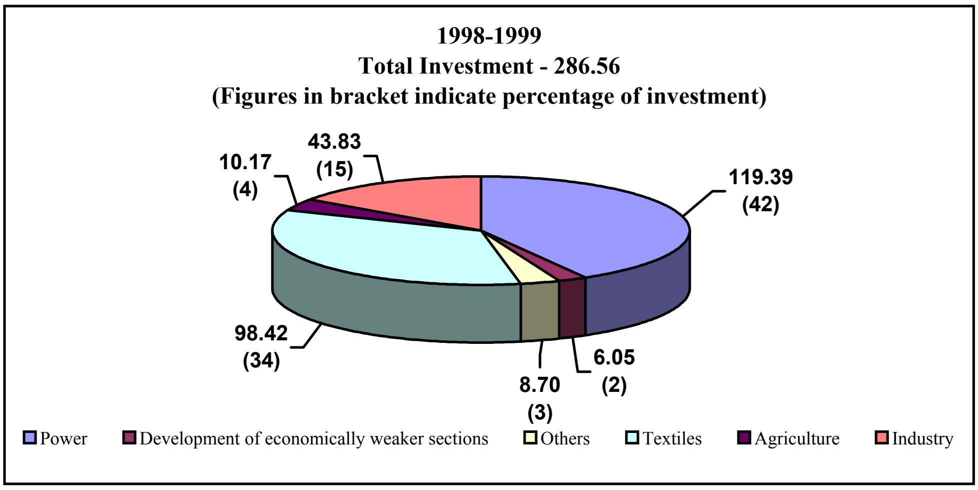
The summarised financial results of Government Companies are detailed in Appendix 38. The debt equity ratio of Government Companies as a whole was 0.02:1 during 1999-2000 as against the same ratio during 1998-99 as mentioned in Appendix 37.

Sector - wise investment in Government Companies

(Rupees in crore)



(Rupees in crore)



As on 31 March 1999, of the total investment of Government Companies, 98 *per cent* comprised equity capital and 2 *per cent* comprised loans and there was no change in these percentages as on 31 March 2000.

7.3.2 Budgetary outgo, subsidies, guarantees and waiver of dues

The details of budgetary outgo, subsidies, guarantees issued, waiver of dues and conversion of loans into equity by Government of Pondicherry to Government Companies are given in Appendices 37 and 39.

The budgetary outgo from the Government of Pondicherry to Government Companies for the three years upto 1999-2000 in the form of equity capital, loans and subsidy is given below:

(Amount – Rupees in crore)

		1997-98		1998-99		1999-2000	
		Number	Amount	Number	Amount	Number	Amount
1.	Equity Capital	7	57.95	6	49.30	8	44.97
2.	Loans	2	6.00	---	---	1	1.00
3.	Grants	---	---	---	---	2	6.01
4.	Subsidy towards						
	(i)Projects, Programmes, Schemes	2	0.15	3	0.46	1	0.20
	(ii)Other subsidy	---	---	---	---	---	---
	(iii)Total subsidy	2	0.15	3	0.46	1	0.20
	Total Outgo*	7	64.10	6	49.76	8	52.18

During the year 1999-2000, the Government had guaranteed the loans aggregating Rs 2.12 crore obtained by two Government Companies. At the end of the year, guarantees amounting to Rs 1.90 crore against these two

* **These are the actual number of Companies/Corporations which have received budgetary support in the form of equity, loans, grants and subsidy from the Government of Pondicherry during the respective years.**

Government Companies were outstanding. No guarantee commission was paid/payable to Government by Government Companies during 1999-2000.

7.3.3 Finalisation of accounts

The accounts of the companies for every financial year are to be submitted for audit within six months from the end of relevant financial year under Sections 166, 210, 230, 619, 619 B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers 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.

However, as could be noticed from Appendix 38, out of 10 Government Companies, only one company had finalised its accounts for the year within the stipulated period. During the period from October 1999 to September 2000, 10 Government Companies finalised 10 accounts for the year 1999-2000 or previous years (nine accounts for previous years by nine companies and one account for 1999-2000 by one company). The details of arrears in respect of nine Government Companies as on 30 September 2000 are given below:

Serial number	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Number of Government Companies	Reference to serial numbers of Appendix 38
1.	1999-2000	1	8	1,2,3,5,6,7,8 and 10
2.	1995-96	5	1	9
	Total		**9**	

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the Government Companies within prescribed period. Though the concerned administrative departments and officials of the Government were appraised quarterly by Audit regarding arrears in finalisation of accounts, no effective measures had been taken by the Government and as a result, the investments made in these Government Companies could not be assessed in audit.

7.3.4 Working results of Public Sector Undertakings

According to latest finalised accounts of 10 Government Companies (September 2000), six companies had incurred an aggregate loss of Rs 21.73 crore and the remaining four earned an aggregate profit of Rs 6.51 crore.

The summarised financial results of Government Companies as per latest financial accounts are given in Appendix 38.

7.3.5 Profit earning companies and dividend

Only one company (Serial number 4 in Appendix 38) had finalised its accounts for 1999-2000. It earned a profit of Rs 4.95 crore but did not declare any dividend.

Similarly, out of nine companies, which finalised their accounts for previous years by September 2000, three companies earned an aggregate profit of Rs 1.56 crore and all the three companies earned profit for two or more successive years.

7.3.6 Loss incurring companies

Of the four companies which had accumulated losses as per the latest finalised accounts, one company *viz*., Pondicherry Textile Corporation Limited had accumulated loss aggregating Rs 105.93 crore, which had far exceeded the aggregate paid-up capital of Rs 98.42 crore.

In spite of poor performance leading to complete erosion of paid-up capital, the Government of Pondicherry continued to provide financial support to the company in the form of equity capital amounting to Rs 23.09 crore even during 1999-2000.

7.3.7 Return on capital employed

As per the latest finalised accounts, though the capital employed* worked out to Rs 281.07 crore in 10 companies, the negative total return# thereon amounted to Rs 8.64 crore as compared to negative total return of Rs 14.08 crore in 1998-99. The details of capital employed and total return on capital employed in case of Government Companies are given in Appendix 38**.**

7.3.8 Results of Audit by Comptroller and Auditor General of India

The summarised financial results of all the 10 Government Companies based on the latest available accounts are given in Appendix 38. During the period from October 1999 to September 2000, the audit of accounts of nine companies were selected for review. As a result of the observations made by CAG, one company revised its accounts for 1994-95 *viz***,** Pondicherry Tourism and Transport Development Corporation Limited.

* **Capital employed represents net fixed assets (including capital works-in-progress) plus working capital except in Finance Companies where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves and borrowings (including refinance).**

\# **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.**

7.4 Departmentally-managed commercial undertakings

There was one Departmentally-managed commercial undertaking as on 31 March 2000, *viz*., Electricity Department. The Department purchases power from the Neyveli Lignite Corporation Limited and the State Electricity Boards of Tamil Nadu, Kerala and Andhra Pradesh and distributes it within the Union Territory.

According to the provisions of General Financial Rules, accounts in commercial form are to be kept in respect of the operations of a department, which includes undertakings of a commercial or quasi-commercial character for the purpose of assessment of the cost of service rendered. It was, however, seen that the *Pro forma* Accounts of Electricity Department from 1993-94 onwards were not finalised.

The provisional particulars of cost of power purchased, cost of distribution and revenue from sale of power for the three years upto 1999-2000 as furnished by the Department were as follows:

(Rupees in crore)

			1997-98	**1998-99**	**1999-2000**
					(Provisional)
1.	(a)	Cost of power purchased	117.69	161.23	190.95
	(b)	Cost of distribution	12.45	13.96	16.00
	(c)	Total cost of power sold (a) + (b)	130.14	175.19	206.95
2.	Total revenue from sale of power		121.44	159.09	202.19
3.	Loss		8.70	16.10	4.76

The Department stated (October 2000) that the loss could be avoided only by enhancing the power tariff, which involves policy decision by the Government. As the *Pro forma* Accounts were not finalised, the working result was not evaluated by the Department.

A statement showing the physical and financial performance as furnished by the Department for the three years ending 1999-2000 is given in Appendix 40.

7.5 Pondicherry Industrial Promotion Development and Investment Corporation Limited (Industries Department)

Highlights

- The Pondicherry Industrial Promotion Development and Investment Corporation Limited was incorporated in April 1974 to promote industrial growth and development of industries in the Union Territory of Pondicherry by providing financial assistance and by construction of industrial estates.

(Paragraphs 7.5.1 and 7.5.2)

- The share of the Company in the industrial growth in the Union Territory of Pondicherry during the last five years ending 1999-2000 was only 45.68 and 11.49 *per cent* in terms of assisted units and the amount invested respectively.

(Paragraph 7.5.7)

- Release of loan to a unit, which was continuously incurring losses and also referred to Board for Industrial Finance and Reconstruction, had led to non-recovery of Rs 0.65 crore.

(Paragraph 7.5.8.1(i))

- The Company had foregone Rs 1.57 crore due to non-collection of maintenance charges from the allottees, despite specific provision in the lease agreement for allotment of industrial plots.

(Paragraph 7.5.8.2(ii))

- The Company's failure to insist on collateral security and delayed seizure of vehicles on default had resulted in non-recovery of Rs 2.14 crore extended to the transport sector.

(Paragraph 7.5.8.3(iii))

- Sickness of the assisted units and consequent non-recovery of the dues was mostly on account of defective pre-sanction appraisal. As against the net recoverable amount of Rs 62.71 crore as on 31 March 2000, an amount of Rs 48.93 crore was overdue for recovery due to defective project appraisal and ineffective follow-up.

(Paragraphs 7.5.8.3 and 7.5.8.4)

Abbreviations used in this review are listed in the Glossary at Appendix 49 (Page 224)

- By not monitoring the recovery of arrear demands through separate targets, their recovery was very poor and ranged between 11.26 to 18.35 *per cent* during the last five years ending 1999-2000.

(Paragraph 7.5.8.4 (2))

- The Company wrote off Rs 13.71 crore (principal: Rs 2.35 crore and interest: Rs 11.36 crore) since inception, being irrecoverable dues from assisted units upto 31 March 2000.

(Paragraph 7.5.8.4 (3))

7.5.1 Introduction

The Pondicherry Industrial Promotion Development and Investment Corporation Limited (PIPDIC) was incorporated in April 1974 to promote industrial development in the Union Territory of Pondicherry with the share capital assistance from Government of Pondicherry and Industrial Development Bank of India (IDBI). The provisions of the State Financial Corporations' (SFC) Act, 1951 was extended to the Company by the Government of India with effect from September 1987.

7.5.2 Objectives

The main objectives of the Company are to promote industrial growth in the Union Territory of Pondicherry through equity participation, disbursement of term loan, development of plots and construction of industrial sheds to facilitate location of industries thereon by entrepreneurs.

7.5.3 Organisational set up

The management of the Company is vested with the Board of Directors comprising of nine members including a full time Managing Director. The Chief Secretary to Government of Pondicherry also acts as ex-officio Chairman of the Company. Of the nine members, two members are nominated by the IDBI.

7.5.4 Scope of Audit

The recovery performance of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1988 – Government of the Union Territory of Pondicherry. The recommendations of the Committee on Public Accounts (PAC) are contained in its 21st Report presented to the Union Territory Legislature. The activities of the Company during the period from 1995-96 to 1999-2000 and adequacy or otherwise of the action taken on the recommendations of the PAC were reviewed in audit between November 1999 and March 2000.

7.5.5 Share capital and borrowings

7.5.5.1 Share capital

As against the authorised share capital of Rs 40 crore, the paid-up capital of the Company as on 31 March 2000 was Rs 35.76 crore held by Government of Pondicherry (Rs 27.22 crore) and IDBI (Rs 8.54 crore). Further, a sum of Rs 3 crore was shown under 'Share capital deposit' pending allotment of shares to Government of Pondicherry as on that date.

7.5.5.2 Borrowings

The Company obtained loans by way of refinance from IDBI/Small Industries Development Bank of India (SIDBI) from time to time and the outstanding amount had reduced from Rs 8.10 crore in 1995-96 and was Rs 1.34 crore as on 31 March 2000.

7.5.6 Financial position and working results

The financial position and working results of the Company for the last five years upto 1999-2000 are given in Appendices 41 and 42 respectively.

The profit before tax of the Company during 1998-99 and 1999-2000 had decreased with reference to the previous years, which was mainly due to increase in administrative expenditure and reduced interest income despite overall increase in loans disbursed. This indicates ineffective recovery of interest, the main operational income of the Company.

7.5.7 Sources of finance and utilisation thereof

Different sources of finance and their utilisation for the last five years upto 1999-2000 are given in the Appendix 43.

It would be seen that during the five years upto 1999-2000, the Company recovered an amount of Rs 79.21 crore (principal: Rs 44.13 crore and interest: Rs 35.08 crore), whereas it disbursed Rs 45.85 crore only as assistance during the same period. As a result, the Company was left with idle surplus funds at the end of each year and the same mounted upto Rs 16.55 crore as on 31 March 2000. Thus, the internal resources were not effectively ploughed back in furtherance of its objective of industrial development. Had this been done, the Company could have earned an additional potential revenue of Rs 1.19 crore by way of higher interest from term loans *vis-a-vis* short term deposits.

The Company in reply stated (October 2000) that it had been decided to take up new ventures like information technology park, integrated infrastructure development, *etc.,* to effectively plough back their internal resources.

The role of the Company in industrial development of Union Territory is limited as shown below:

(Amount – Rupees in crore)

Year	Industrial growth in Union Territory		Role of PIPDIC	
	Number of units	Investment	Number of units	Assistance
1995-96	271	33.64	85	7.60
1996-97	103	67.78	88	13.68
1997-98	241	76.04	70	15.36
1998-99	316	300.84	109	15.25
1999-2000	192	107.68	161	15.46
Total	**1123**	**585.98**	**513**	**67.35**

The share of the Company in the industrial growth of Union Territory during the five years ending 1999-2000 was 45.68 *per cent* in terms of units and 11.49 *per cent* in terms of investment.

In reply, the Company stated (September 2000) that the large scale industries are outside the scope of the Company. Further, commercial banks, Khadi and Village Industries Board, SIDBI also extend financial assistance under various schemes. The reply is not acceptable as (a) the Company's annual financial assistance is pegged at around Rs 15 crore during the last five years in spite of having huge surplus fund and (b) there is no bar on the Company in giving financial assistance to large scale industries.

7.5.8 Assistance to industries

7.5.8.1 Share capital assistance

The assistance by way of share capital investment by the Company stood at Rs 84.02 lakh in ten units including Rs 9.65 lakh in a subsidiary company as on 31 March 2000.

Though the Company is in existence for over 25 years, it did not evolve any policy of disinvestment under buy back arrangements depending upon assessment of the prevailing market conditions and the performance of each unit. Consequently, the company could earn a dividend income of Rs 16.82 lakh only till March 2000, from the above investments for the periods ranging from 3 to 24 years.

Further, the present market value of the quoted shares of four units is also much less (Rs 9.97 lakh) as against the investment of Rs 14.97 lakh. The Company had, so far, written off/provided for the diminution in value of shares amounting to Rs 24 lakh in three other units due to continuous loss suffered.

(i) M/s. Pondicherry Paper Limited

Extension of term loans by the Company to a unit, which was referred to BIFR and known to be performing badly, had resulted in non-recovery of Rs 0.65 crore.

The Company participated (1974) as a co-promoter by equity investment of Rs 11 lakh in M/s Pondicherry Paper Limited. The unit, which commenced production in 1978, incurred continuous losses. The company disbursed term loan to M/s Pondicherry Paper Limited during 1980-81 to 1981-82 also. As the net worth was eroded, it was referred to Board for Industrial Finance and Reconstruction (BIFR) (1987), which ordered (1989) winding up of the unit. As a result, the Company had written off investment of Rs 11 lakh in 1988-89. However, the revival package brought out by the unit was approved by the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) in 1989. The unit was reopened in October 1989. The Company further disbursed (July 1992) a term loan of Rs 16.77 lakh to the unit in addition to Rs 15 lakh already disbursed during 1980-81 to 1981-82.

The performance of the unit did not improve and as per the modified scheme of AAIFR, a one-time settlement (Rs 42.97 lakh including repaid in shares) against total dues of Rs 76.90 lakh (including interest of Rs 45.13 lakh) was made in December 1993.

Thus, the disbursement of loan at a time, when the unit was continuously incurring losses and also once referred to BIFR had resulted in non-recovery of Rs 33.93 lakh.

Further, shares valued at Rs 11.20 lakh received in lieu of cash against the principal in one time settlement as referred above were to be bought back by the unit with interest. The price payable as per the formula laid down by the AAIFR scheme worked out to be Rs 18.82 per share. However, consequent to the inability of the unit to buy back shares at this rate, the Company accepted Rs 5 per share (February 2000) as against Rs 18.82 per share and incurred a further loss of Rs 30.68 lakh.

(ii) M/s. Meirs Pharma (India) Private Limited

The Company financed (May 1988) M/s Meirs Pharma (India) Private Limited to set up a unit at Karaikal for manufacture of absorbable surgical sutures by granting term loan of Rs 90 lakh. There was considerable delay (52 months) in implementation of the project and the unit commenced commercial production in February 1994 against the scheduled commencement of September 1989. For want of adequate market against the back drop of stiff competition from M/s Johnson and Johnson and J.L. Morrison and Jones (India) Limited, the unit piled up inventories. A diversion into manufacturing musical and sports strings was also attempted (1996) by the unit. At this juncture (1996), the Company participated in the equity share capital of the unit to the extent of Rs 10 lakh. Overdues mounted upto Rs 2.82 crore (principal: Rs 0.90 crore, interest: Rs 1.92 crore) as on 31 March 2000. Further, the Company's equity investment did not also yield any return so far and proved a dead investment. The Company made a provision of Rs 10 lakh for the same during the year 1998-99. Thus, the Company's action to invest in this unit at a time when it was known to be not performing well was neither prudent nor justified.

7.5.8.2 Development of industrial estates

In pursuance of its objective to provide industrial infrastructural facilities in the Union Territory, the Company has been developing industrial estates (with all basic amenities) comprising of developed plots and work sheds in various places to cater to the needs of Small Scale Industries (SSIs) and Medium Scale Industries (MSIs). So far, the Company has created five industrial estates in Pondicherry region. Of these, four industrial estates consisting of 700 plots and 98 work sheds were developed at a total cost of Rs 5.91 crore. One industrial estate at Pillayarkuppam was sub-leased to a private company.

Some of the cases highlighting financial losses as observed during test-check are discussed below:

(i) Thirubuvanai Industrial Estate

The Government of Pondicherry proposed (1991-92) to establish an Industrial Estate for Electronics Industry so as to develop an atmosphere with adequate infrastructural facilities, viz., technical know-how and testing facilities for electronics goods industries. The estate with 130 plots was developed (1999) at a cost of Rs 4 crore without making any assessment for market potential. The response was very poor and only 15 plots were allotted upto 31 March 2000. In order to attract entrepreneurs, the Company decided (May 2000) to give a rebate of 25 *per cent* on the premium lease amount and bring down the price to Rs 352.50 per square metre (Sq.m) from Rs 470 per Sq.m. It was, however, observed that the cost to the Company as on 31 March 2000 was Rs 371 per Sq.m.

Thus, failure on the part of the management to assess the marketability/business potential before developing the estate landed the Company into a situation, where huge funds have been blocked and the Company is now forced to sell the plots below its cost price.

(ii) Loss due to non-realisation of maintenance charges

Non-realisation of maintenance charges, despite specific provision in the lease agreement resulted in revenue loss of Rs 1.57 crore

The Company has been looking after the day-to-day maintenance of the Industrial Estates (like maintenance of roads, water supply/sewerage system, streetlights, etc.). In spite of the specific provision in the lease agreement that the allottee should bear the maintenance charges for such facilities, the Company did not invoke such clause till 31 March 2000. Thus, due to the failure on the part of the Company to recover maintenance charges, Rs 1.57 crore (upto 31 March 2000) remains unrecovered. The Company has neither fixed any responsibility nor taken any action to recover the huge arrears till date.

The Company, in reply, stated (October 2000) that as per the decision taken in the meeting held in May 2000, maintenance charges are being collected from all the industrialists with effect from 1 April 2000. The fact, however, remains that no such charges were collected for the period upto 31 March 2000.

7.5.8.3 Term loan assistance

During the last five years ending 1999-2000, the Company out of 651 applications received for an assistance of Rs 98.38 crore sanctioned 513 applications for Rs 67.36 crore (112 applications amounting to Rs 28.02 crore were rejected/withdrawn). The Company had 53 applications for Rs 5.64 crore at the year-end for disposal. Details of application received, sanctioned, disbursements, *etc.,* are given in Appendix 44.

Inadequate appraisal and ineffective follow-up resulted in non-recovery of Rs 13.03 crore in 33 units test-checked

(i) A study of the appraisal memorandum and scrutiny of 100 assisted units in audit revealed that sickness of the assisted unit and the consequent non-recovery of the dues were mostly on account of inadequate pre-sanction appraisal in 33 units *viz*., on account of defective appraisal, ineffective follow-up and want of working capital. This resulted in mounting overdues of Rs 13.03 crore (including interest of Rs 11.59 crore).

The lacunae in appraisal arose in the form of unrealistic assessment about the ability of the promoter to bring in his share of contribution, improper estimation of gestation period, non-ensuring of working capital arrangements and proper market tie-up, etc.

A few cases of non-recovery of principal and interest on account of improper appraisal before disbursement of loan are discussed below:

(a) M/s Cir Fab Private Limited

The unit was sanctioned a term loan of Rs 31.80 lakh (January 1986) for producing High Density Polyethylene(HDPE)/Polypropylene tapes and woven sacks with installed capacity of 480 tonne per annum . As the unit was dependent on imported raw material, availability of adequate working capital was to be ensured. On a reference from the Company earlier (October 1985), Small Industries Service Institute stated that the raw material for the HDPE woven bags/tapes industry was limited and expressed apprehensions about the economical functioning of such units. The unit, which started commercial production in January 1989, could not perform well due to (a) scarcity of raw material, (b) increase in cost of raw materials and (c) inadequate working capital.

The Company, before extending financial assistance to the unit failed to ensure the definite availability of raw material/working capital, which is a pre-requisite of appraisal for any project. This resulted in mounting overdues of the unit to Rs 49.06 lakh (principal: Rs 31.59 lakh; interest: Rs 17.47 lakh) and the Company took over the assets (May 1998) under Section 29 of SFC Act and sold the same for Rs 23.25 lakh resulting in loss of Rs 25.81 lakh in extending assistance to this unit.

(b) M/s P.Y.G Organics (Private) Limited

M/s P.Y.G Organics (Private) Limited was sanctioned (May 1987) a term loan of Rs 67 lakh for preparation of anti-malarial drug. The Company did not, however, ensure at the appraisal stage that the unit has sufficient tie-up arrangements for supply of raw material, which was to be imported. In response to the query made by the company regarding the cost of the project, the Maharashtra State Financial Corporation Limited *inter alia* indicated the poor market potential of the drug. The unit's production started in August 1990 only as against the scheduled date of February 1989, due to non-availability of raw material. Further, unit's efforts for diversification into another drug also did not succeed due to marketing problems.

Thus, poor appraisal, non-establishment of market potential led to the unit turning out to be early defaulter since 1990 itself. The Company, however, issued foreclosure notice only in January 1996 and took action for disposal of assets thereafter. The efforts to sell the assets materialised only in February 1999 for Rs 25.06 lakh out of total dues of Rs 2.32 crore (principal: Rs 0.67 crore; interest: Rs 1.65 crore) and hence the Company suffered a loss of Rs 2.07 crore on extending loan assistance to the unit.

(c) M/s Alternative Energy Industries (Private) Limited

M/s Alternative Energy Industries (Private) Limited was sanctioned (November 1982) a term loan of Rs 55.73 lakh for setting up a unit in Pondicherry for the manufacture of new kind of solid fuel. The unit had availed of Rs 53.74 lakh and commenced commercial production in February 1984. The unit could not market its product as the cost of the substitute product i.e., coal was cheaper. Due to continuous default in repayment of loan, the Company initiated action under Section 31 of the SFC Act in April 1989 and went to the Court of law. The unit's petition filed before BIFR for rehabilitation in August 1989 was dismissed. The overdues mounted to Rs 3.18 crore as on 31 March 2000. As per the orders of Madras High Court in August 2000, the unit has to be wound up. There upon the unit was sealed by the Official Liquidator in September 2000, in spite of objections from the Company contending to take over the assets of the unit as primary creditor and first charge holder.

It was observed in audit that the Company did not assess the market potential of the new product nor conducted cost benefit analysis with reference to substitute fuels and simply relied on the report furnished by the borrower. Later, it was found that the unit could not market its product and repay the loan.

Thus, Company's failure in pre-sanction analysis resulted in non-recovery/likely loss of Rs 3.18 crore.

(ii) Region-wise distribution

The details of number of units promoted/assisted by the Company by way of term loan during the five years upto 1999-2000 are given in Appendix 45.

85 *per cent* of total units financed were situated in Pondicherry region alone

It may be observed from the table that out of 513 units assisted (Rs 67.36 crore) during last five years ending 31 March 2000, 435 units (Rs 56.03 crore) are located in Pondicherry region, which constitute 85 *per cent* of the total units financed. The Company did not promote a single unit in Mahe region during the last four years and only four units were extended assistance in Yanam region during last three years, though the industrial policy (1997) of the Government of Pondicherry emphasised balanced industrial development in all the regions of Union Territory. The Company did not take concerted effort to review the scope for development of the areas where infrastructural facilities for establishment of industries were lacking.

The Company in reply stated (October 2000) that since Pondicherry is very close to Chennai, it attracts more entrepreneurs. In respect of other regions, the Company is taking steps to attract more entrepreneurs.

(iii) Transport loan

The Company extends financial assistance to Small Road Transport Operators for purchase of lorries, trucks, taxis, trawlers, etc. A sum of Rs 7.39 crore was disbursed under this scheme upto 31 March 2000. Against this, the overdues as on 31 March 2000 amounted to Rs 7 crore (principal: Rs 0.98 crore and interest: Rs 6.02 crore).

Non-insistence of collateral security and timely non-seizure of vehicles resulted in loss of Rs 2.14 crore towards assistance extended to transport sector

A test check of 25 cases in audit revealed that (i) the Company did not insist collateral security and the details of the assets held by the guarantor, (ii) the vehicles had not been inspected by the Company once in three months as stipulated in the contract, (iii) out of 25 cases reviewed, not even single instalment was paid in respect of 12 cases and in respect of four cases, vehicles could not be traced, (iv) though the loanees were continuously defaulting in repayment, action for foreclosure of loan/seizure of vehicle was taken belatedly after 18 to 70 months, (v) in terms of Section 51 (6) of Motor Vehicle Act, 1939, transport operators while seeking renewal of permit from the authorities are required to furnish no objection certificate from the financier in case the vehicle was financed by way of loan from a financial institution. This is an enabling provision in favour of the Company to help improving its recovery. This was not being followed strictly by the permit giving authorities and the Company also had not followed it up closely with the authorities concerned nor had communicated any list of loan defaulters with the authorities and (vi) it was also observed that upto 31 March 2000, the Company had written off Rs 2.14 crore (principal: Rs 0.62 crore and interest: Rs 1.52 crore) due to no chances of recovery. Thus, the failure of the Company to insist on collateral security for transport loans and delay in taking action to seize the vehicle on default, resulted in non-recovery and consequent loss of Rs 2.14 crore.

The Company replied (October 2000) that it is insisting on collateral security only from 1987 and the recovery of the loan from assisted units thereafter is reasonably good.

7.5.8.4 Recovery performance

The position of arrears of loans due for repayment and recovery for the five year period from 1995-96 to 1999-2000 are detailed in Appendix 46.

The following observations are made in Audit:

(1) The total net recoverable dues had increased from Rs 49.44 crore in 1995-96 to Rs 62.71 crore in 1999-2000. Against this, an amount of Rs 48.93 crore was overdue as on 31 March 2000.

(2) Separate target for collection of dues against current demand and those against arrears were not fixed so as to monitor the effective recovery of overdue arrears. Even the consolidated targets fixed were low ranging from 23.84 to 32.08 *per cent* of net recoverable dues. Consequently, the recovery of arrears was very low, which ranged from 11.26 to 18.35 *per cent*.

(3) The Company wrote off Rs 13.71 crore (principal: Rs 2.35 crore and interest: Rs 11.36 crore) since inception being irrecoverable dues from assisted units upto 31 March 2000.

(4) Nearly 61 *per cent* of principal amount (Rs 9.33 crore) and 68 *per cent* of interest (Rs 22.91 crore) were overdue for more than three years as on 31 March 2000.

(5) Though the IDBI in their evaluation report (1995-96) suggested to focus attention and closely monitor the recoveries by constituting special recovery cell exclusively under the charge of a General Manager, the Company was yet to implement the suggestion (March 2000). Further, despite recommendation of PAC in their Twenty first Report (1993-94) to evolve a suitable procedure for speedy recovery of principal and interest, the Company did not take effective steps in this direction as a result of which the arrears are mounting up and the Non-Performing Assets (NPA) also increased year after year.

The Company replied (October 2000) that the targets for recovery are fixed on realistic basis and efforts have been made to recover the arrears as expeditious as possible. However, it is seen that the Company fixes the targets for recovery on the basis of what is achievable instead of improving the recovery with higher targets.

Some cases of poor recovery performance are discussed below:

(a) Diamond Paper and Board Mills Private Limited

M/s Diamond Paper and Board Mills Private Limited was sanctioned (February 1992) a term loan of Rs 72 lakh for production of kraft paper of 7 Metric Tonne (MT) per day. Based on the unit's assurance that the raw material and marketing will not be a problem, the loan was disbursed to them. The unit did not achieve its installed capacity since inception (1994-95) and defaulted in payment of both principal and interest. During June 1998, the unit contended that the machinery was outdated and the output was not matching with market demand and hence, requested further loan of Rs 25 lakh for carrying out the modification in the machinery. The amount, however, was not sanctioned by the Company. The unit again proposed (November 1999) for one time settlement of Rs 60 lakh towards principal (Rs 35 lakh immediately and Rs 25 lakh after six months) and waive the balance portion of principal Rs 12 lakh and interest Rs 32 lakh. The proposal was under active consideration of the Company.

Thus, failure on the part of the Company to assess independently the marketability of unit's product has resulted in poor recovery performance and the Company is saddled with mounting overdues of Rs 69 lakh (principal: Rs 37 lakh) as on 31 March 2000.

(b) Web Coat Private Limited

The Company sanctioned a term loan of Rs 58.80 lakh (Rs 48.70 lakh during March 1991 and Rs 10.10 lakh during February 1992) for the manufacture of polythene laminated paper against which the unit availed of Rs 55.50 lakh. The unit commenced commercial production in September 1992 but could not achieve even 50 *per cent* capacity due to poor marketability. As a result, it faced financial crunch and could not pay the overdues (December 1999) of Rs 31.89 lakh (principal: Rs 25.65 lakh) to the Company. At the request of the unit, the Company rescheduled the repayment at 11 half yearly instalments commencing from December 1999. Even the unit did not adhere to the revised payment schedule and an amount of Rs 6.50 lakh had already become overdue. As per the original repayment schedule, the unit had defaulted in principal amount of Rs 38.40 lakh (March 2000). The Company did not take timely action for seizure of assets under provision of SFC Act and agreed for the reschedulement without even actually assessing the capacity of the borrower to adhere to it, particularly in view of the poor performance of the unit so far, which resulted in accumulation of arrears and increase in NPA of the Company.

(c) Reliable Alloys Limited

The Company sanctioned (December 1992) a term loan of Rs 14.50 lakh to M/s Reliable Alloys Limited to part finance an expansion unit proposed to be established at a total cost of Rs 35 lakh in Pondicherry. The Company had disbursed a sum of Rs 11.92 lakh till September 1994.

It was observed that the borrower had never started production and not repaid any amount towards principal, though the repayment of principal had fallen due from October 1994 as per the terms of sanction. The Company's effort to recover the amount through auction sale of assets taken over (April 1998) under Section 29 of the SFC Act did not yield any desired result so far (March 2000). The overdue position as on 30 September 1999 stood at Rs 30.27 lakh.

It was also observed that the Company had not obtained any collateral security from the borrower before the disbursement of loan. As a result, the Company had to suffer a loss of Rs 30.27 lakh due to non-recovery of the term loan.

Thus, the Company's failure to obtain collateral security and the consequent non-recovery of loan had resulted in a likely loss of Rs 30.27 lakh.

7.5.8.5 Lack of effective monitoring

In spite of availability of various avenues, the Company's monitoring system was poor and hence could not ensure recovery of dues

The Company has a three-stage system of monitoring the working of the assisted units, which in turn would help securing the intended benefits from the project and also improve the recovery position. They are (a) inspection by the Company's officer at periodical interval (b) participation of the Company's nominees in the Board of the assisted units and their feed back to the management about the efforts of the units and (c) obtaining physical and financial reports and accounts statements from the units for ascertaining the financial position.

However, it was observed in Audit that the Company had not evolved a proper Management Information System (MIS) to ensure that the control mechanisms are operating effectively.

Though the PAC had recommended in 21st Report, 100 *per cent* inspection of the assisted units, the Company had neither carried out periodical inspection of assisted units nor had drawn up any inspection programme to cover all the units at least once in a year.

The Company replied (October 2000) that follow-up section has been strengthened to improve the recovery performance.

7.5.8.6 Action under the provisions of State Financial Corporations Act

(i) Action under Section 29

The Company did not use the various provisions of SFC Act to its full advantage to liquidate its mounting overdues

Section 29 of the SFC Act, 1951 empowers the Company to take over assets of the defaulting units and to dispose of the same to realise the dues. The Company took over the assets of 52 defaulting units (outstanding dues: Rs 27.94 crore) during the period from 1995-96 to 1999-2000 under the said Section. Of these 52 units, the Company could dispose of assets of 40 units (outstanding: Rs 21.98 crore) realising Rs 6.77 crore losing a balance of Rs 15.21 crore.

The Company replied (October 2000) that efforts are being intensified to get better results.

Some of the cases for which action has been taken under Section 29 are discussed below:

(a) M/s. Sunshine Food Private Limited, Pondicherry

The unit was sanctioned a loan of Rs 24.80 lakh during July 1987 for setting up a unit for manufacture of toffees and candies. The Company did not ensure that the unit (a) had sufficient working capital (b) had a proper marketing tie-up to ensure smooth sale of products. As a result, the unit faced severe cash crunch and piled up stocks. The operation of the unit was suspended in July 1996 and being a chronic defaulter, the assets were taken over finally in June 1998. Efforts to dispose of the assets fetched Rs 28.50 lakh only as against the total dues of Rs 73.22 lakh (principal: Rs 17.50 lakh) resulting in a loss of Rs 44.72 lakh.

(b) M/s Stork Fisheries Private Limited, Yanam

The Company sanctioned a term loan of Rs 23.11 lakh for setting up a freezing complex with 1/2 tonne capacity and for acquiring two deep-sea fishing trawlers during August 1989 without ensuring the availability of adequate working capital for the unit. Further, the Company did not also insist for any collateral security from the Directors. The project could not take off due to refusal of Indian Bank (January 1991) to sanction working capital, which had categorically stated that similar units set up in coastal districts have failed and hence not viable.

The project obviously could not take off and as the unit failed in repayment of dues, the Company initiated action under Section 29 of SFC Act and took over the assets (June 1996). As a result of belated take over and the poor response in auction (June 1996, December 1997, April 1998 and August 1998), the Company could not realise any amount and the overdues mounted to Rs 74.95 lakh as on 31 March 2000 (including principal amount of Rs 23.11 lakh).

(ii) Action under Section 32-G

As per Section 32-G of SFC Act, the Company can make an application to the State Government for the recovery of the dues in the same manner as arrears of the land revenue under Revenue Recovery Act. Under this category, the Company so far has referred 125 cases, out of which 67 cases were pending as on 31 March 2000 involving recovery of Rs 5.64 crore. Out of these, the status of 59 cases as revealed by the Deputy Collector of Pondicherry was that the parties were either not traceable or adequate security did not exist (March 2000) indicating that the chances of recovery in these cases are remote.

The Company replied (October 2000) that the cases are being followed-up periodically with the Revenue Department.

The case for which action has been taken under Section 32-G is discussed below:

Lakshmi Oil Mills Limited, Yanam was sanctioned a term loan of Rs 49.55 lakh (March 1979) for manufacture of rice bran oil with an installed capacity to process 60 Metric Tonnes (MTs) of rice bran per day. However, the capacity was increased to 100 MTs on the advice of machinery manufacturer and as such got sanctioned (September 1980) another loan for Rs 10 lakh. After availing of both the loans fully, the unit started its operation in May 1981 but due to not ensuring availability of uninterrupted power and a vital fuel (coal), the unit fared poorly. In order to help the unit to tide over the calamity of fire accident that occurred during March 1983, the Company sanctioned (March 1983) a bridge loan of Rs 4 lakh. This however, did not help in improving the operations of the unit and the assets were finally taken over by the Deputy Tahsildar under Section 32-G of the SFC Act in January 1987. The assets were put to auction twice and a highest offer of Rs 45 lakh (September 1992) and Rs 59 lakh (March 1993) was received, which was rejected by the Company, citing the same as low. No follow-up action has been taken by the Company to dispose of assets (March 2000) to realise the mounting dues of Rs 2.18 crore (including principal: Rs 0.52 crore).

7.5.9 Non-Performing Assets

As per RBI guidelines, an asset becomes a NPA, when it ceases to generate income for an institution. According to the guidelines, a term loan will be treated as NPA, if interest has remained past due for periods exceeding two quarters. High level NPA arise from poor credit appraisal and inadequate post credit monitoring.

The following table gives the details of NPA as at the end of each year from 1995-96 to 1999-2000.

(Rupees in crore)

Type of assets	1995-96	1996-97	1997-98	1998-99	1999-2000
Total assets/loan balance	47.55	48.94	48.59	48.91	52.05
LESS: Standard assets	23.38	22.83	24.54	20.64	19.88
NPA	24.17	26.11	24.05	28.27	32.17
Percentage of NPA to total assets/loan balance	50.83	53.35	49.50	57.80	61.80

As could be seen from the table that there has been an increase in NPA from 50.83 *per cent* to 61.80 *per cent* (by Rs 8 crore) during the last five years ending 1999-2000.

The Company attributed recession in industry, technological obsolescence, difficulty in disposal of seized assets as reasons for increase in NPA. However, it is pertinent to note that the Company had fixed very low recovery target because of which, achievement rates against target appears to be healthy. However, the fact remains that the percentage of achievement in recoveries was quite low and ranged between 21.97 (1999-2000) and 32.19 (1997-98) in respect of net recoverable during the period from 1995-96 to 1999-2000 as mentioned in Appendix 46. This was mainly due to lack of sustained efforts and inordinate delay in seizure and disposal of assets after foreclosures.

7.5.10 Conclusion

The Company did not plough back its internal resources effectively in furtherance of its objectives. The Company could also not achieve its objectives as large number of units set up and developed by it had become sick and unviable and went into liquidation mainly due to inadequate appraisal of the project before rendering financial assistance. Further, failure of the management to monitor the units effectively, non-initiation of timely action for recovery of loans, lack of prudent decision in investment/disinvestment led to a decreasing trend of profit during the years 1998-99 and 1999-2000, besides an alarming increase in the NPA. The Company needs to take urgent steps to effectively follow its own laid down procedures in sanction/disbursement of loan, improve the recovery performance and judicious decision in investment/disinvestment.

The above points were referred to the Government (July 2000); reply had not been received (February 2001).

7.6 Sectoral review on the implementation of Gas-based Power Project by Pondicherry Power Corporation Limited (Electricity Department)

Highlights

- **In order to meet the shortfall in supply of power from Central Generating Stations and Tamil Nadu Electricity Board, the Government of Pondicherry/Pondicherry Power Corporation Limited established a gas based power project with a capacity of 32.5 Mega Watt. The project was completed in December 1999 and thereafter, the commercial production commenced in January 2000.**

(Paragraph 7.6.1)

- **Against the project cost of Rs 62.53 crore approved by Planning Commission, the actual project cost had gone upto Rs 137.77 crore till January 2000. There was also time overrun of 76 months in implementation of the project.**

(Paragraphs 7.6.5.1 and 7.6.5.2)

- **Delay in implementation and consequential non-drawal of gas from September 1998 to February 1999 led to infructuous expenditure of Rs 2.91 crore on payment towards minimum guaranteed off-take of natural gas and transportation charges.**

(Paragraph 7.6.5.1(a))

- **Due to delay by the supplier in delivering and commissioning the main plant, there was loss of generation of 265.43 million units valued at Rs 49.64 crore.**

(Paragraph 7.6.5.1(b))

- **Non-inclusion of two gas booster compressors within the turnkey contract had resulted in avoidable expenditure of Rs 5.47 crore.**

(Paragraph 7.6.5.2 (a))

- **Non-maintenance of Station Heat Rate within the norm resulted in extra fuel cost of Rs 2.11 crore per annum .**

(Paragraph 7.6.6 (b))

- **Due to high cost power generated by the Company, the Electricity Department had to bear an additional expenditure of Rs 3.10 crore per annum on purchase of power.**

(Paragraph 7.6.6.1)

Abbreviations used in this review are listed in the Glossary at Appendix 49 (Page 224)

7.6.1 Introduction

In anticipation of the shortfall in supply of power from Central Generating Stations (CGS) and Tamil Nadu Electricity Board (TNEB), the Government of Pondicherry decided (January 1989) to establish 2 X 5 Mega Watt (MW) gas turbine project at an estimated cost of Rs 19.98 crore. Based on the commitment to supply one lakh Standard Cubic Metre (SCM)/day of natural gas by Oil and Natural Gas Commission (ONGC), it was decided (August 1989) subsequently to establish 22.5 MW combined cycle gas power plant (i.e., 3 gas turbine generator of 5 MW each and one steam turbine generator of 7.5 MW) at an estimated cost of Rs 49.50 crore. The project, which was cleared by Central Electricity Authority (CEA) in December 1990 was approved (February 1991) by the Planning Commission for a cost of Rs 62.53 crore with a stipulation to complete it within 18 months.

In March 1993, Pondicherry Power Corporation Limited (PPCL) was formed by the Government of Pondicherry for expeditious execution of the project without any cost/time overrun. It was also envisaged that the Company would meet the project cost through finances raised from external sources like Power Finance Corporation, etc. After completion of the project, the main objective of the Company was to carry on the business of electric power generation and in all the branches.

Based on the tender floated in November 1995 for supply and commission of plant with dual fuel fire system, a letter of indent was placed on Bharat Heavy Electricals Limited (BHEL) in June 1996 for installation of a plant of 22.5 MW capacity at a cost of Rs 130.42 crore. It was later decided (July 1996) to reduce the price to Rs 100 crore (exclusive of taxes and duties) at a meeting held in the Ministry with a change in configuration of the plant from four turbines with 22.5 MW envisaged originally to two turbines of 32.5 MW capacity, viz., one gas turbine and another heat recovery steam turbine for using the recovered heat.

The power plant with gas turbine was synchronised with grid on 5 March 1999 and the steam turbine was synchronised on 2 July 1999. Performance guarantee test was, however, carried out only on 15 December 1999 and thereafter, the commercial production commenced on 3 January 2000.

7.6.2 Organisational set up

The management of the Company is vested with the Board of Directors consisting of seven Directors, of which six are nominated by Government of Pondicherry and one nominated by CEA. The Managing Director is looking after the day-to-day management of the Company.

7.6.3 Scope of Audit

The power generation project implemented by the Company commenced its commercial production only in January 2000. Hence, the present review done between February and May 2000 was confined to the implementation of the project and its performance upto May 2000. Audit findings are discussed below.

7.6.4 Financial position and working results

The financial position and the working results of the Company for the five years upto 1999-2000 are tabulated in Appendices 47 and 48.

Profit earned was only through interest earnings

In all the years under review, the profit earned was only through interest income received on short-term deposits. The amount of short term deposits, which ranged between Rs 5.74 crore and Rs 44.76 crore upto March 2000 was made out of share capital assistance received from the Government much ahead of requirement.

The Company's contention that allocation of funds was based on the progress of works was not evidenced by facts that the share capital assistance of Rs 52.11 crore was received, out of which only Rs 5.53 crore was utilised on the project upto 1995-96. Since the project involved long implementation period and large financing, the funds should have been released in stages.

7.6.5 Implementation of the project

7.6.5.1 Time overrun

The Planning Commission while approving (February 1991) the project stated that it should be completed within 18 months from the date of approval. However, administrative approval of the Government of Pondicherry was obtained in March 1992. As such, the project, which was scheduled to be completed in September 1993 was actually completed only in December 1999, i.e., after a delay of 76 months.

In this connection, it is also observed that as against the normal gestation period of two years for a gas turbine project, the Company/Government took more than six years (September 1993 to December 1999) for establishing the project. The reasons for the delay and its impact are discussed below:

(i) Delay of 20 months in issuing the notice inviting tenders to shortlist the bidders for the execution of the main plant with associated civil works (i.e, from March 1992 to November 1993).

(ii) Finalisation of tender (June 1996) for main equipments took about 30 months (from November 1993 to May 1996) on account of prolonged discussion with the consultant and the supplier of main plant.

(iii) There was delay of 15 months in delivering and commissioning of the main plant by the supplier.

Though it was stated (September 2000) that the time overrun was due to delay in getting fuel linkage, it was noticed in Audit that apart from above, there were other delays *viz.,* finalisation of tender for main plant and implementation of the project, which contributed for escalation of project cost.

The effect of time overrun as analysed in Audit are:

Infructuous expenditure of Rs 2.91 crore on non-drawal of gas due to delay

(a) As per the agreement entered into with Gas Authority of India Limited (GAIL) (October 1996) for supply of 1,00,000 SCM/day of gas, the drawal of gas was due from 1 March 1998 and the Company had to lift atleast 80 *per cent* (80,000 SCM/day) of the committed quantity being the Minimum Guaranteed Off-take (MGO) failing which it had to pay for entire MGO. However, in view of the delay in completion of the main plant by BHEL, the Company got the clause on commencement of supply amended twice i.e., to June 1998 and to September 1998, but the actual drawal took place in March 1999 only due to delay in commissioning of the project. As such, the Company had to pay for MGO from September 1998 to February 1999 amounting to Rs 1.77 crore. Further, as per the agreement with GAIL, the Company was also bound to pay transportation charges during the above period (September 1998 to March 1999) for the facilities provided by GAIL for supply of gas to the delivery point located at the Company's premises. Even though the Company could not draw any gas during the above period, transportation charges amounting to Rs 1.14 crore was to be paid. Thus, delay in implementation and consequential non-drawal of gas resulted in infructuous payment of Rs 2.91 crore.

In this connection, it was replied (September 2000) that the entire amount of Rs 2.91 crore would be recovered from BHEL. However, it was noticed that BHEL had already disputed the claim of liquidated damages and no action was taken for recovery during the last ten months (upto October 2000).

Loss of generation of power valued at Rs 49.64 crore due to delay in execution

(b) The plant, which was to be commissioned in March 1998 for open cycle and September 1998 for combined cycle as per the agreement with BHEL was actually commissioned only in March 1999 and July 1999. Further, performance test was carried out only on 15 December 1999 and commercial production started with effect from 3 January 2000. The loss of generation as such during the above period of 15 months (October 1998 to December 1999) worked out to 265.43 million units valued at Rs 49.64 crore.

(c) Non-levying of liquidated damages

As per the agreement entered with BHEL, liquidated damages at 0.5 *per cent* per week subject to a limit of 10 *per cent* of contract price was leviable for delay in completion of work. The work was delayed by BHEL for 15 months leading to loss of generation of power valued at Rs 49.64 crore. The Company, however, has not lodged any claim in respect of liquidated damages except for the claim of Rs 2.91 crore pointed out in the preceding paragraph. The total liquidated damages recoverable comes to Rs 10 crore. The Company informed (October 2000) that the amount of liquidated damages would be finalised by the Board of Directors. Even though the project was completed in December 1999, the Company is yet to finalise the quantum of damages.

7.6.5.2 Cost overrun

The original project cost of Rs 49.50 crore prepared in August 1989 by the Electricity Department was revised by CEA (December 1990) to Rs 62.53 crore at the time of project clearance. Thereafter the project cost was revised thrice due to delay in deciding the fuel composition/revaluation of tender, placing orders and change of configuration and finally cleared by the CEA with a cost of Rs 131.29 crore in July 1999. The actual project cost had gone upto Rs 137.77 crore till January 2000. Thus, the cost was more than doubled in nine years resulting in much higher per MW capital cost (Rs 4.24 crore as against the cost of Rs 2.78 crore envisaged originally). Out of the total increase in the cost of Rs 68.76 crore (Rs 131.29 crore less Rs 62.53 crore), Rs 46.01 crore was due to price escalation owing to time overrun.

Audit also noticed instances of avoidable cost escalation in the implementation of the project due to various reasons, which are discussed below:

(a) Avoidable expenditure on purchase of Gas Booster Compressors (GBC)

Avoidable expenditure of Rs 5.47 crore on purchase of compressors

BHEL in their tender quoted (February 1995) a price of Rs 137.46 crore (subsequently reduced to Rs 130.42 crore) excluding duties and taxes for supply of main plant with a capacity of 22.5 MW including all accessories for main plant. The accessories included three numbers of GBCs with a capacity of 4400 NM^3 per hour each.

It was later decided (July 1996) to increase the capacity of the plant from 22.5 MW to 32.5 MW and also to change the configuration of the machine. BHEL agreed (September 1996) for execution of the project on a turnkey basis including all accessories at a total cost of Rs 100 crore, excluding duties and taxes. The reduction in price was mainly due to change in configuration from four gas turbines of 22.5 MW capacity to 1 x 22.5 MW Plus 9.6 MW steam turbine. While implementing the project, the contractors suggested that two more GBCs of 2200 NM^3 per hour capacity were required to handle additional gas to feed the enhanced capacity of 32.5 MW and informed (June 1997) that these additional compressors were outside the scope of turnkey contract and the Company had to incur an additional expenditure of Rs 5.47 crore.

In this connection, it was replied (September 2000) that the contract with BHEL was negotiated and finalised at a total cost of Rs 100 crore and hence, supply of other accessories was outside the scope of contract.

As per the agreement with BHEL, it was the responsibility of the contractor to ensure completeness of all systems and equipments for commissioning of the main plant. Hence, the compressor of the appropriate capacity also formed part of the package offer and the Company should have insisted supply of compressors as part of the turnkey contract. Failure of the Company to ensure adherence to the package offer resulted in avoidable extra expenditure of Rs 5.47 crore.

(b) Avoidable expenditure on execution of 110/11 KV sub-station

Avoidable expenditure of Rs 0.24 crore due to non-award of contract to the lowest tenderer

Tenders were called (November 1993) for erection of 110 KV switchyard on turnkey basis for evacuation of power from the generating point. After receipt of tenders from seven firms, the Company decided (August 1994) to convert 110 KV switchyard into 110/11 KV sub-station in order to meet power requirements of Karaikal region. The lowest two offers of Rs 6.87 crore and Rs 7.07 crore quoted respectively by Asea Brown Boveri Limited (ABB) and Bombay Suburban Electric Supply Limited (BSES) were finally considered.

While evaluating (April 1995) the offers, the consultants, Tata Consulting Engineers found that both the firms did not comply with tender specifications fully and left out certain items. Based on further negotiations and price adjustments, the Tender Committee and the consultants decided that the evaluated offer (Rs 6.71 crore) of BSES was the lowest as compared to the adjusted price (Rs 6.95 crore) of ABB.

However, it was decided (June 1995) by the Board of Directors to award the work to L-2, ABB on the plea that (i) the revised offer by BSES (L-1) was a post-tender modification and (ii) L-1 did not provide evidence of having completed two similar projects. The grounds on which the offer of L-1 was rejected were not acceptable considering the fact that L-1 had a record of good performance and was recommended (June 1995) by the Tender Committee to be capable. Further, it was quoted by both the consultants and Tender Committee that offer of BSES was the lowest. Hence the award of contract to ABB at a price of Rs 6.95 crore resulted in an avoidable expenditure of Rs 24 lakh.

The management stated (September 2000) that the offer of reduction of Rs 30.19 lakh by the L-1 bidder was a post tender modification and hence, was not acceptable. The reply of the Company was not acceptable, since the negotiations were held with both the bidders after opening the tender and price adjustments were made after discussions.

7.6.6 Viability of the project

The project was contemplated mainly to meet the envisaged shortage of power. Eventhough a commitment was given to CEA that the entire generation would be availed of by the Electricity Department of

Pondicherry, it was noticed that the Electricity Department was not in a position to avail of the entire power generated by the plant due to the following reasons:

There was no shortage of power, as the power allocated from the Central Grid is more than the requirements, both on the demand side and on the energy side. Contrary to the anticipated shortfall in the availability of power from 1993-94 onwards to the extent of 56 MW as stated in the project report, the power availability was in surplus upto the year 1999-2000 in the Union Territory of Pondicherry.

Further, the cost of generation of 161 paise per unit was more than the cost of power supplied by the CGS (144 paise) and TNEB (118 paise).

Additional cost of Rs 3.10 crore to the Electricity Department on purchase of power from the Company

Hence, the Electricity Department restricted its drawal of power to 8 MW, i.e., 25 *per cent* of the capacity and the Company sold the surplus power generated to TNEB. The establishment of power plant is not fruitful in view of the additional cost of Rs 3.10 crore per annum to be incurred by the Electricity Department on purchase of power from the Company and continuing to rely on the power purchased from the Central Grid to the required extent because of lesser cost.

In this connection, it was replied (September 2000) that the growth of demand for power was not as expected and in order to run the plant to full capacity, a Memorandum of Understanding was signed with TNEB on temporary basis for sale of power. However, the fact remained that bulk of the power generated was sold to other States and additional cost incurred on generation.

The following deficiencies had directly affected the viability of the project.

(a) The cost per MW was as high as Rs 4.24 crore as against the norm of Rs 3.20 crore stipulated by CEA. The additional expenditure incurred in this regard was Rs 33.77 crore.

Extra fuel cost of Rs 2.11 crore per annum due to non-maintenance of Station Heat Rate within the norm

(b) The Station Heat Rate was 2277 Kcal/KWH as against the norm of 2000 Kcal/KWH prescribed by CEA. Non-maintenance of the required Station Heat Rate would result in reduced heat efficiency of 37.7 *per cent* as against the norm of 50 to 60 *per cent* and consequent extra cost by Rs 2.11 crore per annum and consequently the cost per unit of power generated would increase by 10 paise.

The Company replied (September 2000) that in response to the open tender, BHEL was the only bidder and their offered heat rate for 32.5 MW plant was 2277 Kcal/KWH. However, the fact remained that the above heat rate exceeded the norm heat rate of 2000 Kcal/KWH, which would result in additional fuel cost by Rs 2.11 crore per annum .

(c) Though it was envisaged by the Company, that the additional generation of energy in the combined cycle plant would be more than 50 *per cent* of plant capacity, the actual additional generation was only 42 *per cent*. The loss due to non-achievement of required percentage of additional generation would work out to Rs 2.40 crore per annum .

(d) Both the Planning Commission and CEA, at the time of project approval, advised installation of minimum two units of gas turbine to achieve flexibility of operation and continuity of generation. However, the plant was established with only one gas turbine, which implied that at the time of maintenance and outages, etc., the entire generation of power would be suspended.

The Company replied (September 2000) that the plant of 32.5 MW capacity with revised configuration with single gas turbine was selected after considering the cost estimates. However, the suggestion of CEA/Planning Commission to install a minimum of two gas turbines was not complied with.

(e) At the time of installation of the 32.5 MW plant, BHEL offered dual pressure system at an estimated cost of Rs 5.92 crore so as to generate an additional 3.6 MW of power. This system would facilitate additional generation of power without additional fuel. The Company did not accept this offer, with the result, it lost an opportunity for reduction of power generation cost by 13 paise per unit.

The Company replied (September 2000) that the demand for the Karaikal region was only 22.5 MW and if the above offer was accepted, the capacity would be 36.1 MW and if the plant is operated at 22.5 MW capacity, the cost of generation would be higher. The reply is not tenable as this additional capacity would reduce the cost of generation (by 13 paise per unit) throughout the life of the plant and also due to the fact that the surplus power is being sold to TNEB at higher rates.

7.6.6.1 Cost of generation

The cost of generation of 107 paise per unit envisaged in the feasibility report (August 1989) increased to 161 paise at the time of commercial production (January 2000). This cost was high in spite of the entire project cost being financed by the Government of Pondicherry without any interest obligation.

As compared to the rate of 118 paise per unit paid for the supply of power from TNEB, the cost of generation was higher by 43 paise per unit. Consequently, the Electricity Department had to bear additional expenditure of Rs 3.10 crore per annum on the purchase of 72 MU at higher cost from the Company during 1999-2000.

7.6.7 Conclusion

The Company was formed with main objective of implementation of the project without any time/cost overrun and also to finance the project from the funds borrowed from external sources. However, both the objectives were defeated as neither the project was implemented expeditiously nor financed through external sources, which necessitated investment of Rs 137.77 crore by the Government of Pondicherry. Even after investment of this heavy amount, it depends on Central allocation for supply of power at lesser cost, as the cost of power available to Electricity Department through the Company was high involving additional cost of 43 paise for every unit generated as compared to cost of power obtained from TNEB.

The above points were referred to the Government in July 2000; reply had not been received (February 2001).

(C.V.AVADHANI)

Chennai, Principal Accountant General (Audit) I

The Tamil Nadu and Pondicherry.

Countersigned

New Delhi, **(V.K. SHUNGLU)**

The Comptroller and Auditor General of India.