

Chapter II A

Rajasthan State Mines and Minerals Limited

Highlights

Rajasthan State Mines and Minerals Limited, a Government company since June 1973, is involved primarily in mining of Rock Phosphate, Gypsum and Selenite, Green Marble and Steel Grade Lime Stone.

(Paragraph 2A.1 & 2A.2)

The recovery of concentrate from LGO processed was lower than that envisaged in Definitive Feasibility Report by 12.68 per cent, which worked out to 232284 metric tonne, valued at Rs. 43.66 crore.

(Paragraph 2A.7.1.2.1)

Four dumpers valued at Rs.10.36 crore were purchased in excess of requirement, leading to recurring cost of interest and depreciation and contributing to higher mining cost.

(Paragraph 2A.7.2.3.1)

By not charging correct amount of royalty on its sale despite clarification by Director of Mines and Geology, the Company incurred loss of Rs.1.73 crore due to under recovery of royalty.

(Paragraph 2A.7.3.1.2)

Undue benefit of bulk discount amounting to Rs.1.95 crore was given to 13 customers, of which Rs.1.31 crore was given to two customers.

(Paragraph 2A.7.3.1.3)

Due to stagnation of sale price, higher transportation cost, low utilisation of plant & equipment and investment in equipment in excess of requirements, the Company incurred overall cumulative loss of Rs.10.39 crore in its lime stone operations.

(Paragraph 2A.8)

Due to failure to review the need for DG sets in light of preparedness of RSEB to provide power as well as due to delay in the completion of project, resulted in infructuous investment of Rs.1.47 crore.

(Paragraph 2A.8.1.4.2)

The Company incurred overall loss of Rs.9.58 crore against the projected profit of over Rs.51.13 crore in five years in its green marble operation.

(Paragraph 2A.9)

Injudicious purchase of wheel loader for Rs.2.82 crore resulted in fixed expenditure of Rs.1.00 crore per annum towards interest and depreciation.

(Paragraph 2A.9.1.2)

Percentage of profit to operational revenue declined from 24.13 in 1995-96 to 18.09 in 1999-2000 in mining of Gypsum.

(Paragraph 2A.10.1)

Inventory of rock phosphate and lime stone activity included non-moving stores and spares of Rs.1.98 crore and Rs.0.18 crore respectively.

(Paragraph 2A.11)

Due to allowing of interest free credit facility to the buyers of Rock Phosphate and concentrate, sundry debtors increased from Rs. 55.28 crore in 1995-96 to Rs.84.01 crore in 1999-2000. The doubtful sundry debtors had also increased from Rs.0.17 crore in 1995-96 to Rs.3.86 crore in 1999-2000.

(Paragraph 2A.12)

2A.1 Introduction

Rajasthan State Mines and Minerals Limited (Company), a government company since June 1973, is involved primarily in mining of Rock Phosphate from Jhama Kotra mines in Udaipur district besides mining of "Gypsum and Selenite" in Bikaner, Sriganganagar, Hanumangarh, Barmer and Pali districts, Steel grade Lime Stone at Sanu in Jaisalmer district, and Green marble at Rishabhdev in Udaipur district.

2A.2 Objectives

The main objective of the Company is to procure, purchase, take on lease or otherwise acquire and deal with any mines, mining rights and concessions, prospecting or development rights at any place and to acquire by purchase or otherwise, lands containing minerals of all descriptions and any interests therein and to explore, work, exercise, develop and turn to account the same.

2A.3 Organisational Set-up

The Company is managed by a Board of Directors consisting of eleven Directors including the Chairman and the Managing Director (both appointed by the State Government) as on 31 March 2000. The Managing Director who is the Chief executive is assisted by five Group General Managers including one for Finance & Accounts, three General Managers, a Financial Advisor, a Company Secretary and a Chief of Personnel and Administration.

2A.4 Scope of Audit

The working of Phosphate Division of the Company was reviewed in the Audit Report (Commercial) of the C&AG of India for the year ended March 1995. The Committee on Public Undertakings (COPU) discussed the review in November 1997 and August 1998. The activities of the Company for the period from 1995-96 to 1999-2000 were reviewed in Audit during October 2000 to March 2001; the audit findings are set out in the succeeding paragraphs.

2A.5 Financial Position

The financial position for the five years ending 31 March 2000 is given in Annexure 9.

It would be seen that the net worth of Company increased by 44.73 per cent from Rs.103.38 crore in 1995-96 to Rs.149.62 crore in 1999-2000 and was Rs.2.42 per rupee of capital. Further, borrowing (secured and unsecured) reduced from Rs.101.23 crore in 1995-96 to Rs.56.94 crore in 1998-99 but increased by 274 per cent over the previous year to Rs.156.15 crore in 1999-2000.

The investment in fixed assets (including investment) of Rs.105.60 crore represented 29 per cent of total assets, while investment in current assets and loan advances of Rs.255.21 crore represented 71 per cent of total assets in 1999-2000. The quick ratio (quick assets: current liabilities) which indicates ability to meet immediate short term obligation was 7.16:1 as against norm of 1:1, while the current ratio which reflect the short term solvency was 5.37:1 against norm of 2:1. This indicates that investments in fixed assets were inadequate.

2A.5.1 *Investment in Personal Deposit Account with the State Government*

The Company invested (1999-2000) an amount of Rs.104.05 crore in interest bearing PD account with State Government by borrowing funds from various sources i.e. Banks, Financial Institutions. The borrowings were raised at the instructions of the State Government with a view to improve the ways and means

position of the State Government. The Government fully reimbursed the cost of borrowing to the Company. Borrowings by the Company to help the State Government tide over its ways and means crisis, was against the stated objectives of the Company.

2A.5.2 Irregular use of grant in aid and loan funds

The State Government released grant-in-aid of Rs.4.50 crore on 31 March 1995 for rail-link from Hamira Thaiyat to Sanu. The rail-link work was part of an integrated project costing Rs.388 crore wherein a separate Company was to be formed in joint venture with other parties. The integrated project did not materialise as the other participants backed out from the joint venture. Since the project work was abandoned and no expenditure was incurred from the grant-in-aid, the amount should have been refunded to the State Government. Instead of refunding the amount, the Company utilised the funds for reducing their cash credit and saved interest charges of Rs.3.60 crore in violation of General Financial and Accounting Rules (GF&AR).

Irregular use of grant-in-aid and interest free loan from the Government has increased profit during last five years.

The State Government also sanctioned (August 1996) interest free loan of Rs.3.50 crore for the rail-link work of integrated project and the loan amount was invested (21 August 96) with State Government in the State Resource Development Fund at the rate of 13.85 *per cent* per annum and earned interest of Rs.2.24 crore. Thus, interest free loan was used for investments instead of rail link work for which loan was sanctioned. The profits of the Company thus increased by Rs.5.84 crore due to irregular use of grant-in-aid (Rs.3.60 crore) and interest free loan funds (Rs.2.24 crore) during five-year period ending 31 March 2000. The grant of Rs.4.50 crore and interest free loan of Rs.3.50 crore have also not been repaid so far (March 2001).

The Company replied (August 2001) that in view of pending settlement of excess lease money charged by the Government for mining of Jhamar Kotra rock phosphate, grant-in-aid and interest free loan was not refunded. The reply of the Company is not tenable as neither the Government has admitted any claim for refund of excess lease money nor the Company shown any such amount as recoverable from the Government in its accounts.

2A.6 Working Results

Activity-wise position and overall working results for the five years ending 31 March 2000 is given in Annexure 10 to 10.4. A review of the working results revealed that out of four activities, two activities i.e. limestone and green marble were incurring losses in all the five years. The overall working results including return on capital employed and net worth for five-years period ending 31 March 2000 are given in Annexure-11.

It could be seen from the Annexure that the Company would have recorded loss in the first 3 years but for the substantial non-operating income. Other income consists of incentive on rock phosphate, interest earnings etc. and it declined from Rs.24.08 crore in 1997-98 to Rs.10.75 crore in 1999-2000. The decline in other

income was due to withdrawal of incentive on rock phosphate as well as reduction in interest earning. Reduction in interest earning was due to grant of substantial interest free credit in the sale of High Grade Ore and concentrate and increase in sundry debtors leading to reduction in the availability of surplus funds for investments and interest income. (Refer para no. 2A.12).

It would be seen that though return on net worth earned declined only marginally from 11.60 *per cent* in 1995-96 to 11.43 *per cent* in 1999-2000, the return on capital employed recorded steep decline from 16.90 *per cent* in 1995-96 to 11.42 *per cent* in 1999-2000. The decline in return on capital employed from 18.26 *per cent* in 1998-99 to 11.42 *per cent* in 1999-2000 was due to substantial increase in capital employed (from Rs.196.87 crore to Rs.309.72 crore) and due to borrowing of over Rs.104.05 crore for financing the ways and means of the State Government. The performance of each activity is analysed in the succeeding paragraphs.

2A.7 Rock Phosphate

Rock Phosphate constitutes the most important raw material for manufacturing Phosphatic fertilizer.

The mining of Rock phosphate from Jhamar Kotra mines in Udaipur is the main activity of the Company, contributing 82.22 *per cent* of its operational revenue. High Grade Ore (HGO), & Low Grade Ore (LGO) and over burden are excavated during the mining activity of rock phosphate. HGO (containing 31.5 *per cent* P₂O₅) after blending of various ore are crushed for selling in the market, while LGO is processed further to make concentrate (containing 34 *per cent* P₂O₅) and also grinded to make Raj Phos (containing 19 *per cent* P₂O₅) for selling in the market.

A beneficiation plant was commissioned (October 1993) at a cost of Rs.134.55 crore for converting LGO (containing average 20.5 *per cent* phosphate) into concentrate (containing phosphate of 34 *per cent*). The Company expected the plant to break even in 1995-96 and become profitable thereafter.

Beneficiation plant incurred cumulative operational loss of Rs.75.12 crore.

It was noticed that beneficiation plant incurred cumulative operational loss of Rs.75.12 crore during last five years, and thus the expectation of the Company failed. The mining of HGO and Raj Phos activity earned cumulative operational profit of Rs.91.44 crore. Thus, cumulative operational profit of rock phosphate activity was Rs.16.32 crore during five years period ending 31 March 2000. The performance of these two activities i.e. beneficiation plant and mining of HGO and Raj Phos is discussed in detail in succeeding paragraphs.

2A.7.1 Beneficiation plant:

2A.7.1.1 Plant utilisation

The capacity utilisation of main process plant was below the processing capacity during 1995-96 to 1997-98 and ranged between 62 *per cent* to 87.17 *per cent*. The

Company, however, achieved utilisation of 112.11 *per cent* and 101.66 *per cent* of processing capacity during 1998-99 and 1999-2000. The low utilisation during 1995-96 to 1997-98 was due to low excavation of LGO.

2A.7.1.2 Production performance

The details of production of concentrate from beneficiation plant for five years period ending 31 March 2000 is given below:

(In lakh tonnes)

Years	Installed Production capacity	Budgeted Production	Actual Production	Percentage	
				Actual to budgeted	Actual to installed
1995-96	2.30	1.70	1.48	87.06	64.35
1996-97	2.30	1.80	1.08	60.00	46.96
1997-98	2.30	1.80	1.47	81.67	63.91
1998-99	2.30	1.80	1.86	103.33	80.87
1999-2000	2.30	1.80	1.86	103.33	80.87

Actual production was lower and ranged between 46.96 to 80.87 per cent of installed capacity.

It would be seen that Company could not achieve the budgeted target production for first three years. The Company has fixed budgeted target of 1.80 lakh tonnes in four of five years representing only 78.26 *per cent* of installed capacity of 2.3 lakh tonne per year. The achievement of actual production to installed capacity was substantially lower and ranged between 46.96 to 80.87 *per cent* during five-year period. It was observed that production upto installed capacity could not be achieved due to low recovery of concentrate as discussed in the succeeding paragraphs.

2A.7.1.2.1 Low recovery of concentrate

The installed production capacity of 2.30 lakh MT of concentrate was to be achieved by processing 4.21 lakh MT of LGO (estimated recovery of 54.63 *per cent*).

It was observed that actual recovery percentage ranged between 38.95 to 48.29 during the five-year period and the overall recovery was 41.95 *per cent* as against estimate of 54.63 *per cent* envisaged in Definitive Feasibility Report (DFR). The under recovery of concentrate of 12.68 *per cent* on total LGO processed (18,31,957 MT) worked out to 232284 MT valued at Rs.43.66 crore. The Company has not analysed the specific reasons for low recovery in each year. However, the Government stated (September 2001) that lower recovery was due to feeding ore containing average 17.33 *per cent* P₂O₅ as against 20.5 *per cent* P₂O₅ ore envisaged in DFR.

2A.7.1.2.2 Higher consumption of reagent and power

Loss of Rs.15.40 crore due to excess consumption of reagents and power.

The LGO is grinded in ball mills and passed through flotation cells by adding three reagents viz., Sodium oleate, phosphoric acid and sulphuric acid. Consumption norms (as per DFR) and the actual consumption of the reagents are given in the Annexure-12. It would be seen that the actual consumption of Sodium oleate ranged from 1.89 kg to 2.62 kg per metric tonne of LGO as against the norm of 0.45 kg per metric tonne. Thus the consumption of sodium oleate was in excess of the norm in all the five years. The actual consumption of sulphuric acid was also higher and ranged between 7.46 kg to 11.56 kg per metric tonne of

LGO fed as against the norm of 1.57 kg per metric tonne. Consumption of phosphoric acid ranged between 1.89 kg to 6.37 kg per metric tonne of LGO as against norm of 4.25 kg per MT. The loss due to excess consumption of reagents worked out to Rs.14.45 crore during five-year period.

Similarly, the consumption of power was also in excess of norm during 1995-96 to 1997-98. The excess consumption worked at 34.86 lakh KWH caused loss to the Company of Rs.94.62 lakh.

The Government stated (September 2001) that higher consumption of reagents was due to feeding of ore containing average 17.33 *per cent* P₂O₅ as against 20.5 *per cent* P₂O₅ ore envisaged in DFR and higher impurities in low grade ore.

2A.7.2 Mining of Rock Phosphate

2A.7.2.1 Production performance: Total rock handling

The position of budgeted and actual rock handling for extracting HGO and LGO for five years period ending 31 March 2000 is given in Annexure-13.

It would be seen from the Annexure that the budgeted targets of rock handling were achieved in two out of five years. The percentage of actual recovery to budgeted recovery of ores varied from 91.20 *per cent* to 134.04 *per cent* during five years. The Company had not fixed the proportion of HGO and LGO to be recovered and percentage of HGO to total ore varied widely from 46.53 *per cent* to 75.82 *per cent* during the five-year period. The reasons for deviation from mining plan as well as in proportion of recovery of HGO and LGO were not on record.

2A.7.2.2 Departmental vs. Contractual

The rock handling was done departmentally as well as contractually.

It was observed that share of departmental rock handling declined from 56.42 *per cent* in 1995-96 to 50.02 *per cent* in 1999-2000, while share of contractual rock handling increased from 43.58 *per cent* in 1995-96 to 49.98 *per cent* in 1999-2000. Increased share of contractual rock handling over the period was due to its lower cost as compared to cost of departmental rock handling.

The cost of rock handling (departmental and contractual) during five-year period ending 31 March 2000 was as under:

	(Rs. per MT)				
	1995-96	1996-97	1997-98	1998-99	1999-2000
Salary and wages	-	19.42	22.83	22.55	22.87
Power, fuel and store consumption	-	11.38	13.18	11.45	14.10
Repairs and depreciation	-	21.38	21.36	23.47	22.56
Other expenditure	-	14.99	20.84	16.16	15.08
Total cost of departmental rock handling	65.31	67.17	78.21	73.64	74.61
Total cost of contractual rock handling	21.79	22.00	21.05	21.47	21.20
Percentage of cost of departmental rock handling to cost of contractual rock handling	299	305	371	343	352

It would be seen that the percentage of departmental cost of rock handling to contractor cost per MT, which was already high at 299 *per cent* in 1995-96, increased further to 352 *per cent* in 1999-2000. While contractors were able to control the cost of rock handling during the period of five years, the Company was unable to control cost, which increased by over 14 *per cent*. The component of salary and wages alone on departmental rock handling was more than the total cost of rock handling by the contractor during 1997-98 to 1999-2000.

Further the higher component of cost on repair and depreciation also confirms the observation in para no.7.2.3 that there were excess machines and equipment. The Company has not initiated any measures to reduce the cost by exercising cost control measures. It was observed that besides exercising cost control measures there is also a need to increase departmental production so that fixed cost per MT is reduced.

The Government stated (September 2001) that the cost of the contractor and departmental rock handling are not comparable, however, necessary efforts to reduce the cost of departmental rock handling by increasing the productivity are being made.

2A.7.2.3 *Low utilisation of machines, equipment and plant*

The Company did not prescribe standard norms of utilisation of each type of equipment/machines. However, it prepares annual plan for utilisation of equipment/machines wherein the norms of working for each type of equipment/machine is considered taking into account the life and condition of the equipment/machine. The utilisation of various type of equipment/machines was reviewed in audit with reference to annual plan norms for utilisation (Drills: 34086 hours, Shovels: 29281 hours, Dumpers: 86362 hours and Dozers: 38865 hours per annum). It was noticed that all the equipment were under-utilised as compared to norms considered in annual plan.

Acquisition of equipment without requirement resulted in low utilisation.

Audit observed that utilisation of machines was less than 45.63 *per cent* during five years and ranged between 27.49 to 40.89 *per cent* for drills, 27.88 to 45.63 *per cent* for shovels, 35.65 to 39.07 *per cent* for dumpers and 29.64 to 37.05 *per cent* for dozers. The low utilisation of all equipment and machines indicated availability of substantial surplus spare capacity. While analyzing the reasons for surplus capacity, it was observed in audit that acquisition of equipment and machineries were made without proper analysis of requirement.

2A.7.2.3.1 *Injudicious purchase of dumpers*

Scrutiny of type of mineral transport fleet revealed that the Company had dumpers of 50 and 85 tonne capacities. The utilisation of dumpers and quantity of departmental total rock handling was as under:

Year	50 Tonne Capacity		85 Tonne Capacity		Departmental total Rock Handling (in lakh MT)
	No.	Utilisation percentage	No.	Utilisation percentage	
1995-96	15	32.05	5	73.80	67.52
1996-97	15	22.97	5	71.23	68.96
1997-98	15	21.56	5	76.07	70.00
1998-99	15	23.86	7	59.23	81.60
1999-2000	15	19.98	9	58.29	85.07

It was observed that five dumpers of 85 tonne capacity were purchased for the first time in 1995-96 at a cost of Rs.10.01 crore. Further four more dumpers were purchased at a cost of Rs.10.36 crore during 1998-99 to 1999-2000. It would be seen from the above table that though the utilisation of 50 tonnes dumper (cost of Rs.86.31 lakh each) was only 19.98 to 32.05 *per cent*, the Company made further capital investment of Rs.10.36 crore on purchase of four 85 tonnes dumper. The overall increase of 17.55 lakh M.T. rock handling during 1995-96 to 1999-2000 could have been handled by full utilisation of available dumpers of 50 tonne capacity. Thus, it is clear that investment in four dumpers valued at Rs.10.36 crore was without requirement involving recurring cost of interest and depreciation every year, contributing to higher cost of mining.

The Government replied (September 2001) that five (50 tonne) dumpers completed their economic working life during 1999-2000 and five (50 tonne) dumpers will complete their economic working life during year 2000-2001. The purchase of 85 tonne dumpers was made in replacement of 50 tonne dumpers.

The reply is not tenable as the purchase of 85 tonne dumpers was made much before the 50 tonne dumpers completed their economic life. It was further noticed that the dumpers, which had completed their economic life during 1999-2000, were not yet declared obsolete till March 2001.

2A.7.3 Sales Performance:

The Sales of HGO chips, Rajphos and Concentrate are made directly to the consumers who are themselves users of minerals, without use of any intermediators i.e. agents/ resellers *etc.*

It was noticed in Audit that in case of HGO Chips and Rajphos, budgeted targets were achieved in two years, while in case of concentrate targets were achieved only in one year out of five years. The achievement of targets in respect of Rajphos during 1998-99 and 1999-2000 was due to lowering of budgeted sales substantially from the level of 1997-98.

2A.7.3.1 Fixation of Selling Price

The price of HGO and Concentrate were fixed, based on base price prevalent at the time of the decontrol of phosphatic fertilizer after providing for changes in the landed C& F price of imported rock of Jordan and exchange rate. The approval of Board was obtained from time to time for changes effected in selling price of rock phosphate and concentrate upto December 1994.

It was observed that the Syrian rock, the price of which are lower as against approved Jordanian rock, was considered for fixation of price. Further, while fixing price, reduction of Rs.164 to Rs.208 per tonne on account of disability factor of Syrian rock was made despite Company's own evaluation that Syrian rock and the Company rock could be considered at par. Thus, there were no uniform guidelines for fixation of selling price, discounts, credit *etc.* and approval of Board was not obtained for changes made in price, cash discount and method of working of landed price of imported rock after December 1994. The Government replied (September 2001) that prior approval of the Board in such

matter could not be obtained due to the very nature of the market situation. However, despite no specific delegation of powers in the matters of sales policy, quantity/cash discount, price fixation *etc.*, these were not brought for consideration of the Board during the period from January 1995 to February 1999 and were decided by the Managing Director.

In audit scrutiny, following irregularities were noticed:

2A.7.3.1.1 Inadmissible grant of benefit - Loss of Rs.46.93 lakh

The Company introduced (October 1995) a system of lower selling price, which is to be charged in case of cash purchase or when total purchase by the buyer exceeds 50000 MT in a financial year. However, the Company allowed lower selling price from the first invoice itself, based on an assurance from the buyer to purchase at least 50000 MT.

It was noticed in audit that during 1996-97, despite failure to meet above condition, benefit of lower rate applicable to the bulk buyer was extended to Liberty Group of Industries and Jay Shree Group. The amount of such inadmissible benefit worked out to Rs.26.18 lakh (Liberty Group Rs.16.34 lakh and Jay Shree Group Rs.9.84 lakh) during 1996-97.

Management instructed (May 1997) that lower selling price was not to be charged from the first invoice but only on satisfaction of condition of bulk purchase. In violation of such directions, inadmissible benefit of Rs.20.75 lakh was also allowed during 1997-98 to Liberty Group and Dharamsee Morarjee Chemical Company.

The Government stated (September 2001) that the decision not to allow discount from the first invoice was the view of finance wing and not that of the management. The fact, however, remained that discounts were given to buyers who did not satisfy the prescribed conditions for availing discounts.

2A.7.3.1.2 Under recovery of royalty- Loss of Rs.1.73 crore

The State Government was charging royalty on rock phosphate HGO chips at the rate of Rs.152 per M.T. on production upto 10 April 1997. The royalty rate was revised from 11 April 1997 on *ad valorem* basis at the rate of 11 *per cent* of the sale price inclusive of royalty. It was observed that the Company continued to charge and pay royalty on the basic sale price only inspite of clarification made by the Director of Mines and Geology (DMG). Further, the DMG conveyed the opinion of State Law Department to the Company in January 1999 and asked the Company to deposit the differential royalty amount based on sale price inclusive of royalty on *advalorem* basis.

The Company revised its sale price w.e.f. 1 May 1999 taking into account royalty on sale price on *ad valorem* basis and also paid differential amount of royalty of Rs.1.73 crore, for the period from 11 April 1997 to 30 April 1999. The Company suffered a loss of Rs.1.73 crore, as the differential royalty amount could not be recovered from the buyers. The loss could have been avoided had the selling price been revised in the first instance correctly.

Loss of Rs.1.73 crore incurred due to not charging correct amount of royalty on sale.

The Company stated (August 2001) that differential amount of royalty was paid as per the directive of the Government and it was not possible to recover from customer. The reply is not tenable, as royalty was not charged as per the Government directives despite clarification made by DMG, which was the reason for loss.

2A.7.3.1.3 Undue benefit of bulk discount of Rs.1.95 crore

Undue benefit of additional bulk discount of Rs.1.95 crore was given for sale already effected.

The Company introduced (March 1998) fixed rebate of Rs.30 per MT for lifting more than 40,000 MT during the financial year 1998-99. With a view to increase sales, the discount rate on bulk purchase was increased twice on 7 January 1999 and 1 March 1999, with retrospective effect from April 1998. It was noticed that there was hardly any increase in sales as the Company achieved sales of 175135 MT during the period from 7 January 1999 to 31 March 1999, which constituted 24.54 per cent of yearly sale despite substantial increase in discount.

However, it was observed that with a view to giving undue benefit to bulk consumers for sales already effected, the scheme of bulk discount was revised twice with retrospective effect. The impact of revision in rates and slabs of discount during 1998-99 was Rs.1.95 crore.

Thus, the additional bulk discount of Rs.1.95 crore as compared to original scheme was given to 13 customers of which major amount was shared by Khaitan Chemical and Industries Limited (Rs.0.68 crore) and Rama Phos Group (Rs.0.63 crore).

The Government stated (September 2001) that the scheme of bulk discount is primarily meant to maintain the loyalty of the customer with the Company and also to motivate him to buy more in the year. The reply of the Government is not tenable as increase in bulk discount was given for sales already effected and did not result in additional sales.

2A.7.3.1.4 Undue benefit of discount by inclusion of sale of subsequent year - Loss of Rs.61.49 lakh

Undue benefit of Rs.0.61 crore in the form of discount allowed to parties by inclusion of sale of subsequent year.

The Company followed the system of allowing discount on sale as per slabs during the year 1999-2000. It was noticed in audit that in case of Khaitan Chemicals & Fertilizers, the sale of April and May 2000 was included in the sale of 1999-2000 for allowing bulk discount on the plea that orders from the party was received in March 2000. Thus, undue benefit in the form of inadmissible discount of Rs.21.19 lakh was allowed. Similarly, discount of Rs.40.30 lakh was also allowed on account of short term discount applicable upto 31 March 2000 to 14 parties by including supplies made in April and May 2000. Thus, undue benefit in the form of inadmissible discount of Rs.61.49 lakh was allowed.

The Government replied (September 2001) that the customer had made the payment before 31 March 2000 and benefit of discount was extended only once. The reply of the Government is not tenable, as customer made no payment before 31 March 2000. Further loss has been worked out only with reference to the additional discount given due to inclusion of sales of next year.

2A.7.3.1.5 Purchase of single super phosphate for export without confirmed order - Loss of Rs.98.00 lakh

(a) The Board decided (December 1994) to supply rock phosphate and sulphuric acid (input) to the manufacturers for conversion into single super phosphate (SSP) (the output). The SSP thus obtained was to be exported. In violation of Board's decision, the Company signed (December 1995) a memorandum of understanding (MOU) with Agro Chem Punjab Limited (ACPL) for purchase of SSP at the rate of Rs.3145 per MT FOR, Gede (India) for export to Bangladesh without any firm order. In all the Company purchased 6765 MT of SSP during January 1996 to March 1997 and paid Rs.1.73 crore. The SSP continued to be in the godown in possession of ACPL. The Company failed to export the SSP and sold (February 1997) the same to ACPL at the rate of Rs.2600 per MT as against purchase price of Rs.3145 per MT and thereby incurred a loss of Rs.36.87 lakh. Besides, the Company suffered loss of interest of Rs.36.58 lakh (Rs.22.21 lakh on blocking of Rs.1.73 crore for a period of 18 months and Rs.14.37 lakh on account of delay in receipt of Rs.79.42 lakh from ACPL).

(b) Similarly, the Company also purchased 2195 MT of SSP at the rate of Rs.2895 per MT, FOR GEDE, India from Surya Chemical and Fertiliser Limited. The Company failed to export the SSP and sold 1799 MT to Tedco Granite Ltd. (TGPL) at the rate of Rs.2000 per MT in March 1997 and the remaining quantity of 396 MT being non-standard SSP was sold at Rs.1600 per MT to Oriental Carbon and Chemical Limited (OCCL). The TGPL also did not pay Rs.5.41 lakh as the Agriculture authorities due to defective quality as per Fertilizer Control Order seized the SSP of the said value. The Company incurred loss of Rs.19.75 lakh due to failure to export the SSP as well as accepting substandard SSP from suppliers and loss of interest of Rs.4.80 lakh on blocking of Rs.14.01 lakh for two years.

(c) Thus, there was total loss of Rs.98.00 lakh (Rs.56.62 lakh due to sale of SSP on lower value and Rs.41 lakh on account of interest loss) on purchases of SSP for export without confirmed order and in contravention of Board's decision.

The Government stated (September 2001) that export could not be made as the Bangladesh Government imposed a sudden ban on import of SSP during February 1997.

The reply of Government is not tenable as purchase of SSP was made without any confirmed export order and also could not export SSP during period of 6 to 12 months (i.e. January 1996 to December 1996), when there was no ban for export.

2A.8 Lime Stone

The Company with a view to diversify and to reduce impact of surplus labour in rock phosphate approached (November 1987) the State Government to undertake mining operation of steel grade lime stone at Sanu, in Jaisalmer district. The State Government (February 89) appointed Company as its agent for mining of steel grade limestone. The Company operated lime stone mines under agency

arrangement upto 31 March 1997 and was granted mining lease of 1008.90 hectares w.e.f. 1 April 1997. The position of sales targets, actual sales, cost, average realisation and profit/loss *etc.* for five-year period ending on 31 March 2000 are given in Annexure-14.

Due to stagnated sales realisation higher transportation cost and low utilisation of plant and machinery, Company incurred cumulative loss of Rs.10.39 crore.

It would be seen from Annexure that though the Company earned cash profit (Rs.90.58 lakh), it has incurred overall cumulative loss of Rs.10.39 crore in the activity of lime stone as its loss ranged from Rs.19.83 per tonne to Rs. 180.69 per tonne during five year period ending 31 March 2000. Despite continuous increase in sales, the Company was incurring losses due to (a) stagnation of selling price, (b) higher transportation cost, (c) low utilisation of plant & equipment and (d) investment in equipment in excess of requirement, involving higher interest and depreciation cost.

The Government stated (September 2001) that cash profit is earned from 1997-98 and efforts are being made to increase productivity so that depreciation burden can also be covered. The reply is not tenable, as there is a sharp fall even in cash profit in 1999-2000 compared to 1997-98 and 1998-99.

2A.8.1 Production performance

2A.8.1.1 Plant utilisation

The Company commissioned (March 1997) a crushing and screening plant for sizing of limestone to make it marketable. The table given below indicates the available working hours, actual working hours and utilisation percentage for three years ending 31 March 2000:

Year	Available Working Hours	Actual Working Hours	Utilisation Percentage
1997-98	2640	1819.00	68.90
1998-99	2640	1989.30	75.36
1999-2000	2640	2205.41	83.55

It would be seen that the plant had worked for 68.90, 75.36 and 83.55 *per cent* during 1997-98, 1998-99 and 1999-2000 respectively. The reasons for not running the plant to the full capacity were not analysed by the management. However, audit analysed that the plant could not run due to mechanical breakdowns of chute and bins (231.85 hours), non-feeding of Run of Mine (ROM) (889.60 hours) and power failure and other reasons (671.15 hours).

The Government stated (September 2001) that suitable action is being taken to increase the utilisation.

2A.8.1.2 Departmental v/s. Contractual

The mining, crushing and screening of steel grade limestone was undertaken on departmental as well as contractual basis. The production targets for departmental as well as contractual working were fixed on the basis of demand and capacity of the crushing and screening plant.

It was noticed in audit that actual production was always higher than budgeted incase of contractor and ranged between 117.91 to 141.90 *per cent* of budgeted

production during three years period, while departmental production was always lower than budgeted and ranged between 62.80 to 97.50 *per cent* of budgeted production during three years ending 31 March 2000. It was also observed that contribution of production by the contractor to total production was 48.94 *per cent* during three years, which indicated that greater reliance was placed on contractor instead of utilising own spare capacity to the full extent.

The variable cost of lime stone operations for departmental as well as contractor was analysed in audit. It was noticed that variable cost of lime stone operations per tonne for departmental activity was lower by 53 *per cent* than contractor's total cost, as total cost of the contractor was variable cost for the Company. Therefore, it was in the interest of the Company to fully utilize its own facilities, which were substantially under-utilized (Para 8.1.3). Thus, failure to utilise departmental facilities for production despite substantially lower variable cost resulted in extra cost of Rs.1.40 crore.

2A.8.1.3 *Excess purchases and Low utilisation of equipment and machine*

The norms for utilisation of mining equipment or machineries were fixed in the Detailed Project Report (DPR). The position of utilisation of equipment/machines as against the norms during 1995-96 to 1999-2000 were as under:

Year	Excavator		Dumpers		Dozers		Drills		Compressor	
	Nos.	Utilisation percentage	Nos.	Utilisation percentage	Nos.	Utilisation percentage	Nos.	Utilisation percentage	Nos.	Utilisation percentage
1995-96	2	6.88	6	1.25	2	7.77	2	0.07	1	89.29
1996-97	2	23.34	6	13.93	2	17.60	2	17.03	1	36.48
1997-98	2	58.55	6	39.76	2	56.20	3	39.68	2	41.65
1998-99	2	57.36	8	48.94	2	58.32	3	42.17	2	63.29
1999-2000	2	61.06	9	51.44	3	49.64	4	41.28	3	57.38

Excess investment estimated at Rs.2.29 crore in equipment and machine involved recurring cost of interest and depreciation.

The utilisation of equipment was very low in year 1995-96 and 1996-97 due to delay in installation of crushing and screening plant. The utilisation of the equipment even after commissioning of crushing and screening plant remained low. The low utilization of equipment particularly when more than 90 *per cent* of DPR capacity of production was achieved in 1998-99 indicated surplus spare capacity in equipment and machines. Purchase of two dumpers in 1998-99 and one dumper in 1999-2000 at the cost of Rs.1.92 crore was without any actual requirement and lacked justification as the existing dumpers were sufficient to handle more than 350000 tonnes fixed in DPR. Similarly, procurement of one dozer (Rs.26.51 lakh) in 1999-2000 and one drill (Rs.9.60 lakh) was also without any justification as well as in excess of requirement. Further, audit also noticed that investment in dumpers of 35 tonne capacity was against the suggestion for use of ten tonne tippers, given in DPR, for transportation of minerals from mining area to plant site. Thus, it was abundantly clear that excess investment estimated at Rs.2.29 crore in equipment and machine was made involving recurring cost of interest and depreciation every year contributing to losses in lime stone operations.

The Government stated (September 2001) that suitable action is being taken to increase the utilisation of existing dumpers but reply is silent about purchase of additional dumpers.

2A.8.1.4 *Infructuous investment in plant of Rs.1.98 crore*

2A.8.1.4.1 *Sampling system*

The buyers of limestone, i.e. Steel Plants, accept the test report of third party analyst for the sample test of finished product. It was noticed that the Company included a provision of sample test unit costing Rs.50.61 lakh in the capital cost of crushing and screening plant. The Company procured and installed sampling system (September 1996), which has not been used so far (March 2001).

It was noticed that facility of sampling system was also not used for any other purpose including internal quality control and research etc. resulting in infructuous investment of Rs.50.61 lakh.

The Company while accepting the audit observation (August 2001), stated that some parts of sampling system i.e. electric motors, conveyors etc. are being re-deployed at other places of the plant.

2A.8.1.4.2 *Diesel Generating set*

At the time of preparation of DPR, the Company approached RSEB for power supply, which assured (September 1990) to meet the demand of power by March 1992. The DPR, however, provided for DG sets as the plant site was in remote place. The Company did not consider likely delay in the completion of project and went ahead with the acquisition process by inviting tenders for purchase of three D.G. sets with total capacity of 1460 KVA (2 no. of 630 KVA and one of 200 KVA). A letter of intent (May 1993), with delivery and commissioning period of six months was placed even after knowing that physical progress of project was less than 4 *per cent* and, therefore, D.G. set would not be required urgently. The Company incurred Rs.1.47 crore on purchase, installation and commissioning of DG sets, which were commissioned in August 1995. The crushing and screening plant for which DG sets were procured was installed in September 1996 with the use of power from RSEB grid and DG sets were thus not put to use. The capacity of DG set of 1460 KVA was over estimated as the Company actually applied to RSEB for power supply of only 1000 KVA which was subsequently reduced to 600 KVA.

It was also observed that the requirement of power was estimated on higher side as the actual recorded demand was in the range of 250 to 494 KVA during the period from September 1996 to December 2000.

The DG sets were transferred to Rock phosphate project after keeping them idle for more than 41 months since commissioning of project in September 1996, where also its use was negligible (30 hours during May 2000 to March 2001). Thus, the Company made infructuous investment of Rs.1.47 crore due to its failure to review the need for DG sets in light of preparedness of RSEB to provide power as well as due to delay in the completion of the project.

Infructuous investment of Rs.1.47 crore due to failure to review the need for D.G. sets.

The Government stated (September 2001) that subsequent development invalidated the earlier estimates of the necessity of running DG sets. The reply of the Government is not tenable, as Company knew subsequent developments even before orders for DG sets were placed.

2A.8.1.4.3 Idle investment of Rs.75.50 lakh

Two dust extraction plants (Rs.36.75 lakh), 13 conveyor belt weighers (Rs.20.77 lakh) and water desalination plant (Rs.8.56 lakh) were not in use for period ranging from 2 to 5 years due to delay in commissioning or for want of repair. Similarly, a weighbridge (Rs.9.42 lakh) was in excess of requirement and remained idle. Thus, equipment/machine valuing Rs.75.50 lakh remained idle for want of commissioning or want of repair for such a long period, which indicated that these were either purchased in excess of requirement or not essential for operation of project.

The Company while accepting audit observation (August 2001) stated that efforts are being made to use these equipment.

2A.8.1.4.4 Extra minimum charges and energy charges of Rs.15.34 lakh

The Company applied (September 1992) for power connection of 1000 KVA without proper assessment of power load required for the plant. However, an assessment was made (March 1997) six months after release of power connection and the contract demand was reduced to 600 KVA in May 1997. It resulted in extra energy charges of Rs.10.17 lakh due to payment of minimum charges for excess contract demand for a period of eight month. The revised contract demand was also found in excess, as the Company never drew energy to this extent upto December 2000. The Company paid extra energy charges of Rs.5.17 lakh as actual consumption of power ranged between 411160 KWH to 62340 KWH which was lower than contract demand during May 1997 to December 1998. Thus, the Company incurred extra expenditure of Rs.15.34 lakh on electricity charges.

The Government stated (September 2001) that lower demand of electricity was due to non-utilisation of certain equipment and lower utilisation of plant.

2A.9 Green Marble

In marble mining, bigger size blocks are cut from in-situ. The bigger size blocks are further cut to bring them in marketable size. The fine blocks in standard cubical size are called fresh blocks. The fresh blocks have highest realisable value. The blocks in cubical size containing cracks are called crack block and have much lesser realisable value than fresh blocks. The stones in uneven size are called lumperts and have a negligible value, hence are considered as by-product.

The green marble project was expected to have low gestation period as compared to lime stone project, with projection of profits from the first year of operations including export earning.

It was observed that despite the advise of consultant to proceed gradually with investment, the Company decided to make a lump sum investment and invested Rs.6.53 crore in green marble project during 1994-95 to 1998-99. The commercial production commenced from January 1995.

Over looking advice of consultant to take project in gradual stages, turned projected profit of Rs.51.13 crore into loss of Rs.9.58 crore.

Thus, the advice of consultant to take project in gradual stages after establishing success of each stage with a view to minimise the risks was over looked in anticipation of earning profits of over Rs.51.13 crore in five years period. However, the Company incurred a loss of Rs.9.58 crore against anticipated profit as discussed below:

2A.9.1 Production and financial position

The position of production targets, actual productions, profit projection as per detailed feasibility report, cost, average realisation and profit/loss *etc.* from the green marble for five-year period ending 1999-2000 are given in Annexure-15.

It was observed that the budgeted production targets for the years 1996-97 and 1997-98 were fixed for production of fresh block, crack block and lumperts. Since the production of fresh blocks was not as per expectation, the Company stopped fixation of product-wise targets.

It was noticed in audit that the share of fresh block in total production was less than one *per cent* and there was no production of fresh blocks during 1997-98 and 1999-2000. The production of crack blocks ranged between 3.90 to 19.74 *per cent* while the production of lumperts (low value by-product) ranged between 79.48 to 96.10 *per cent* during 1995-96 to 1999-2000.

It would be seen from the Annexure that despite reducing targets over the period, the percentage of actual production, (mainly lumpert), to budgeted production ranged merely between 13.91 *per cent* to 26.16 *per cent* during five years period indicating that Company was not able to achieve even reduced budgeted production. The total sales also stagnated at a low level of Rs.25 lakh per year despite substantial investment of Rs.6.53 crore made in the project.

The Company incurred loss of Rs.9.58 crore as against projected profit of Rs.51.13 crore during five years ending 31 March 2000. The primary reason for loss was failure to produce fresh block (main product) and production of lumpert (by-product), which accounted for more than 90 *per cent* of total production. The Company did not fix categories of lumpert according to size, features *etc.* which would have realised more value and instead sold whole production of lumpert by auction.

The Government replied (September 2001) that the execution of project in terms of methodology of mining and capital investment was as per consultant advice. The reply is not tenable as the consultant suggested that the mining operations may be taken on contract basis to avoid capital investment till the stage for setting production of fresh blocks arises.

The other reasons contributing to the failure of project and substantial losses are discussed in succeeding paragraphs.

2A.9.1.1 Low utilisation of machines

In a marble mine the cutting machines, i.e. wire saw and chain saw, are the main machines. The machines were to be operated in 3 shifts of 5 hours each. It was noticed in audit that the Company did not operate 3 shifts on a regular basis and even during the actual shifts, the machines did not run for the estimated hours per shift. The actual working hours of machines were 17.28 to 26.55 *per cent* of standard hours available in the actual shifts operated. The substantial under utilisation of cutting machines was due to failure to mine fresh blocks.

It was also observed that besides low utilisation of cutting machines, the machines also did not perform as per norm of cutting per hour. The Company fixed norm for cutting of 30 square feet per hour, against which the actual cutting ranged from 11.53 to 18.44 Square feet per hour during five year ending 1999-2000.

The reasons for poor performance of machines were not analysed by the Company.

2A.9.1.2 Injudicious purchase of wheel loader of Rs.2.82 crore

Purchase of wheel loader for Rs.2.82 crore increased fixed expenditure by Rs.1.00 crore towards interest and depreciation.

The Company purchased a wheel loader for handling of blocks at a cost of Rs.2.82 crore in March 1997. Audit noticed that the Company was using a hired mobile crane for handling of blocks at green marble mines prior to the procurement of wheel loader. The annual cost of hiring was Rs.9.90 lakh. The purchase of equipment was not a viable proposition as low cost hired mobile cranes were available and production of blocks from green marble mines was negligible. It was noticed in audit that utilisation of wheel loader ranged between 5.02 *per cent* to 21.15 *per cent* during 1997-98 to 1999-2000. Thus the capital investment of Rs.2.82 crore was injudicious, as it involved Rs.99.96 lakh per annum as fixed expenditure towards interest (Rs.39.12 lakh) and depreciation (Rs.60.84 lakh).

The Government stated (September 2001) that the worth of the wheel loader would have been proved if we had found exportable marble. However, substantial capital investment was against the suggestion of the consultant.

2A.9.2 Avoidable payment of Rs.18.99 lakh on account of surface and dead rent

The Company incurred avoidable expenditure of Rs.18.99 lakh towards surface and dead rent between April 1996 to March 2000 as a result of non-surrender of four mining leases in which production was stopped in March 1996 due to unacceptable quality of marble.

2A.10 Gypsum

Gypsum is mainly used as setting time controller and retarder in cement industry. It is also used as soil conditioner for alkaline soil in agriculture sector. Selenite is mainly used in ceramic industries for production of plaster of paris.

2A.10.1 The production of Gypsum and selenite was undertaken on contractual basis only. The position of operational revenue, profit, sales *etc.* for the five years period ending 31 March 2000 is given in Annexure-10.2.

It would be seen from the Annexure that activity of gypsum had earned profits in all the year with cumulative profit of Rs.21.62 crore during five-year period ending 31 March 2000. Though the percentage of profit to operational revenue declined from 24.13 in 1995-96 to 18.09 in 1999-2000, the profit per tonne of sales increased from Rs.37.96 in 1995-96 to Rs.67.46 in 1999-2000. The Company has been able to increase its sales price from Rs.157.30 per MT in 1995-96 to Rs.372.80 per MT in 1999-2000. The lower sales and profit recorded during 1997-98 was due to recessionary condition prevailing in industries consuming gypsum at that time.

2A.10.2 *Production performance*

The targets for production of gypsum and selenite were fixed considering the market demand. The position of the annual targets fixed in budget and actual achievement there against is given below:

Year	Budgeted Production		Actual Production		Percentage	
	Gypsum	Selenite	Gypsum	Selenite	Gypsum	Selenite
	(In M.T.)					
1995-96	1085000	25000	900175	10714	82.96	42.86
1996-97	1180000	20000	937345	12905	79.44	64.52
1997-98	1175000	25000	750714	9419	63.89	37.68
1998-99	1175000	25000	739088	14828	62.90	59.31
1999-2000	1025000	25000	1036466	20949	101.12	83.80

It would be seen that the budgeted production targets of gypsum were achieved only in one year out of five-year period. The achievement of target during 1999-2000 was also due to reduction in budgeted production target from 11.75 lakh MT to 10.25 lakh MT. The budgeted target of selenite was not achieved in any of the five-year period.

2A.10.3 *Sales performance*

The targets of sales were fixed taking into consideration the past sales and the market demand. The table below indicates the budgeted sales targets, actual sales and their percentage for last five years ending 31 March 2000.

Year	Budgeted sales		Actual Sales		Percentage	
	Gypsum	Selenite	Gypsum	Selenite	Gypsum	Selenite
	(In lakh MT)					
1995-96	10.75	0.25	9.61	0.11	89.40	44.00
1996-97	11.80	0.20	8.37	0.13	70.93	65.00
1997-98	11.75	0.25	7.61	0.09	64.77	36.00
1998-99	11.75	0.25	7.97	0.15	67.83	60.00
1999-2000	10.25	0.25	9.90	0.21	96.59	84.00

It would be seen from the above that Company could not achieve the budgeted sales in all the years in respect of gypsum and selenite. It was observed that slackness in demand in major consumers as well as lack of marketing efforts to enlarge consumer base were the main reasons for non-achievement of targets. The closing stock of gypsum reached 72339 tonnes valued at Rs.99.50 lakh as on 31 March 2000 as against 21471 tonnes valued at Rs.6.05 lakh as on 31 March 1996 as a result of low sales.

2A.10.4 Transport contract

Gypsum was transported from various mines to Railway siding through contractors. The examination of transport contract revealed following cases of losses:

2A.10.4.1 Award of transport contract without railway siding - loss of Rs.0.21 crore

Due to extension of existing contract Company incurred avoidable extra expenditure of Rs.0.21 crore.

The Company invited offers (August 1995) for transportation of gypsum from Ballar mines to Lalgah railway siding. Though the railway siding was not allotted, the contract for transportation was awarded (February 1996) at the rate of Rs.111.11 per MT plus escalation for diesel and 5 *per cent* general escalation per year. The railway siding was allotted to the Company in October 1998 and after initial preparatory work the siding was ready for use in May 1999. The Company did not terminate the transport contract as the railway siding was not ready and instead of allowing contract to expire on completion of two years period and inviting fresh tenders when the railway siding was ready, it extended existing contract for third year with usual escalation. The effective rate of transportation worked out to Rs.151.58 per M.T. and the transportation of gypsum was got done at this rate from May 1999 to August 1999. The Company felt that the rates were high and contract was terminated in November 1999. The Company invited fresh tender (May 2000) wherein the contract was finalised at the rate of Rs.129.36 per M.T. with escalation of diesel price.

In all, 90194.80 M.T. gypsum was got transported against existing tender at the higher rate of Rs.151.58 per MT. Thus, the Company incurred avoidable extra expenditure of Rs.20.62 lakh on transportation, due to extension of existing contract for third year instead of inviting fresh tenders.

The Government replied (September 2001) that the contract was finalised and kept alive so that transportation could be started immediately. The reply is not tenable, as finalisation of fresh tenders could have been done after allotment of railway siding.

2A.11 Inventory Control

The Company has not fixed the minimum, maximum and re-orders level for stores and spares. The major stores and spare items were lying at rock phosphate and lime stone units. The consumption of stores and spares are accounted in the accounts by taking opening stock plus purchases less closing stock. Thus the shortages or excesses are booked as consumption.

It was observed that inventory holding in rock phosphate reduced from 6.93 month's in 1995-96 to 4.14 months in 1999-2000. The reduction in holding of stores and spares in terms of month's consumption was due to 39.00 *per cent* increase in consumption of stores and spares in case of rock phosphate activity.

Closing inventory includes non-moving stores and spares worth Rs.2.16 crore.

Audit further observed that the closing inventory of rock phosphate includes non-moving stores and spares worth Rs.1.98 crore of which inventory of Rs.45.16 lakh related to machineries not in use since 1995-96.

It was also observed that inventory holding in limestone also reduced from 9.71 months in 1996-97 to 7.61 months in 1999-2000. The reduction in holding of stores and spares in terms of month's consumption was due to 426.41 *per cent* increase in consumption of stores and spares in case of limestone. The closing inventory of limestone includes Rs.18.23 lakh for non-moving stores and Rs.7.05 lakh for slow moving stores items. However, the actual excess holding of inventory could not be assessed in the absence of norm for minimum level of inventory.

The Government replied (September 2001) that action to dispose of obsolete store is being taken and the obsolete stores pending for disposal would substantially decrease in future.

2A.12 Sundry Debtors

In order to promote sales, the Company allowed (October 1992) sale of rock phosphate on credit up to a maximum of 90 days against letter of credit, bank certified Hundies or other documents certified for payment by a scheduled bank. The Board of Directors liberalised the terms of credit sale and authorised (December 1993) the Managing Director of the Company to allow interest free and clean credit facility at his discretion to the buyers of Rock Phosphate and concentrate on case-to-case basis. Consequently, the sundry debtors registered a sharp increase in respect of sales relating to phosphate division. In case of Gypsum, Lime Stone and Green Marble, there was no fixed policy for credit sale. The position of sundry debtors, operational revenue and percentage of debtors for last 5 years ending on 31 March 2000 and age-wise analysis of sundry debtors as on 31 March 1996 and 31 March 2000 is given in Annexure-16.

The percentage of doubtful debtors increased from 0.31 *per cent* in 1995-96 to 4.59 *per cent* in 1999-2000 due to credit sales of rock phosphate.

It would be seen from Annexure that the sundry debtors increased to Rs.84.01 crore in 1999-2000 from 55.28 crore in 1995-96 and ranged between 31.07 *per cent* to 44.34 *per cent* of the operational revenue during last 5 years. The percentage of doubtful debtors also increased from 0.31 *per cent* in 1995-96 to 4.59 *per cent* in 1999-2000.

It would be further seen that sundry debtors for more than 3 years had increased sharply from 0.18 *per cent* 1995-96 to 18.79 *per cent* in 1999-2000 of the total debtors for the year. The doubtful debts, which were Rs.16.96 lakh in 1995-96 increased to Rs.3.86 crore in 1999-2000. It was noticed in audit that outstanding for more than three years included a sum of Rs.15.50 crore due from 12 parties to whom rock phosphate was sold on credit basis. The interest on overdues was not booked in the accounts as overdues and the amount of interest on overdues amounted to Rs.5.53 crore for the year 1996-97 alone, interest for subsequent period upto March 2000 was neither worked out nor charged to parties.

2A.13 Jaisalmer Lime stone Company - an integrated Project

A concept paper on Integrated Development of Low Silica Lime stone in Jaisalmer/Sanu belt was prepared (June 1992) by the Company with the following objectives:

- To increase the production of SMS grade Lime Stone.
- To use the chalky lime stone by establishing cement plants.
- To link Sanu with Broad Guage Railway line.
- To expand use of natural gas available in Jaisalmer by establishing a gas based power plant.

Hindustan Zinc Limited (HZL), Rajasthan State Mineral Development Corporation Limited (RSMDC) and Steel Authority of India Limited (SAIL) were to participate in the Project, which was named as Jaisalmer Lime Stone Company (JLC). The Company agreed to work as a nodal agency for the project and the expenditure incurred by the Company for the project was to be adjusted against the Share capital to be subscribed by the Company. However, the formation of JLC did not materialise and as such expenditure of Rs.76.95 lakh incurred by the Company was written off as expenditure.

It was observed that though the benefit of project was to be shared no commitment to share preliminary and development expenditure in case of failure or abandonment of project was taken from HZL, RSMDC and SAIL. Thus, the Company suffered loss of Rs.53.10 lakh being share of other participants due to non-implementation of the project.

Conclusion

The Company is involved primarily in mining of Rock Phosphate, Gypsum, Selenite, Green Marble and Steel Grade LimeStone. During the period of review, activity of Rock Phosphate excluding beneficiation plant and Gypsum were earning profits, while green marble, lime stone and beneficiation plant of rock phosphate were incurring persistent losses. The losses were due to high cost of production, inefficient working of beneficiation plant of rock phosphate, lack of transparent sales policies, injudicious purchase of mining equipment, low utilisation of machines, equipment and plants and infructuous investment in green marble project

In order to improve its operations, the Company should concentrate on adopting measures to check high cost of operations, check injudicious and excess purchase of mining and related equipment, explore new markets for rock phosphate and improve competitiveness of its other products, adopt effective and transparent sales policies, reduce level of sundry debtors and increase utilisation of mining equipment.

Chapter II B

Rajasthan State Industrial Development and Investment Corporation Limited

Investment activity

Highlights

Rajasthan State Industrial Development and Investment Corporation (RIICO) was incorporated in November 1979 as a wholly owned Government Company. To meet its objectives of promoting entrepreneurship, the Company is engaged in providing financial assistance by extending term loans and making investments in shares of companies.

(Paragraph 2B.1)

The profit of the Company declined sharply from Rs.21.29 crore during 1996-97 to Rs.2.72 crore during 1999-2000.

(Paragraph 2B.4)

The administrative cost of term loan assistance increased from 2 per cent in 1996-97 to 4.09 per cent in 1999-2000, which was abnormally high, compared to other financial institutions. It was higher than the total margin of 3.5 per cent fixed for term loan activity.

(Paragraph 2B.6.1)

The non-performing assets were Rs.133.03 crore against the total loan assets of Rs.252.34 crore as on 31 March 2000, representing 52.72 per cent of total loan assets.

(Paragraph 2B.6.2)

While the effective sanction remained stagnant between Rs.124.54 crore to Rs.128.01 crore during 1996-97 and 1999-2000, the undisbursed sanctions increased from Rs.71.25 crore to Rs.83.69 crore between this period.

(Paragraph 2B.6.3)

Due to poor recovery performance, the overdues shot up from Rs.94.51 crore in 1996-97 to Rs.199.37 crore in 1999-2000.

(Paragraph 2B.6.5)

The Company settled 43 cases under OTS involving an outstanding amount of Rs.38.68 crore, with recovery of only Rs.26.82 crore sacrificing Rs.11.86 crore during April 1995 to March 2000.

(Paragraph 2B.6.6)

As on 31 March 2000, 43 units involving outstanding dues of Rs.51.34 crore were lying unsold of which 18 units were lying unsold for more than four years against whom the outstanding amount was Rs.18.29 crore.

(Paragraph 2B.6.8)

The Company could sell 23 units against whom the outstanding were Rs.24.74 crore during the last four years up to 1999-2000 where as 17 units were sold at a deficit of Rs.6.94 crore constituting 37.23 per cent of total dues.

(Paragraph 2B.6.8)

During 1998-99 the Company allowed rebate of Rs.0.76 crore to 83 borrowers out of which 73 units neither falling under doubtful or loss category availed benefits under this scheme.

(Paragraph 2B.6.10.1)

The market value of investments in 37 listed companies of Rs.28.82 crore reduced to Rs.7.81 crore as on 31 March 2000 resulting in erosion of over 73 per cent of investment.

(Paragraph 2B.7.1)

Disinvestment of Rs.12.48 crore in 50 cases was overdue as on 31 March 2000.

(Paragraph 2B.7.1.2)

2B.1 Introduction

The Company was incorporated on 1 November 1979 as a wholly owned Government Company with the main objective of promoting entrepreneurship and to aid, assist and finance industrial undertakings, projects or enterprises in the State. To meet this objective, the Company is presently engaged in (a) investment activity by providing financial assistance to entrepreneurs by way of term loans and investment in shares of companies and (b) infrastructure development of the State by developing industrial estates for setting up industries.

2B.2 Organisational Set-up

The Company is managed by a Board of Directors (BOD) consisting of 14 Directors as on 31 March 2001. The Chairman and Managing Director is the

Chief Executive of the Company who is assisted by an Executive Director and a Financial Advisor.

Industrial Committee consisting of the Chairman and Managing Director and seven members, nominated by the Board, takes investment decisions, which are required to be placed before the BOD.

2B.3 Scope of Audit

The activities of the Company relating to disinvestments of equity shares held in assisted units were reviewed and included in the Report of the Comptroller and Auditor General of India for the year 1995-96 (Commercial). The Committee discussed the Report on Public Undertakings in 1998-99.

The present review conducted from November 2000 to March 2001 at Headquarters of the Company covers the investment activities for the four years from 1996-97 to 1999-2000. The investment activity consists of extending term loan and investing in equity shares of companies.

2B.4 Financial position and working results

Profit decreased from Rs.21.29 crore to Rs.2.72 crore in a span of four years.

The financial position and working results of the Company for the four years upto 1999-2000 are given in Annexure 17 and 18 respectively.

It would be seen from Annexure-18 that profit decreased from Rs.21.29 crore in 1996-97 to Rs.2.72 crore in 1999-2000.

The main reasons for decline in profit were:

- Higher incidence of non-performing assets (Para 2B.6.2);
- Settlement under One Time Settlement Scheme (Para 2B.6.6);
- Inadequate follow up for recovery (Para 2B.6.5);
- Reduction in margin (Para 2B.6.10.1);
- Writing off term loans;
- Implementation of recommendations of Fifth Pay Commission; and
- Failure to generate positive return on equity investment.

2B.5 Sources and utilisation of fund

The position of sources and utilisation of fund at the end of each of four years upto 1999-2000 is indicated in Annexure-20.

It would be observed from the Annexure that:

(i) The investment in core activity decreased from 56.05 *per cent* (1996-97) to 45.82 *per cent* (1999-2000) of the total funds during last four years. On the other hand, the Company utilised its resources towards loans to the State Government, Rajasthan State Electricity Board (RSEB), and deposit in Personal Deposit Account etc. which increased from 43.95 *per cent* to 54.18 *per cent* of the resources during last four years.

Utilisation of Company's resources other than its core activities increased from 43.95 *per cent* in 1996-97 to 54.18 *per cent* in 1999-2000.

(ii) Utilisation of resources for investment activity decreased from 37.21 *per cent* (1996-97) to 22.32 *per cent* (1999-2000).

(iii) The State Government imposed restriction on withdrawal of Rs.71.21 crore (March 2000) kept by the Company in non-interest bearing Personal Deposit Account (PD). As the Company operates on borrowed funds, it incurred avoidable expenditure on interest charges amounting to Rs.3.60 crore during 1996-2000 on such funds.

The Government stated (August 2001) that due to State's precarious resource position, Finance Department imposed restriction on withdrawal and out of above amount, the Government had released an amount of Rs.26.17 crore during 2000-2001, leaving the frozen amount at Rs.45.04 crore as on 31 March 2001.

(iv) The Company raised Rs.288.05 crore by issue of bonds at the interest rate of 13.15 *per cent* during November 1999 for financing specific projects run by the State Government. The cost of raising the bonds was to be borne by the State Government. Out of this, Rs.250 crore was transferred to the State Government loan account in March 2000 without identifying the infrastructure and industrial development projects to be financed. The remaining amount (Rs.38.05 crore) was deposited in the Company's interest bearing P.D. account to be used by the State Government.

Thus, the Company raised loans on behalf of the State Government to improve the Governments' ways and means position, which was ultra vires of the Memorandum of Association of the Company.

The Government stated (August 2001) that the funds were raised on behalf of the State Government on cost to cost basis for infrastructure and industrial development in the State. The reply is not tenable as it is not on record as to what infrastructure and industrial projects were executed by State agencies and end use of funds were not monitored by the Company.

2B.6 Term loan assistance

The term loan assistance includes normal term loan, corporate loan, equipment finance loan and working capital loan. The Company provides medium and long term loans for setting up new projects as well as for expansion, modernisation or

diversification with the objective of industrialisation of the State, removal of regional imbalance and generation of employment. The Industrial Committee has powers to sanction loan upto Rs.4.00 crore in each case. The BOD can sanction assistance in excess of this limit.

Out of total 376 units presently assisted, 126 units were either closed down or became sick.

The outstanding assistance under term loan as on 31 March 2000 was Rs.252.34 crore covering 376 assisted units of which 126 assisted units involving exposure of Rs.82.05 crore were either closed down or became sick. The Government attributed (August 2001) the incidence of high sickness to total failure of mini cement, edible oil and granite sectors throughout the State and also because of transition phase of globalisation and change in external environment during the previous years. However, the Company has not analysed the reasons for closure and sickness of these units at micro level to ascertain the possibility of their revival and to prevent its recurrence in future.

2B.6.1 Performance of financial activities

The performance of financial activities (excluding investment in equity) indicating interest income, financial charges and administrative expenses is given below for four year period ending 31 March 2000:

	(Rupees in lakh)			
	1996-97	1997-98	1998-99	1999-2000
Income				
Interest income	8396.15	7830.23	10710.10	10853.81
Miscellaneous income	137.93	121.29	146.74	145.25
Total	8534.08	7951.52	10856.84	10999.06
Expenditure				
Interest and Guarantee commission	4104.40	5397.91	9203.69	11180.46
Administrative expenses	446.66	675.13	908.56	1031.84
Loans & Advances written off	468.54	180.66	411.74	103.87
Total	5019.60	6253.70	10523.99	12316.17
Profit / loss	3514.48	1697.82	332.85	(-)1317.11
Percentage of interest & guarantee commission to total income	48.09	67.89	84.77	101.65
Percentage of Administrative Expenses to total income	5.23	8.49	8.37	9.38
Percentage of Administrative expenses to total loan	2.00	2.87	3.58	4.09

It would be seen from the above that the profit of Rs. 35.14 crore in 1996-97 reduced to Rs.3.33 crore in 1998-99 and turned into loss of Rs.13.17 crore in 1999-2000. The main contributing factor for decline in profit was high incidence of finance charges to total income which increased from 48 per cent to 102 per cent over a period of four years due to raising of funds by the Company for the State Government/RSEB. The administrative expenses also increased from 2.00 per cent (1996-97) to 4.09 per cent (1999-2000) of the total loans. The percentage of administrative expenses to total loan in the last two years was higher than the total margin of 3.5 per cent fixed for term loan activity. The Government stated (August 2001) that increase in percentage of administrative expenses to total income was beyond its control. However, as analysed in audit

high incidence of administrative expenses was due to lower activity in term lending.

2B.6.2 Non-performing assets

In terms of the Industrial Development Bank of India (IDBI) guidelines (26 April 1994) an asset becomes 'Non-Performing Asset' (NPA) when it ceases to generate income for an institution. An amount that remains outstanding for 30 days beyond the due date is treated as 'past due'. If interest remained past due for a period exceeding 180 days, the term loan is treated as NPA. IDBI further classified loan assets of financial institutions into four categories based on well-defined weakness viz. standard, sub-standard, doubtful and loss assets. The loan assets falling under the categories other than standard are known as non-performing assets. The analysis of non-performing assets (excluding loan to RSEB and the State Government) is presented for four years upto 1999-2000 in the table given below.

(Rupees in lakh)				
Particulars	1996-97	1997-98	1998-99	1999-00
i) Standard loan assets*	11268.40	10141.01	12155.36	11930.57
ii) Non-performing loan assets				
a) Sub-standard loan assets**	4948.27	7307.85	6678.39	2798.55
b) Doubtful loan assets***	4695.57	4670.56	4817.74	8906.82
c) Loss assets****	1450.30	1444.65	1754.49	1597.62
Total (ii)	11094.14	13423.06	13250.62	13302.99
Grand Total (i+ii)	22362.54	23564.07	25405.98	25233.56
1. Percentage of non- performing assets to total loan assets	49.61	56.96	52.16	52.72
2. Percentage of doubtful and loss assets to total loan assets	27.48	25.95	25.87	41.63

Half of the loan assets were non-performing.

It would be seen that percentage of non-performing assets to total loan assets increased from 49.61 (1996-97) to 52.72 (1999-2000), indicating alarming position of NPA requiring immediate remedial action. However, the Company has not taken effective measures to contain NPA, except introduction (November 1997) of one time settlement scheme of NPA accounts, covering less than 12.45 per cent of overdues during last four years (refer para 2B.6.6). The doubtful and loss assets increased from Rs.61.46 crore (constituting 27.48 per cent) in 1996-97 to Rs.105.04 crore constituting 41.63 per cent of total term loan as on 31.3.2000. Thus, the extent of NPA in the Company was at an alarmingly high level as compared to less than 14 per cent prevailing in IDBI and ICICI as on 31 March 2000. Moreover, since loans disbursed during a year do not become NPA in that year, after exclusion of such loans from closing balance of total

* Standard assets are one, which does not carry more than normal risk.

** Sub-standard assets are one, which has been classified as NPA for a period not exceeding two years.

*** Doubtful asset is one, which has remained NPA for a period exceeding two years.

**** Loss assets are one where the Company or its auditor has identified loss but the amount has not been written off.

loans, percentage of NPA would reach a level of 63.95 *per cent* to 71.14 *per cent* during 1996-97 to 1999-2000.

Audit further analysed that out of 70 loans (Rs.65.98 crore) sanctioned during 1996-97, 20 loan accounts (Rs.20.85 crore) representing 31.59 *per cent* became NPA within a short span of three years mainly due to defective credit appraisal and absence of adequate monitoring system as discussed in subsequent paragraphs.

The Government stated (August 2001) that the NPA position may be viewed in the light of the Company's policy of financing small/medium scale projects promoted by first generation entrepreneurs and overall impact of liberalisation and globalisation on economic conditions. However, the NPA level of 52 *per cent* is alarmingly high due to its failure to take risk exposure to prudent level in light of liberalisation and globalisation.

2B.6.3 Sanction and disbursement of loan

The loan applications received from prospective entrepreneurs are submitted to Project Clearance Committee (PCC) of the Company within a week's time for acceptance/rejection. Thereafter, detailed appraisal of the project is conducted within 60 days. On the basis of appraisal note, the loan is sanctioned/rejected after clearance from Industrial committee of the Company. After sanction of loan, the assisted unit is required to execute prescribed agreement including creation of security in favour of the Company and furnishing of guarantees. The release of first installment of loan is subject to bringing in promoter's contribution. The details of loans sanctioned and targeted and actual disbursement during the last four years up to March 2000 are given below:

Particulars	(Rupees in lakh)			
	1996-97	1997-98	1998-99	1999-00
1. Opening balance of sanctions	7597.14	7124.98	7972.23	8434.25
2. Loan sanctioned during the year	7791.18	7990.79	8992.53	9356.40
Total	15388.32	15115.77	16964.76	17790.65
3. Loan cancelled/withdrawn	2934.80	2448.51	3104.57	4989.35
4. Effective Sanctions (1+2-3)	12453.52	12667.26	13860.19	12801.30
5. Disbursement				
Target	5000.00	6000.00	6000.00	6000.00
Actual	5328.54	4695.03	5425.94	4432.46
6. Undisbursed sanction	7124.98	7972.23	8434.25	8368.84
7. Percentage of loans cancelled/ withdrawn to total sanctions	19.07	16.20	18.30	28.04
8. Percentage of undisbursed sanction to effective sanctions	57.21	62.94	60.85	65.37

**Percentage of
undisbursed loans
increased from 57.21
to 65.37 in four years.**

It would be seen that while loan sanctioned increased from Rs.77.91 crore in 1996-97 to Rs.93.56 crore in 1999-2000, the actual disbursement reduced from Rs.53.28 crore in 1996-97 to Rs.44.32 crore in 1999-2000 resulting in increase in percentage of undisbursed sanction from 57.21 in 1996-97 to 65.37 in 1999-2000. The Government stated (August 2001) that delay on the part of borrowers in complying with the conditions of disbursement resulted in lower disbursement.

Besides, the policy of the Company to charge the same rate of interest as applicable at the time of first disbursement even when there is a reduction in interest rates was also responsible for lower disbursement. However, it was observed that internal delay of the Company was also responsible for lower disbursement. The Company has not taken adequate steps, including prescribing commitment charges to address this issue.

It was also observed that the percentage of loan cancelled/withdrawn has also increased from 16.20 in 1997-98 to 28.04 in 1999-2000. The Government attributed (August 2001) the practice of borrowers applying simultaneously to number of term lending institutions and availing loans from institutions providing best terms as reason for rise in cancellation and non-availing of loans. The Government further stated that to discourage such practice, levy of service charges of 0.5 *per cent* of sanctioned amount has now been prescribed.

2B.6.3.1 Industry-wise sanction of assistance

Exposure limits for different industries and borrowers were not fixed.

In the State's Industrial Policy 1994 special emphasis was given to industries of seven sectors. Further, in the Rajasthan State Industrial Policy 1998, 11 thrust sectors for growth were identified after analysis of the State's inherent strength, growth potential of various sectors and their long-term sustainability. To keep the risk at lower level, the IDBI advised (May 1998) the Company for fixing of exposure limit for different industries and borrowers and also to diversify its exposure widely, but the Company has neither fixed the exposure limit nor tried to diversify its exposure widely. The details of industry wise sanction of term loan during the last four years ending 31 March 2000 is given in Annexure-19. It could be seen from the Annexure that 42 *per cent* of the total term loan assistance (Rs.349.31 crore) has been sanctioned to textile (31 *per cent*) and hotel industry (11 *per cent*) alone. The Company did not sanction term loan to any units in 9 of thrust sectors namely leather goods, wool products, minerals, Garments and Knitwear, Information Technology, Automobiles, Cement, Glass & Ceramics and Agro Processing. The Company amended (April 1998) its object clause to provide financial assistance to hospitals, hotels, resorts or any project related to tourism, mining activity and agro industries. However, no loan was sanctioned to mining and agro industries during 1998-1999 and 1999-2000. Thus, the Company failed to provide loans to units in many of thrust sectors identified by the State Government by encouraging entrepreneurs and sanctioning loans. The Company has not made any attempt to analyse reasons/factors for taking suitable corrective and remedial measures in future.

The Government stated (August 2001) that it is not possible to prescribe exposure limits for different industries as industrial scene of Rajasthan is dominated by industries like marble, sandstone, granite, textile, cement, edible oil etc., the performance of which remained unsatisfactory during past years. It was observed that despite unsatisfactory performance of traditional industries, neither exposure limits were prescribed nor adequate efforts were made to promote other industries.

2B.6.3.2 Deficiency in appraisal, sanction and disbursement of loans

According to the procedure laid down financial assistance is given after satisfying about the technical and economic viability of the project and credit-worthiness of the promoters. A few cases involving deficiencies in sanction/disbursement of loan as well as lack of monitoring of recovery are discussed below:

2B.6.3.2.1 Patodia Cement Limited

Patodia Cement Limited (PCL) applied (September 1995) for a term loan for adding manufacturing facilities for 100 MT cement unit in the existing plant of 30 MT capacity. The Company sanctioned (October 1995) a term loan of Rs.190 lakh to the PCL. While making appraisal of the project, the Company however, did not consider the material fact that mini cement plants installed in Rajasthan were proving unsuccessful and were facing closure (November 1993), and out of 29 cement units financed by the Company earlier, 27 units were in heavy default in payment of dues of the Company as on 31 March 1995.

Disbursement of loan to mini cement unit caused loss of Rs.2.41 crore.

Company disbursed Rs.1.66 crore up to March 1997 to PCL and the balance loan of Rs.24.45 lakh was cancelled. Even after rescheduling of loan (March 1998), the unit did not repay the loan. The Company took possession of fixed assets of PCL (March 2000) with total dues accumulating to Rs.2.98 crore (Principal: Rs.1.66 crore, Interest: Rs.1.32 crore). The Company decided (March 2001) to sell the entire unit for Rs.57.24 lakh only, the decision was under implementation (August 2001)

Thus the sanction of loan to PCL despite the failure of mini cement plants in Rajasthan, has resulted in loss of Rs.2.41 crore (Rs.298 lakh - Rs.57.24 lakh) to the Company.

The Government stated (August 2001) that the loan was sanctioned looking at the capability of promoter to run the project successfully. However, considering the fact that the entire of Rs.1.66 crore is still outstanding, despite rescheduling, proves that promoters capability was not assessed properly.

2B.6.3.2.2 Lath Steel Private Limited

Company appraised a project of Lath Steel Pvt. Limited (LSPL), Alwar for establishing a unit for manufacture of rolled twisted bars at a cost of Rs.3.32 crore to be financed by promoter contribution (Rs.1.92 crore), term loan (Rs.1.25 crore) and subsidy (Rs.15 lakh). The term loan of Rs.1.25 crore sanctioned (March 1997) by the Company was disbursed from April 1997 to February 1998. It was observed that Company did not evaluate either the financial soundness of the promoters nor their technical competence. Both the promoters lacked technical competence and had merely trading experience in Iron and Steel scrap. They also lacked financial capability as their latest combined taxable income and net worth was just Rs.1.79 lakh and Rs.2.23 lakh respectively.

Sanction of loan to promoters lacking financial soundness and technical competence.

LSPL did not pay even first installment due on 15 August 1998 and the Company's efforts (March 1999) to take possession of assets of unit failed as the unit was attached by Commercial Tax Department for their failure to pay dues of

Rs.2.41 lakh. The Company did not make any efforts to pay Rs.2.41 lakh to the Commercial Tax Department to enable itself to take possession of unit for effecting recovery of its dues of Rs.1.98 crore (including interest) as on 15 October 2000.

The Government stated (August 2001) that the income tax/net worth statements often do not reflect the financial capacity of the promoters. The reply is not tenable as these are the only authenticated document to assess the financial soundness of the promoter.

2B.6.3.2.3 Parasrampuria Polytex Limited

Parasrampuria Polytex Limited applied (October 1994) for a term loan of Rs.150 lakh for setting up a project of HDPE/PP woven sacks for cement industry at Vishvakarma Industrial Area, Jaipur at a total project cost of Rs.2.28 crore. The Company sanctioned (January 1995) a term loan of Rs.1.34 crore which was disbursed to the borrower upto February 1996 without ensuring the availability of working capital, without verifying the credit worthiness of the promoter, and accepting lower promoter contribution of 28 per cent against 40 per cent suggested by DGM (Finance). Unit started production in April 1995 but became sick due to slump in demand and non-availability of working capital. On the proposal of the borrower (January 2000), the Company settled (March 2000) the account under One Time Settlement Scheme by sacrificing an amount of Rs.29.58 lakh.

2B.6.3.2.4 Sri Pratap Polytex Pvt. Limited

A term loan of Rs.89.80 lakh was sanctioned (January 1997) to Sri Pratap Polytex Pvt. Ltd. (SPPPL) for installation of a project for manufacture of plastic films at Beawar. As per terms of sanction, the borrower was to raise entire share capital including unsecured loans amounting to Rs.85.80 lakh before seeking any disbursement of loan from Company.

Disbursement of loan without conducting pre-disbursement inspection of the site resulted in locking of Rs.0.32 crore.

The SPPPL submitted certified statement/invoices for Rs.87.00 lakh in support of expenditure incurred by them towards purchase of land, construction of building and installation of plant and machinery. It was observed that the Company without conducting the pre-disbursement inspection of the site and examining the genuineness of the documents made the first disbursement of Rs.17.96 lakh to the borrower (May 1997). On verification of a complaint from a resident of Beawar against the SPPPL (September 1997), it was found that the SPPPL had submitted forged documents and obtained the first disbursement.

The Company issued notice in October 1997 to SPPPL to pay back the entire amount within 15 days and on failure of repayment, the fixed assets of SPPPL were taken over (November 1997) which could not be disposed off so far (August 2001). Thus, disbursement of loan without site inspection resulted in locking up of Rs.31.78 lakh (Rs.17.96 lakh principal and Rs.13.82 lakh interest), recovery of which is uncertain.

The Government stated (August 2001) that it is the practice to make first disbursement of 20 per cent of sanctioned amount on the basis of certificate of

chartered accountant pending inspection of unit. However, the prescribed practice denied the opportunity to verify that promoters have brought in their full contribution before seeking first disbursement and was against the suggestion of IDBI to conduct pre-disbursement inspection in all cases.

2B.6.4 Absence of monitoring performance of assisted units

Loan agreement with the borrowers envisaged the submission of progress reports by the assisted units but the Company has neither maintained records of submission of such reports nor ensured that the units are regular in submitting the progress reports. The Company has not followed a system of constant monitoring of performance of assisted units. As a result, the Company was not able to ascertain and analyse the reasons for unit becoming sick/closed. Audit however, observed that the high percentages of sick/closed units were mainly due to deficiencies in project appraisal and disbursement (para 2B.6.3.2) and lack of recovery monitoring (para 2B.6.5.1).

The Government stated (August 2001) that performance of assisted units is monitored by inspection of the unit and thorough analysis of annual report of the unit. However, inspection was not taken up regularly and the Company maintains no records relating to receipts and analysis of annual reports.

2B.6.4.1 Nominee Directors

With a view to safeguard the interest of the Company, and to monitor the progress of the assisted unit, the loan agreement executed with the borrowers empowers the Company to appoint at least one nominee director on the Board of the assisted unit. The Company had appointed 86 official nominees and 27 non-official nominees on the board of 279 assisted units as on 31 March 1997. In April 1998, Company decided not to appoint nominee directors on the board of assisted unit where the financial assistance provided by the Company is less than Rs.50 lakh.

There was no mechanism to monitor whether the nominated directors attended Board meetings and submitted reports thereof. In the absence of such records, Company failed to safeguard its interest in the assisted units by not taking correct recovery steps at appropriate time. The Government stated (August 2001) that the assisted companies neither filed the return of appointment of nominee directors with Registrar of Companies nor intimated the holding of meetings or intimated at the last stage, making it difficult for the nominee directors to attend the meeting. Thus, the appointment of nominee directors became ineffective.

Instead of making the system effective, the Company decided (January 2001) to withdraw all the nominee directors from the board of assisted units except 7 joint sector /big units, and not to appoint nominee directors in future. Thus by taking injudicious decision to withdraw the nominee directors, the Company lost the opportunity to have regular feedback on the financial position of the assisted units.

2B.6.5 Recovery performance

The position of arrears of loans including interest due for repayment and target and actual recovery for the four-year period from 1996-97 to 1999-2000 is given in Annexure-21.

Target fixed for recovery was brought down to a low level of 25.20 per cent of net recoverable amount in 1999-2000.

The target for recovery from old dues and current dues has not been fixed separately. The target for recovery as percentage of net recoverable has been progressively fixed lower over the years and was brought down to the level of 25.20 per cent in 1999-2000 from 39.13 per cent in 1996-97. Thus, instead of taking effective steps for speeding up recoveries from old as well as current dues and fixing progressively higher recovery target, the Company continuously fixed lower targets for recovery without any justification. The Government stated (August 2001) that approximately Rs.168.00 crore was blocked in various units registered with BIFR/AAIFR/taken over units/under winding up etc. and Rs.78.40 crore was recovered from balance of Rs.110 crore during 1999-2000.

The declining effectiveness in recovery performance has led to overdues shooting up to Rs.199.37 crore in 1999-2000 from Rs.94.51 crore in 1996-97, despite the introduction of One Time Settlement scheme in November 1997. Apart from deficiencies in sanction and disbursement (Para 2B.6.3.2) and absence of monitoring performance of assisted units (Para 2B.6.4) the reasons as analysed in audit for poor recovery performance are discussed in the succeeding paragraphs.

2B.6.5.1 Inadequate follow up of recovery

Terms and conditions of loan envisaged that both during construction and operation period of the project, the borrower would submit progress report on physical and financial progress of the project in the form and at such interval as may be decided by the Company. In addition, the Company has a right to carry out periodical inspections of the factory and books of the borrower.

Audit however, observed that the Company has neither prescribed periodicity of progress report and inspection of unit nor maintained records for monitoring the submission of progress reports. Though inspection of units during implementation was carried out regularly as a pre-disbursement procedure, inspection during post implementation was not taken up regularly even in cases of units under heavy default. IDBI suggested (May 1998) a quarterly report of inspections along with major findings to the Board, which was not implemented. It was further observed that Company has not taken timely action for recovery of dues as may be seen from the cases discussed under para 2B.6.7.

2B.6.6 One Time Settlement (OTS) of dues

Upto November 1997, cases of old dues were being settled by the BOD on the basis of merits of each case as OTS. The Company however, introduced (November 1997) OTS scheme for speedy recovery of old dues from entrepreneurs. The scheme provided for settlement of dues of Doubtful A,*

* The asset which remains NPA for a period from 2 to 3 years is classified as Doubtful 'A' and the asset remains NPA for more than 3 years is classified as Doubtful 'B'

Doubtful B* and Loss assets by granting relief in interest rates by following a slab system. The BOD also constituted (February 1998) Empowered Settlement Committee at the field level, Head Office level and the State level with a view to redress the grievances of entrepreneurs and decide each case on merit. These committees were empowered to settle cases having financing implication upto Rs.2 lakh, Rs.20 lakh and above 20 lakh respectively. The scheme, which was initially opened up to 21 March 1998, was extended upto 30 March 1999. Thereafter, loan accounts were settled on case to case basis.

A relief of Rs.11.86 crore was allowed under OTS against dues of Rs.38.68 crore.

From April 1995 to March 2000, Company settled 43 cases, under OTS involving an outstanding amount of Rs.38.68 crore (Principal: Rs.25.26 crore, interest: Rs.12.35 crore and liquidated damages: Rs.1.07 crore) with recovery of only Rs.26.82 crore sacrificing Rs.11.86 crore. Further, the coverage of dues in OTS ranged between 4.10 *per cent* and 12.45 *per cent* during the above period.

The following irregularities and weaknesses were noticed in the scheme as well as in its implementation:

(a) Board of Directors while approving OTS scheme provided (November 1997 and February 1998) that benefit of OTS would not be extended to standard account. Nonetheless 2 cases of standard account were settled involving sacrifice of Rs.14.91 lakh comprising of principal (Rs.0.40 lakh) and interest (Rs.14.51 lakh).

(b) There was an outstanding of Rs.14.45 crore against 32 units categorised as loss assets as on 31 March 1998, out of which, not a single loanee opted for settlement of overdues during the last 2 years and no recovery of overdues were made from these units.

(c) In 22 out of the 25 cases settled during 1998-99 and 1999-2000, market realisable value (MRV) of mortgaged assets was Rs.39.96 crore against outstanding amount of Rs.22.84 crore. Thus, despite availability of sufficient enforceable collateral security, the Company settled the cases by sacrificing an amount of Rs.7.63 crore and recovered only Rs.15.21 crore. Further, only 4 cases with outstanding of Rs.2.72 crore was categorized as doubtful A and doubtful B category and remaining cases related to substandard category which was not covered by the scheme.

(d) The scheme provided for 1.5 *per cent* and 3.00 *per cent* relief in interest rates from the date of disbursement of loan rather than from the date of default. The 89 *per cent* increase in doubtful assets from Rs.46.96 crore as on 31 March 97 to Rs.89.07 crore as on 31 March 2000 clearly demonstrated that the scheme has prompted borrowers to continue default to avail concessional interest under OTS Scheme.

(e) The Company sacrificed principal amount of Rs.1.17 crore in settlement of 15 cases under the scheme, while the intention of scheme was to settle old dues account by granting relief in interest rates only and not by granting relief in principal amount.

(f) Despite sacrificing Rs.11.86 crore under OTS, the recovery percentage to net recoverable has fallen to 28.22 *per cent* in 1999-2000 from 37.83 *per cent* in 1997-98, which proves that the scheme instead of improving recovery of dues, has encouraged defaulters.

The Government stated (August 2001) that all cases have been settled by the competent authority and Committee/BOD was empowered to settle cases irrespective of categorisation of the assets, including waiver of principal.

A few individual cases settled under OTS as noticed in audit are summarised in Annexure-22.

2B.6.7 Possession of units

Section 29 of the SFC* Act, 1951 empowers the Company to acquire possession of the assisted unit and dispose off the same to recover its dues in case the unit fails to repay the dues. The age-wise position of overdues, units under BIFR/Winding up, units under possession and units closed as on 31 March 2000 is given below:

(Rupees in lakh)

Period of default	Total Overdues		Units under BIFR/Winding up		Units closed		Units under Possession	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 6 Months	13	759.16	--	--	--	--	--	--
6 Months to 30 Months	51	1301.28	03	62.10	10	386.71	--	--
30 Months to 42 Months	73	5699.99	10	1064.67	27	2492.52	--	--
More than 42 Months	88	12176.12	18	3187.34	15	2155.58	43	4151.68
Total	225	19936.55	31	4314.11	52	5034.81	43	4151.68

Substantial delay in taking possession of units caused shooting up of overdues by 112 *per cent* during the four-year period.

From the table it would be seen that out of the 161 units which were in default for more than 30 months with overdues of Rs.178.76 crore, only 43 units with overdues of Rs.41.52 crore (23 *per cent* of overdues of Rs.178.76 crore) were taken in possession. The Government stated (August 2001) that Company initially accommodates the payment irregularities committed by the promoters in the overall interest and prospects of the project and action for taking possession of the units is resorted to only after exhausting all available remedies including efforts for revival. It was observed that pace of action in exhausting available remedies was very slow and delay in taking possession of assets of units jeopardise the chances of recovery as the value of assets decline over a period of time and outstanding increases with on account of interest. Despite this, there was either substantial delay in taking over the possession of units or units had not been taken over leaving scope for promoters to take away the mortgaged assets. It was observed that Company has also not prescribed any guidelines regarding time frame of default after which possession of assets of unit should be taken.

Thus, the Company had not taken effective steps for recovery of dues, which resulted in accumulation of dues of Rs.199.37 crore as on 31 March 2000. Few

* State Financial Corporation

cases involving substantial delay in taking over possession of units are discussed below:

2B.6.7.1 Janki Foam (India) Private Limited

A term loan of Rs.1.07 crore was sanctioned to Janki Foam (India) Ltd. (JFIL) in March 1994 for setting up a project for manufacture of rubberised coir mattresses at Industrial Area, Bindayaka, Jaipur. The commercial production was started by JFIL in August 1996 after a delay of 15 months from the scheduled date.

JFIL was defaulter right from beginning and there was no response to the legal notice issued (February 1997). The Managing Director decided (March 1997) to take over the assets. However, on receipt of interest amount of Rs.9.45 lakh in March 1997, Chief General Manager (B) without the consent of Managing Director rescheduled the loan.

Managing Director's order to take over the assets of the unit was not complied with by the company officers.

As default of JFIL continued, the Managing Director again ordered (January 1998/February 1999) to takeover the assets, but no action was taken by Company officers. The Government stated (August 2001) that orders for taking over assets were taken in the file with the intention of pressing the borrower to clear dues. It was observed that the offer (6 times) of JFIL and counter offer of Company (3 times) involving substantial financial sacrifice under OTS was being exchanged without any settlement. OTS was finally rejected in February 2001.

The JFIL is still under continuous default and total outstanding increased to Rs.2.21 crore as on 15 October 2000. The Company decided (May 2001) to take over the possession of the units after a period of more than six years since commencement of default and more than four year after the initial decision to take over assets in March 1997. Thus due to passage of time recovery of the outstanding of Rs.2.21 crore, has become doubtful.

2B.6.7.2 HMG Granites (India) Private Limited

A term loan of Rs.1.15 crore was sanctioned (March 1994) to HMG Granite (India) Private Limited (HMGG) for manufacture of polished granite slabs at Rajsamand. HMGG defaulted in payment of dues since beginning, despite which Company neither issued legal notice nor visited the unit upto January 1997.

The Company rescheduled the loan and interest payment in March 1997. As default continued another rescheduling was done in March 1998 on receipt of token amount of Rs. 1 lakh against interest overdue of Rs.50.25 lakh. The default continued even after second rescheduling and legal notice was issued in March 1999 recalling entire outstanding of Rs.1.92 crore. The unit having fixed assets of Rs.1.77 crore (net) was taken over in May 2000 when the outstanding rose to Rs.2.54 crore after delay of more than 55 months from date of default. The unit was offered (December 2000) for auction, however, no offer was received.

The Government stated (August 2001) that delay in taking possession was due to reference of unit to BIFR. However, the delay on account of reference to BIFR was only 12 months. Thus due to delay in taking over the possession of defaulted unit, the recovery of entire amount has become doubtful.

2B.6.7.3 *Movni Extractions Private Limited*

Movni Extractions Private Limited (MEPL) was sanctioned (May 1991) term loan of Rs.90 lakh for setting up solvent extraction plant at Udaipur. MEPL was defaulter since beginning and had not been making payment of dues even after commitment to repay dues (January 1994).

Company issued legal notice in September 1995 i.e. 33 months after the date of default, asking MEPL to deposit the entire outstanding of Rs.1.40 crore within 15 days. However, on receipt of nominal amount of Rs.3.00 lakh, the Company withdrew the legal notice and rescheduled (March 1996) the principal and converted the overdues interest into principal. After payment of Rs.9.80 lakh only during 1996-97, MEPL stopped making payment since March 1997. The Company failed to take timely action for taking possession of unit which was registered with Board of Industrial and Financial Reconstruction (BIFR) in October 1997. The nominee director of the Company also never attended the board meeting of MEPL.

BIFR finally decided (June 2000) to wind up the MEPL, which is under process. Thus due to delay in taking possession of the unit, recovery of dues of Rs.3.13 crore (July 2000) has become doubtful.

2B.6.8 *Sale of units*

The number of units taken in possession and number of units sold during last four years upto 1999-2000 are given below:

Year	Opening balance		Units taken over during the year		Units sold		Sold in deficit		Percentage of No. of units sold
	No.	Dues (Rs. in lakh)	No.	Dues (Rs. in lakh)	No.	Dues (Rs. in lakh)	No.	Amount (Rs. in lakh)	
1996-97	27	2660.43	8	888.62	6	411.29	4	91.78	17
1997-98	29	3137.76	15	1705.08	4	526.02	4	158.44	9
1998-99	40	4316.82	4	530.71	10	1344.92	7	380.49	23
1999-2000	34	3502.61	12	1823.40	3	191.54	2	62.81	7
			39	4947.81	23	2473.77	17	693.52	

It would be seen from above that except during 1996-97 and 1998-99 the disposal of units has been dismally low as compared to total number of units under possession.

Due to slow pace of disposal 18 units were lying unsold for more than four years.

43 units involving outstanding amount of Rs.51.34 crore were lying unsold as on 31 March 2000, of which 18 units involving outstanding amount of Rs.18.29 crore were lying unsold for more than four years. Five units involving outstanding of Rs.3.05 crore remained unsold for more than 10 years.

It was observed that delay in taking possession of defaulted units (Para 2B.6.7) and disposal of assets contributed to decline in the realisable value of assets. The Company attributed, non-receipt of offer/suitable offer even after repeated advertisement as the reason for delay in disposal. However, the Company has not taken remedial measures i.e. revaluation of assets, hiring the services of commission agent to speed up the disposal of assets. The Government stated (August 2001) that hiring of commission agent was not found practical.

2B.6.9 Filing of recovery petition

Under section 31 of the SFC Act, 1951, Company can enforce the liability of the guarantors for recovery of dues from assisted unit even without taking action under section 29 of the Act i.e. taking possession of the mortgaged assets and its sale. However, Company generally files the petitions in the various courts against the promoter /guarantors only after sale of the mortgaged assets of the assisted unit for recovery of shortfall amount.

Out of 21 cases of recovery petitions filed in the Court, property details of guarantor in 14 cases were not available.

In respect of units sold upto March 1996, the Company filed 21 miscellaneous petitions involving outstanding amount of Rs.7.85 crore during the period from January 1991 to November 1999 under section 31 of SFC Act, 1951 for invoking the personal guarantees of the promoters for recovery of dues. It was observed that there was substantial delay in filing the petition and petition in 13 cases were filed with delay of more than 2 years. It was further observed that in 14 cases, the property details of guarantor were not obtained while sanctioning loan. As a result, in 4 cases decrees of court obtained during the period from September 1999 to August 2000 for Rs.81.89 lakh could not be executed for want of property details.

It was also observed from the table given in the preceding paragraph that out of 23 units involving dues of Rs.24.74 crore sold during the last four years upto 1999-2000, 17 units (dues Rs.18.62 crore) were sold at a deficit of Rs.6.94 crore which constitute 37.23 per cent of total dues. However, recovery application under section 31 of the SFC Act, had been filed in one case (Rs.9.07 lakh) only. The Government stated (August 2001) that collection of information for filing recovery petition requires considerable time. However, the Company has not prescribed any timeframe for filing petitions for recovery of deficit amount.

2B.6.9.1 Rejection of recovery applications

The Company filed (September 1992) three recovery applications under section 31 of the SFC Act in the Court of Additional District Judge No.2, Jaipur for recovery of shortfall amount from the promoter/guarantor of the following three borrowers:

- | | | | |
|-------|--------------------------|---|----------------|
| (i) | Rajasthan Oil Industries | : | Rs.16.84 lakh |
| (ii) | Fancy Stone India | : | Rs.14.99 lakh |
| (iii) | Advance Paper Mills | : | Rs.110.41 lakh |

Three petitions for recovery of Rs.1.42 crore were rejected by the Court due to not attending Court hearing by company Advocate / Officer.

Three officers of the Company were appointed as Officer in-charge of these cases for attending the court proceedings and for liaising with advocates. On the date of hearing on 30 March 1998, neither the advocate nor the Officer in-charge attended the court. As a result, the court rejected all the three applications.

The Company filed revision application in Rajasthan High Court in May 1998 against the order of Additional District Judge (ADJ) Court. In case of Rajasthan Oil Industries, the High Court restored (September 2000) the case and the remaining two cases were yet to be decided.

The Government stated (August 2001) that the cases have been withdrawn from the defaulter advocate. However, no action has been taken against the officers in charge who were responsible for liaison with advocate. Thus, due to carelessness on the part of the Officer in- charge of the cases, recovery has been delayed considerably.

2B.6.10 Risk Management

Risk is an inherent part of Company's business and effective risk management is critical to the achievement of financial soundness and profitability. Further twin forces of liberalisation of economy and advancement of technology have increased the degree of competition in the Indian financial sector to unprecedented level, exposing Company to increased risk.

The Company is primarily exposed to credit risk¹, market risk² and operational risk³. The Company has not designed any effective policies and procedures to identify, assess and monitor these risks with a view to achieve financial soundness and profitability. The Company has also not fixed any prudent exposure norms against each industry as well as each firm with a view to diversify its risk (Para 2B.6.3.1).

Abysmally high level of NPA indicated that the Company failed to evolve prudent system of addressing its most significant risk i.e. credit risk. The Government stated (August 2001) that the Company came out with one time settlement scheme and interest rate reduction scheme etc. However, these schemes were meant to remedy the existing problem and were not part of risk management.

2B.6.10.1 Rebate

The Board in its meeting held in February 1998 decided that a rebate of 2 per cent on quarterly basis might be offered to all the borrowers who deposit the dues by the due date. The Board hoped that such a scheme would effectively attract new business and also improve the recovery from sticky accounts. The decision was taken without analysis of its impact on risk profile as well as whether expectation of such decision would be met. Company further decided (December 1998) to increase rebate to 3 per cent where rate of interest @ 20.5 per cent or above was charged.

It was observed in audit that during the year 1998-99, Company allowed the rebate of Rs.75.68 lakh to 83 borrowers out of which 73 units were good borrowers and none of the borrower falling under doubtful or loss category availed benefit under this scheme. It did not also attract new business, as loan applications received in 1998-99 were less as compared to 1997-98. Thus by introducing this scheme, neither the position of receipts of new business improved nor the NPA/Sticky accounts were reduced. Even after the ineffectiveness of the

Rebate on interest rate amounting to Rs.2.43 crore was allowed to attract new business and to improve recovery from sticky accounts, which were not achieved.

¹ Risk that a counter party will fail to deliver or pay in full on due dates or go bankrupt or go under liquidation.

² Risk arising from market price fluctuations or volatility of assets i.e. interest, currencies, securities, portfolio, commodities etc.

³ Risk of loss due to clerical errors, organizational deficiency, delays, frauds, system failure, mis-performance or non performance by the third party etc.

scheme, the Company continued to allow rebate to good borrowers who had already been paying the dues in time. During the year 1999-2000, Company allowed a rebate of Rs.1.68 crore.

Thus, instead of addressing basic issues of improving system of appraisal including sanction and disbursement, system of monitoring recovery and adopting effective risk management policies, the Company adopted adhoc policies of appeasing all borrowers.

2B.7 Equity investment

Company participates in the equity with the following objectives:

- (i) to enable new entrepreneurs who are not able to mobilise the required equity capital for the project at the initial stage ;
- (ii) to attract the successful and reputed groups of companies to set up industries in the state;
- (iii) to stimulate the capital market; and
- (iv) to promote joint venture in areas prohibited for private sector or otherwise not considered attractive by entrepreneurs ordinarily.

Company extended (October 1994) the coverage of the scheme to equity participation under institutional quota of public issue of good companies with a view to earn good return.

Company participates in the share capital of the Companies in three ways – viz. (i) promoting joint venture by subscribing to equity of not less than 26 *per cent* and thereby obtaining management control, (ii) assisting unit by subscribing to equity of around 10 *per cent* of the unit and (iii) under institutional quota of public issue of good companies at premium /par value.

The equities can be further classified in to buy-back shares and non-buy-back shares. Under the former promoter undertakes to buy the shares purchased by Company within a specified period (generally 3 to 7 years) at a price arrived at by compounding the cost price of the shares at a specified rate of interest, less dividend received, if any. In respect of non-buy-back shares acquired under institutional quota Company is free to disinvest just after their listing on Stock Exchange and in case of other shares, after the lock-in-period. Company doesn't have any policy for guiding the flow of their equity investments between buy-back (BB) and non-buy-back (NBB) shares. The Government admitted (August 2001) that as stock market scenario changes very fast, no written policy for equity investment had been framed.

2B.7.1 Performance of Equity investment

The analysis of equity portfolio (excluding investment under institutional quota) as on 31 March 2000 is given in the table below which indicates that erosion in the value of investment was more than 50 per cent (Rs.19.76 crore).

(Rupees in lakh)						
		No. of companies	Cost price	Buy-back	Non-buy-back	Market/Book value
1.	Share of companies performing satisfactory					
	Listed	22	2009.08	440.67	1568.41	734.36
	Non-listed	10	482.01	367.65	114.36	1071.74
	Total		2491.09	808.32	1682.77	1806.10
2.	Share of companies under rehabilitation/ winding up					
	Listed	15	872.70	518.88	353.82	46.55
	Non-listed	30	468.45	299.43	169.02	3.62
	Total		1341.15			50.17
3.	Shares of companies/ project under implementation					
		1	50.00	50.00	-	50.00
	Total	78	3882.24	1676.63	2205.61	1906.27

It would be seen from above that:

(i) Company had invested Rs.13.41 crore representing 34.55 per cent of total equities, in 45 companies which were under rehabilitation/winding up.

(ii) The market value of investment in 37 listed companies of Rs.28.82 crore was Rs.7.81 crore as on 31 March 2000 indicating erosion of value over 73 per cent.

The Government admitted (August 2001) that stock market is very much volatile and erratic and market value as on 31 March 2001 was lower.

It was further observed that the total cost of equities whose buy-back period was over, amounting to Rs.11.64 crore as on 31 March 2000 had not been disinvested. It represented 29.98 per cent of total cost of equity. Audit scrutiny of equity investments revealed the following:

2B.7.1.1 Market investment/Investment under institutional quota

The Company decided (October 1994) to subscribe to the shares of public issues of good companies under institutional quota with a view to earn return which is at least double the rate of interest (27.14 to 34.38 per cent per annum). Upto 31 March 2000, the Company invested Rs.2.78 crore in shares of 15 companies under institutional quota, the market value of which as on 31 March 2000 was only Rs.1.58 crore.

Besides erosion in market value, the return on investment was Rs.31.95 lakh during 1995-96 to 1999-2000, which worked to less than one per cent in all years except in 1999-2000.

Against the expected return of more than 27 per cent on equity investment the Company earned return of less than one per cent.

Moreover, anticipating return of at least double the rate of interest was speculative in nature and was not in line with the main objective of industrial development of the State.

A test check of records relating to investment under institutional quota revealed the following deficiencies and irregularities:

2B.7.1.1.1 BMB Music & Magnetics Limited

The Company invested (December 1995) Rs.49.98 lakh in 1,42,800 equity shares of Rs.10 each at a premium of Rs.25 per share in BMB Music & Magnetics Limited (BMBMM) a new company under buy-back arrangement for which BMBMM pledged 428400 shares with the Company as security.

The disinvestment committee of the Company decided (February 1996) to ask promoter (Sh. K.C. Bokadia) to buy-back shares within one month from the date of allotment of shares. The committee also decided to offload shares in the market in case promoter failed to buy-back the shares. The promoter showed (March 1996) unwillingness to buy-back the share.

The proposal of disinvestment committee and Manager (Finance) (March 1996) to sell the shares in open market, when the market price was ruling at Rs.38 per share was turned down by the Managing Director. Thereafter the Company did not monitor the price behavior of the shares for off loading them in the open market. It was observed in audit that share price of BMBMM was ruling in the range of Rs.18.65 to Rs.23.35 during April 2000 to May 2000 giving opportunity to the Company to off load it's holding including pledged shares to realise its dues. The shares have not been offloaded so far (August 2001). The shares of the BMBMM are now not actively traded in any stock exchange.

Thus, due to injudicious purchase of shares at a premium in a new Company and not off loading the shares in open market at an appropriate time the Company blocked up Rs.49.98 lakh in dead investment for more than 5 years (August 2001).

2B.7.1.1.2 Industrial Development Bank of India

Without appraising the issue, particularly the justification of high premium of Rs.120 per share, Company applied (July 1995) for 38,400 shares of IDBI, against which 34,200 shares were allotted (September 1995) for Rs.44.46 lakh.

The shares of IDBI were listed in stock exchange at Rs.109 per share on 30 March 1996, which continued to decline and was quoted at Rs.18.60 per share (9 August 2001). The Company did not sell the shares at appropriate time to minimise the loss in view of declining performance of IDBI, as it was a practice not to sell the shares below the acquisition cost.

Thus, due to investment in shares of IDBI at a high premium and not selling them at appropriate time, Company suffered loss of interest of Rs.30.39 lakh (after deduction of dividend) besides decline in the value of investment by Rs.34.29 lakh.

Investment in shares without making appraisal resulted in decline in value of investment by Rs.0.34 crore.

2B.7.1.1.3 Other investment under institutional quota

The Company made investment in equity of other 5 units amounting to Rs.97.75 lakh during the period March 1995 to July 1995. It was observed that in all the five cases, the shares were not quoted in stock exchange. Further 4 units are sick or closed and only one unit was working.

The Government stated (August 2001) that Company is keeping close watch on price behavior of the shares and would attempt to disinvest the equity as soon as the price rises to a reasonable level.

2B.7.1.2 Buy-back disinvestment

Table below summaries amount of equity due for buy-back and the equity actually disinvested during the last four years upto 1999-2000.

(Rupees in lakh)

Year	Equity due for buy-back		Disinvestment of equity		Percentage actual	Disinvestment overdue	
	No. of units	Amount	No. of units	Amount		No.	Amount
1996-97	50	920.13	4	43.00	4.67	46	877.13
1997-98	51	1047.73	2	12.79	1.22	49	1034.94
1998-99	57	1527.53	4	47.75	3.13	53	1479.78
1999-00	55	1722.79	5	475.18	27.58	50	1247.61

It could be seen that the number of cases in which disinvestment was made ranged between 2 to 5 out of more than 50 cases due for buy-back in all the four years. Poor performance of disinvestment inspite of buy-back agreement with respective promoters was attributed to the following reasons:-

- (i) Non-availability of whereabouts of promoters and details of their personal properties.
- (ii) Absence of any sort of guarantee/security with Company in case of non-honouring of commitments by promoters, and
- (iii) Industrial recession and sluggish capital market conditions.

Audit noticed that in 14 cases, Company had filed applications with concerned District Collector for recovery of equity amount of Rs.1.64 crore under Public Debt Recovery Act. In all cases, the concerned collector had asked for providing the details of personal properties of the promoter. However, the Company could not provide the requisite details as it failed to obtain such details from the promoters at the time of executing the buy-back agreement. As a result, the Company has already written off the equity of Rs.32.97 lakh in six cases during 1995-96 to 1998-99.

It was also observed that the Company failed to avail opportunity to disinvest shares under buy-back agreement at appropriate time as discussed below:

2B.7.1.2.1 Banswara Textile Mills

Company provided equity assistance of Rs.11.20 lakh to Banswara Textile Mills (BTM) in September 1980 on buy-back basis.

Rejection of buyback offer of Rs.0.16 crore caused loss of Rs.0.19 crore.

Promoter bought back the first lot of equity of Rs.3.20 lakh as per agreement but the second and third lot of equity of Rs.8 lakh which became due for buy-back in September 1983/1985 were not bought back. BTM became sick and registered with BIFR in 1987. After rehabilitation, the performance of BTM improved and BTM offered (June 1997) to buy-back its equity at Rs.16 lakh as against outstanding amount of Rs.66.76 lakh under buy-back which was not accepted by the Company considering the involvement of huge sacrifice of Rs.50.76 lakh

However, the claims were settled (July 1999) for Rs.12 lakh only against the outstanding recoverable amount of Rs.81.44 lakh as on 30 September 1998, without recording any reason, resulting in loss of Rs.69.44 lakh.

Thus, rejection of the buy-back offer of Rs.16 lakh lacked justification and resulted in avoidable loss of Rs.18.68 lakh (Rs.69.44 lakh - Rs.50.76 lakh).

2B.7.1.3 Market disinvestment (Non-buy-back)

The details of investment and disinvestment of equity holding under non-buy-back scheme for the four year period ending 31 March 2000 are given in the table below:

Investment and Disinvestment of equity under non-buy-back						
Year	Opening balance	Investment	Total	Market Disinvestment	Closing balance	Percentage of disinvestment to total investment
(Rupees in lakh)						
1996-97	2399.44	23.15	2422.59	42.90	2379.69	1.77
1997-98	2379.69	4.45	2384.14	4.70	2379.44	0.20
1998-99	2379.44	14.30	2393.74	9.65	2384.09	0.40
1999-2000	2384.09	37.63	2421.72	67.24	2354.48	2.78

Disinvestment of equity under non-buy-back was below 3 per cent in all four years ending 1999-2000.

It would be seen that percentage of disinvestment to total investment was below 3 per cent in all four years ending 1999-2000. This indicated total lack of efforts to make disinvestment at appropriate time with a view to earn profits as well as roll over investment with new investments. Slow pace of disinvestment restricted the Company's ability to finance new cases of equity assistance. Equity portfolio largely stagnated between Rs.23.54 crore to Rs.23.84 crore over the four years and a sum of Rs.79.53 lakh was only invested during this period ending 31 March 2000. The Government stated (August 2001) that shares could not be disinvested in anticipation of rise in the share price in future. The value of investment reduced by more than 56 per cent from Rs.23.54 crore to Rs.10.37 crore as on 31 March 2000. This was due to the absence of effective monitoring of performance of its investment in changing environment, lack of guidelines for disinvestment and practice of not selling investment below acquisition cost even if wrong investment decision was made.

A few cases of lost opportunities of disinvestment and related issue revealed during test check in audit are discussed below:

2B.7.1.3.1 Excessive exposure in investment of shares of J.K. Industries

It was observed that 38.49 percentage of total investment under non-buy-back was made in J.K. Industries comprising of 1050000 shares @ Rs.86.25 per share costing Rs.9.06 crore during 1989 and 1993. Despite carrying substantial risk on

such a large exposure in one firm, the Company was not able to disinvest its share during the period of more than 10 years, as it is the practice of Company not to disinvest shares below the acquisition cost. The market value of investment has declined by Rs.7.06 crore (cost Rs.9.06 crore-market value Rs.2.00 crore) eroding the same by more than 77 per cent.

It was observed that the Company has not prescribed any norms for under taking exposure in any one firm under non-buy-back investment.

2B.7.1.3.2 Modern Threads India Limited

Company invested Rs.25.30 lakh in 2.53 lakh equity share of Modern Thread India Limited (MTIL) in 1981 on non-buy-back basis. Companies also invested in 181200 shares against the rights issue in 1995 at Rs.40 each making the total investment to Rs.97.78 lakh in 434200 shares at the average acquisition price of Rs.22.52 each. The Company sold 181200 shares subscribed in the right issue in 1995 at the average price of Rs.76.78 per share during March 1996 to January 1997 while decision to disinvest 253000 shares subscribed during 1981 could not be taken as the shares were not available in marketable lot. After 253000 shares were available in marketable lot in January 1997, the disinvestments committee in February 1997 decided to off load the same at prevailing price subject to the price being not less than Rs.51 per share. Against this, the Company sold only 8100 shares during the period of more than 45 days upto 18 March 1997 at the prevailing market price of Rs.55 to Rs.51 per share. Further disinvestment was not done even though the prevailing price of share upto 25 June 1997 (Rs.50 to Rs.22.50 per share) was more than the acquisition price. The meeting of disinvestment committee was held on 7 May 1997 (i.e. after 50 days from 18.3.1997), when the price had fallen to Rs.35 per share and it was decided not to sale shares at Rs.35 per share considering it as quite low. The market price of share decreased to Rs.0.85 per share (31 March 2001).

Thus not offloading 244900 shares at appropriate time was injudicious which resulted in loss of investment of Rs53.07 lakh.

Conclusion

The Company was incorporated to provide financial assistance to medium and large industrial units for industrial development of the State. Deficiency in appraisal of the proposals before sanction and disbursements of loans, lack of monitoring of performance of assisted units, inadequate follow up of recovery led to heavy incidence of NPAs .

Imprudent settlement of cases under One Time Settlement Scheme and ineffective system of sale of possessed units and failure to recover deficit amount from the guarantor/collateral securities led to decline in profits. This resulted in limiting the recycling of loan assistance /equity investment. The policy of not off-loading the shares below the acquisition price also resulted in huge losses. Thus, there is an urgent need to revamp the systems for appraisal, monitoring and recovery of loans as well as for investments/ disinvestment of equity.

Chapter II C

Jaipur Vidyut Vitran Nigam Limited (Unbundled from erstwhile Rajasthan State Electricity Board)

Review on working of Board Level Settlement Committee for Consumer's dues

Highlights

The Board Level Settlement Committee was constituted in July 1990 to settle the disputed revenue cases of the consumers of erstwhile Rajasthan State Electricity Board (Board).

(Paragraph 2C.1)

Out of 225 cases relating to Jaipur Vidyut Vitran Nigam Limited (Jaipur Discom) settled by Committee, in 127 cases involving an amount of Rs.53.13 crore , a sum of Rs. 27.23 crore was sacrificed.

(Paragraph 2C.4.1 & 2C.5.1)

The BLSC settled 49 cases relating to theft and vigilance, involving an amount of Rs.10 crore, of which Rs. 1.16 crore only was recovered. From five units found committing theft of energy in a very systematic and planned manner, only a sum of Rs.0.66 crore was recovered against a sum of Rs.5.57 crore.

(Paragraph 2C.6 & 2C.6.1)

Out of Rs. 7.61 crore relating to minimum charges and late payment surcharge, an amount of Rs. 6.02 crore was waived, despite High Court / Supreme Court judgment upholding levy of surcharges.

(Paragraph 2C.7)

2C.1 Introduction

In July 1990 the erstwhile Rajasthan State Electricity Board (Board) constituted *inter-alia* the Board Level Settlement Committee (BLSC) initially consisting of Chairman, Member (T&D), Member (F&A) and Chief Engineer (Commercial) as Secretary of the Committee to hear and decide disputed revenue cases above Rs.2.50 lakh. In November 1991, two more members viz. Member (Generation) and Director (Legal) were included in the said Committee.

In July 2000, the State Government unbundled the Board into five companies namely Rajasthan Rajya Vidyut Utpadan Nigam Limited (RVUN), Rajasthan Vidyut Prasaran Nigam Limited (RVPN), Ajmer Vidyut Vitaran Nigam Limited (Ajmer Discom), Jodhpur Vidyut Vitaran Nigam Limited (Jodhpur Discom) and Jaipur Vidyut Vitaran Nigam Limited (Jaipur Discom) and transferred assets, liabilities obligations, proceedings and personnel of the Board to these 5 companies. Jaipur Discom was incorporated with the principal objective of distribution and supply of electricity in the areas under the jurisdiction of existing operations and maintenance circles of Alwar, Bharatpur, Jaipur city, Jaipur District, Dausa, Jhalawar, Kota and Sawai Madhopur of the Board.

2C.2 Objectives

The consumers' dues settlement committee was formed mainly to:

- provide a forum to consumers for settling disputes relating to revenue matters and without affecting their right to refer to competent court in case of non-settlement of dispute;
- settle the cases involving huge arrears against consumers whose power supply had been disconnected and chances of recovery were remote; and
- dispose appeals of consumers against decisions of lower level settlement committee.

2C.3 Scope of Audit

The BLSC settled a total of 520 cases since its formation in July 1990 to June 2000 including 225 cases relating to Jaipur Discom. Audit of the cases relating to Jaipur Discom was conducted from December 2000 to March 2001. The results of audit are set out in succeeding paragraphs.

2C.4 Registration and follow up of cases

2C.4.1 Registration of cases

A Consumers' dues settlement progress register was to be maintained in prescribed format indicating *inter-alia* date of receipt of application, date of receipt of information/comments from field offices, outstanding dues, date of placement of case in the meeting of BLSC, amount settled and details of recovery. During the period from July 1990 to June 2000, 225 cases relating to Jaipur Vidyut Vitran Nigam Limited (Jaipur Discom) were noted in the consumers' dues settlement progress register. During test check of the said progress register it was found that details regarding amount settled, recovery made there against were not recorded at all in any of the cases settled, while in respect of 38 cases even basic details like date of receipt of application and disputed amount were not recorded.

2C.4.2 Follow up of cases

The instructions contained in clause 31-1(iii) of the "General Conditions of Supply and Scale of Miscellaneous Charges" (GCOS) provided that no case shall be prolonged and left undecided beyond three months of receipt of representation. Out of 225 cases, 10 cases were deleted due to closure of units and in 38 cases complete details were not recorded in the said register. Out of the remaining 177 cases, 49 cases were settled within the prescribed period of three months and the remaining 128 cases constituting 72.31 *per cent* were settled with delays ranging from one to 46 months. It was observed that reasons contributing to delays were not analysed with a view to take remedial measures for reducing the extent of delay.

The cases involving abnormal delays noticed in test check revealed as under:

2C.4.2.1 *Pelican Ceramics Industries Private Limited, Bhiwadi.*

There was delay of 46 months in deciding the case by committee.

The consumer approached (April 1996) BLSC requesting waiver of an amount of Rs.1.60 lakh representing difference between minimum charges billed by Board and actual consumption charges paid by him between November 1980 to July 1983 and late payment surcharge (LPS) thereon amounting to Rs.3.49 lakh. The relief was sought, as the consumer was not able to utilise the contracted demand due to power cuts. BLSC (November 1996) asked consumer to furnish details of power cut and directed SE, Alwar (September 1997) to examine the same critically. The consumer was asked (May 2000) to pay the disputed amount of Rs.1.60 lakh, as the minimum charges billed had been calculated by the Board after providing relief for power cuts. The LPS of Rs.3.49 lakh was waived. Thus, there was delay of 46 months in deciding the case by the committee, which was not justified.

2C.4.2.2 Kripal Casting Private Limited, Bhiwadi

Delay in deciding the case and allowing consumer to make payment of current dues in instalment resulted in accumulation of arrears of Rs.0.82 crore.

The consumer approached (October 1998) BLSC for settlement of his disputes, relating to fuel surcharge. The case was discussed by BLSC in its meeting held on 11 January 2000 i.e. more than 13 months after receipt of representation (October 1998) due to belated furnishing of necessary details by Executive Engineer, Bhiwadi. BLSC decided not to charge LPS/interest amounting to Rs.8.74 lakh on arrears of fuel surcharge provided the consumer deposits amount outstanding as on 31 December 1999 of Rs.20.26 lakh in six monthly installments commencing from February 2000.

The consumer agreed to the settlement but did not make payment of installments of arrears of fuel surcharge due in February and March 2000 and instead requested for payment of current energy bill in installment, which was granted by the Chairman. Finally power supply of the consumer was disconnected (28 April 2000) when outstanding amount had risen to Rs.82.25 lakh.

Thus, delay in taking decision by BLSC and grant of instalment facility for payment of current dues knowing fully well his past record resulted in accumulation of huge arrears amounting to Rs.82.25 lakh, the chances of recovery of which is bleak.

2C.4.2.3 Mittal Steels and Castings, Dholpur

The consumer approached (May 1995) BLSC for settlement of his disputes stating that the arrear of Rs.9.67 lakh shown in the bill was fictitious and unjustified and credit was not given despite request at various levels. The BLSC discussed the case in its meeting held in January 1996 after seven months and accepted the issues raised by the consumer. However, the power supply of the consumer had been disconnected (1 August 1995) due to non-payment of the disputed dues, when the matter was under consideration of BLSC.

The unjust disconnection and abnormal delay in implementation of decision of BLSC forced closure of unit.

The amount recoverable as per BLSC decision (July 1996) was finally worked out at Rs.1.11 lakh in March 1999 after revision of the same three times at the instance of consumer as the recoverable amount was not worked out as per decision of BLSC and mistakes were committed in calculations. The consumer paid the amount immediately (March 1999). Thus, implementation of BLSC decision took about three years from the date of issue of minutes (November 1996) due to repeated mistakes in calculation by the Board. The consumer did not seek reconnection of power supply due to the unjust disconnection and abnormal delay in settlement and implementation of decision of BLSC, which forced the closure of the unit.

2C.5 Settlement of cases

The settlement committee was formed (July 1990) to decide all cases on the principles of merit, equity and justice without taking too rigid a view of the rules/regulations/precedents applicable. Audit analysis of the settled cases revealed the following:

2C.5.1 Implementation of BLSC decision

Out of 225 cases received by BLSC, the results of implementation of 127 cases checked in audit are summarised in the table given below:

Nature of Dispute		No. of cases	Amount involved	Amount waived	Amount recoverable
(Rupees in crore)					
(a)	Theft and vigilance checking cases	49	10.00	8.84 (88.40)	1.16 (11.60)
(b)	Waiver of minimum charges and late payment surcharge (LPS) cases	37	7.61	6.02 (79.11)	1.59 (20.89)
(c)	Miscellaneous cases of power cut relief, tariff difference etc.	41	35.52	12.37 (34.83)	23.15 (65.17)
Total		127	53.13	27.23 (51.25)	25.90 (48.75)

Note : Figures in bracket indicate percentage to amount involved.

From the table given above it would be seen that the percentage of waiver of amount varied from 88.40 in theft and vigilance checking cases to 34.83 in miscellaneous cases. Out of a total sum of Rs.53.13 crore, only a sum of Rs.25.90 crore representing 48.74 per cent was recoverable and remaining amount of Rs.27.23 crore was waived. It was observed that out of recoverable amount of Rs.23.15 crore, an unauthorised waiver of Rs.14.84 crore was allowed to a consumer. A few cases of irregularities noticed in waiver have been discussed under respective headings in paragraphs 2C.6, 2C.7 and 2C.8.

More than 36 per cent cases settled by BLSC had arisen due to mistakes and irregularities committed by officers/ officials of the Board.

2C.5.2 Total waiver of amount claimed

Out of 127 cases indicated in the above table, in 46 cases involving a sum of Rs.5.86 crore, no amount was recovered and the total amount was waived as these cases were not found sustainable. The percentage of such cases to total cases reviewed (127) worked out to 36.22. Thus, 36.22 per cent cases settled by BLSC had arisen due to mistakes, and irregularities committed by its officers/officials. Remedial measures initiated by BLSC to reduce recurrence of cases due to mistakes / irregularities were not furnished to Audit (August 2001).

2C.5.3 Non-compliance of guidelines

The financial implications of the decisions taken were not mentioned in the minutes of the meetings. Committee members were, as such, not aware of the financial benefit being given to the consumer in many cases. The calculations of the amount recoverable and to be waived in such cases were done subsequently by the billing section of the Board. The system of pre-audit for verification of relief granted in terms of decision of BLSC was also not prescribed.

The committee was also required to record reasons in brief for the decisions taken. No reasons were found recorded for the decision taken in majority of cases. Even lumpsum settlements were done without recording details of amount settled for.

2C.5.4 Outstanding dues against High Tension consumers

One of the main reasons of formation of settlement committee (July 1990) was to reduce huge outstanding of Rs.78 crore against High Tension (HT) consumers including permanently disconnected and sick units, chances of recovery from them being remote. In such cases, it was decided to recover at least a portion of the amount shown outstanding and waive the balance amount.

The amount outstanding against HT consumers, however, increased from Rs.135.57 crore on 31 March 1996 to Rs.232.47 crore (31 March 2000).

Scrutiny of cases settled by BLSC revealed that the arrears against such consumers were exaggerated. As in the case of Kota Steel Re-Rolling Mills, Kota, a sum of Rs.6.09 crore was shown outstanding. The amount recoverable was rechecked at the instance of consumer and recalculated at Rs.15.49 lakh. The case was settled for Rs.7.91 lakh. In case of Oriental Power Cables Ltd., Kota a sum of Rs.2.83 crore was shown outstanding and the case was settled for Rs.17.20 lakh only. While explaining huge difference of Rs.2.66 crore, the Director of Accounts (Commercial) attributed it to issuance of bills as per contract demand disregarding the fact that the consumer was not in a position to utilise the contract demand due to heavy power cuts imposed by the Board.

As the amount outstanding against HT consumers is inflated in many cases, Audit is unable to comment whether the objective of reducing outstanding against HT consumers has been met or not.

2C.6 Settlement of cases of theft and vigilance checking etc.

In 49 theft and vigilance checking cases involving a sum of Rs.10 crore settled by BLSC, only a sum of Rs.1.16 crore was recovered. The percentage of recovery of 11.60 *per cent* in such cases was lowest as compared to percentage of recovery in cases of other categories. A few cases are discussed in succeeding paragraphs.

2C.6.1 Settlement of theft cases of induction furnace consumers

Based on a secret information received that the consumers having iron foundries were committing theft of energy by providing some electronic device in the voltage circuits of the energy meters, a special team of officers from O&M¹, M&P² and vigilance wings was formed to check the premises of said consumers. The special team of officers checked the premises of Suraj Alloys Private Limited, R.S. Alloy, Jagdambay Casting (P) Limited, Adhunik Chemicals (P) Limited, Seth Alloys Private Limited and Poddar Steels Private Limited between September 26 to September 29, 1992 and disconnected the power supply.

These consumers' were found committing theft of electricity by using an electronic device in the voltage circuits of the energy meters. The device was found fitted behind the bakelite sheet, in the voltage circuit of the meter

¹ Operation and Maintenance
² Meter and Protection

emanating from the test terminal block inside the meter box. The device was being operated through remote control switch/device for disconnecting the voltage supply to the energy meters and thereby stopping the recording of energy by meters at their options.

The Superintending Engineer (SE) (AC), Alwar made provisional assessment as per clause 29(h) of GCOS and raised demand of Rs.6.90 crore on these six consumers. As per clause 29(J)-2(C) *ibid* the consumers were required to pay at least 50 *per cent* of the amount provisionally assessed to secure restoration of their supply, pending the final assessment. However, in relaxation of the provisions contained in the clause, it was decided in the meeting held on 13 October 1992 in the chamber of Secretary (Energy & Industries) which was attended by Managing Director, RIICO*, Chairman of the Board, Member (T&D) and other officers of the Board to allow reconnection of supply to these six consumers on payment of Rs.10 lakh each. On further intervention of energy minister, the amount to be deposited for restoration of supply was reduced to Rs.5 lakh from Rs.10 lakh in case of Jagdambay Casting (P) Limited on the plea that its operations had commenced recently. The supply was restored on payment of reconnection amount. Final assessments of compensation were made in April 1993 by Additional Chief Engineer (O & M), Kota for an amount of Rs.3.38 crore and total recovery of theft cases were arrived at Rs.5.57 crore inclusive of minimum charges and LPS. The Chief Engineer as appellate authority also rejected appeals of five consumers, who had filed appeals against final assessment orders of Additional Chief Engineer (O & M), Kota and confirmed final assessment.

All the six consumers' mentioned above approached BLSC (between March 1995 and January 1997) for settling their disputes refuting the charges of the alleged theft. BLSC settled five cases under mutual settlement and in one case no mutual settlement could be arrived. The case of Poddar Steel (P) Limited is pending in High Court.

The amount recoverable, amount recovered as per decision of BLSC and amount waived etc. is given in the table below:

Sl. No.	Name of the consumer	Date of settlement	Amount of final assessment	Amount involved (final assessment + minimum charges +LPS)	Amount recovered/recoverable	Amount waived	Percentage of recovery
(Rupees in lakh)							
1.	Suraj Alloys (P) Ltd.	15.9.98	61.23	135.71	22.00	113.71	16.21
2.	R.S. Alloys	25.4.97	28.91	65.86	(-)1.00	66.86	(-)1.52
3.	Jagdambay Casting (P) Ltd.	26.2.97	37.83	79.81	15.42	64.39	19.32
4.	Adhunik Chemicals (P) Ltd.	26.2.97	99.50	228.72	20.00	208.72	8.74
5.	Seth Alloys (P) Ltd.	10.11.95	32.63	46.43	9.10	37.33	19.60
6.	Poddar Steel (P) Ltd.	-	78.29	No mutual settlement arrived at			
	Total		338.39	556.53	65.52	491.01	

It would be seen that BLSC settled the cases under mutual settlement by recovering Rs.65.52 lakh, out of recoverable dues of Rs.5.57 crore. No mutual settlement was arrived at with Poddar Steel (P) Ltd. on the plea that consumer insisted for waiver of interest charged (LPS) till date of payment. However, in four out of five cases, full waiver of LPS was agreed and in remaining one case

* Rajasthan State Industrial Development and Investment Corporation Limited

Waiver of theft cases amounted to Rs.4.91 crore representing waiver of over 80 per cent.

also concession was given. Audit scrutiny of the settlement of the cases revealed the following:

2C.6.1.1 Recovery from theft cases

The overall recovery percentage in five cases was 11.77 and ranged from (-) 1.52 per cent to 19.60 per cent. The minus recovery percentage of 1.52 indicated that instead of recovering dues of Rs.65.86 lakh in case of R.S. Alloys, credit of Rs.66.86 lakh was given despite BLSC decision that if the amount of compensation was found to be less than Rs.10 lakh, no amount would be refunded.

2C.6.1.2 Waiver of compensation for theft

Honourable High Court Rajasthan, Jaipur while delivering judgment on 23 October 1996 in the case of Urvashi Enterprises Ltd. Vs the Board, upheld the liability of the consumer to pay compensation in theft case, stating that the report was prepared by Additional Chief Engineer, an expert and there was no reason to disbelieve that.

As against principal cash compensation amount of Rs.2.60 crore recoverable from five consumers whose cases were settled, only a total amount of Rs.60.80 lakh representing 23.38 per cent was recovered and a sum of Rs.1.99 crore was waived.

2C.6.1.3 Waiver of LPS in theft cases

The Board was entitled to recover LPS on outstanding dues as discussed subsequently in paragraph 2C.7. But as against Rs.2.82 crore towards LPS recoverable from 5 consumers, the Board recovered only a sum of Rs.4.72 lakh representing 1.67 per cent by way of interest from one consumer Jagdambay Casting Pvt. Ltd. and the balance of Rs.2.77 crore was waived.

2C.6.1.4 Waiver of minimum charges in theft cases

BLSC waived a sum of Rs.4.97 crore against the consumers who were found committing theft of energy.

While delivering judgment on December 18, 1996 in writ petitions filed by Adhunik Chemicals Private Limited and Suraj Alloys Private Limited against the Board and others for raising bills of minimum charges after disconnection of power supply, Honourable Rajasthan High Court pronounced that so long as the agreement was not terminated, minimum charges were liable to be paid. Despite being aware of the judgments, the Board waived minimum charges totaling Rs.20.64 lakh. Out of this, a sum of Rs.17.96 lakh recoverable from four consumers was waived by BLSC in meetings held after 18 December 1996 (date of High Court Judgements). This included cases of Suraj Alloys Private Limited (Rs.6.36 lakh) and Adhunik Chemicals (P) Ltd. (Rs.5.40 lakh) whose writ petition had been dismissed earlier by the Honourable High Court.

Despite knowledge of the various decisions of Court, in respect of theft cases, BLSC granted undue benefit of Rs.4.97 crore to the consumers who were caught committing theft of energy in a very systematic and planned manner. Thus,

benefits by waiver granted in most of the sustainable theft cases were not based on merit, but on arbitrary decisions of BLSC.

2C.6.1.5 Non-implementation of BLSC decision

In the BLSC meeting held in February 1997, the representative of Jagdambay Casting Pvt. Ltd., had agreed to the settlement for Rs.15.42 lakh. The consumer paid Rs.10 lakh but did not pay the balance amount of Rs.5.42 lakh. The consumer requested (May 1997) for review of the decision taken by BLSC in February 1997 but did not attend meetings scheduled in September, October and December 1997. Ultimately the BLSC closed (December 1997) the case treating the settlement as null & void. BLSC also directed the Executive Engineer (December 1997) to recover the entire outstanding amount of Rs.65.55 lakh as on December 1997 from the consumer. However, no action for recovery was taken and power supply was continued up to 22 March 2000. Power supply of the consumer was disconnected when outstanding dues rose to Rs.2.05 crore. Thus, due to non-recording of recovery details in the Consumers' Dues Settlement Progress Register, the BLSC could not monitor recovery of dues as per its decision.

2C.6.2 R.C.S. Vanaspati Industry Limited, Jaipur

The premises of the consumer were checked on June 23, 1993 when meter box seals were found broken. The provisional assessment of compensation was done by SE (JCC) Jaipur for a sum of Rs.44.76 lakh and the consumer was asked (June 1993) to deposit 50 *per cent* of the amount assessed for restoration of power supply. As final assessment of compensation required to be made by concerned Dy. Chief Engineer (O&M) within 60 days from the date of issue of provisional assessment was not finalised, the amount could not be debited to consumers account.

In December 1994 the consumer requested for settlement of his disputes by BLSC. The BLSC discussed the case in March 1995 and in June 1995 a lumpsum settlement was arrived at under which the consumer agreed to pay a sum of Rs.9 lakh only as against provisional assessment of Rs.44.76 lakh. Hence, an amount of Rs.35.76 lakh was waived without any justification. As per prescribed guidelines for settlement, the committee was required to record reasons for settlement. In the instant case no reasons were found recorded and even details of amount settled were not recorded.

2C.7 Settlement of Minimum Charges and Late Payment Surcharge

Despite favourable High Court/ Supreme Court verdict minimum charges and LPS were waived Rs.6.02 crore.

Board invests large sum of money on generation, transmission and distribution systems, a substantial portion of which was through borrowing from outside agencies at market interest rate. To the extent of its commitments/contracts, minimum charges were levied to ensure certain minimum revenue on such investments. Rajasthan High Court in its order of 18 December 1996 quoting the judgment of the apex court dated 24 November 1989 in the case of General Manager cum Chief Engineer, Bihar Electricity Board Vs Rajeshwar Singh and others, justified recovery of minimum charges from the consumers. The High Court held that so long as the agreement for contract demand was not terminated minimum charges were liable to be paid.

Similarly, Late Payment Surcharge (LPS) was levied to cover the cost of temporary borrowing for failure of consumer to pay by due dates. The concept of recovering LPS was upheld by Division Bench of High Court Rajasthan in its judgment (August 1994) in the case of Aditya Mills Limited verses RSEB, which was also up held by Honourable Supreme Court.

Thirty seven cases involving a sum of Rs.7.61 crore related to charging of minimum charges and LPS of which a sum of Rs.1.59 crore, representing 20.89 per cent was recovered and a sum of Rs.6.02 crore was waived. The results of test check of a few cases are set out in succeeding paragraphs.

2C.7.1 Settlement of minimum charges

The table below gives details of minimum charges waived in cases test checked:

Name of consumer	Final date of settlement	Minimum charges	Recovery	Waived	Recovery percentage
(Rupees in lakh)					
Poddar Spinning Mills, Jaipur	25.4.97	36.28	Nil	36.28	Nil
Murli Re-Rolling mills (India) Ltd. Jaipur	20.8.97	1.70	Nil	1.70	Nil
Pratap Rajasthan Copper Foils & Laminates Ltd., Jaipur	22.3.96	5.30	Nil	5.30	Nil
Kota Steel Re-Rolling Mills, Kota (A/c No. HT-16)	17.9.96	4.13	3.87	0.26	93.70

It would be seen that inspite of Supreme Court verdict (November 1989) upholding the levy of minimum charges, the recovery of minimum charge was waived fully in most of the cases and recoveries were made only in few cases.

2C.7.2 Settlement of Late Payment Surcharge

The table below gives details of LPS waived by the BLSC in cases test checked:

Name of consumer	Final date of settlement	LPS	Amount recovered	Percentage of recovery	Basis of recovery
(Rupees in lakh)					
Poddar Spinning Mills, Jaipur	25.4.97	31.98	10.37	32.42	Interest @ 15% per annum
Murli Re-Rolling mills (India) Ltd., Jaipur	20.8.97	5.27	0.15	2.85	Lump sum
Pratap Rajasthan Copper Foils & Laminates Ltd., Jaipur	22.3.96	5.08	Nil	Nil	Full waiver
Kota Steel Re-Rolling Mills, Kota (A/c No. HT-16)	17.9.96	11.55	4.13	35.76	Interest @ 12% per annum limited to principal
Ashoka Foundry & Metal Work Ltd., Jaipur	10.3.2000	14.18	2.87	20.24	Interest @ 12% per annum limited to principal
Shri Ram Vinyl & Chemical Industries, Kota	22.7.97	32.75	9.38	28.64	Lump sum
Shri Ram Fertiliser & Chemicals, Kota	22.7.97	7.57	Nil	Nil	Full waiver

It would be seen that recovery of LPS ranged from zero *per cent* to 35.76 *per cent*. It was observed that where recoveries were sustainable, settlements were arrived at based on willingness of consumers to pay as well as willingness of BLSC to waive.

2C.8 Settlement of miscellaneous cases

Under this category, cases relating to application of tariff, excess demand charges, cash security, fuel surcharge etc. are covered. Out of a sum of Rs.35.52 crore involved in 41 cases, a sum of Rs.23.15 crore representing 65.17 *per cent* was recoverable and remaining amount Rs.12.37 crore was waived. Illustrative cases verified under test check are discussed below:

2C.8.1 Injudicious and unauthorised waiver

An unauthorised credit of Rs.14.84 crore was allowed against the decision of BLSC.

The SVCI* (consumer) filed a writ petition in the Rajasthan High Court (September 1980) against bills imposing general surcharge at the rate of 15 *per cent* and application of normal tariff instead of concessional tariff under the Electricity Supply (Rajasthan Amendment) Ordinance 1976 which subsequently became an Act. The Divisional Bench of Rajasthan High Court dismissed the writ petition. The consumer filed an appeal in the Supreme Court, who held Ordinance/Act valid, but quashed few bill raised by the Board. Based on decision of the Supreme Court (March 1986), a sum of Rs.17.12 crore was worked out as recoverable from consumer, against which Rs.9.03 crore was recovered by

* Sri Ram Vinyl and Chemical Industries

revocation of bank guarantee and Rs.4 crore in cash in installments. Thereafter the consumer stopped making further payment, taking stand that he has made total payment as per decision of Supreme Court. The consumer claimed payments should have been first adjusted against principal and thereafter towards LPS. As per practice of the Board, amount is first adjusted against the LPS and balance if any towards the principal amount. Accordingly, the Board worked out balance principal amount recoverable of Rs.5.12 crore as on July 1987. The consumer obtained (July 1987) stay orders from Court on notice of Board for disconnection of supply for failure to pay Rs.5.12 crore. The Board's outstanding against the consumer increased to Rs.27.94 crore. Pending decision of the Court, the consumer applied to BLSC (July 1997) for settlement.

BLSC did not agree with the party for appropriating the amount deposited by them towards principal first and thereafter the interest/LPS amount. However, BLSC granted (November 1997) relief of Rs.5.56 crore which included relief of Rs.4.58 crore towards interest charges. As the Board had contested the levy of interest and obtained a favourable decision both from High Court and Supreme Court, waiver of such amount by BLSC was unjustified.

While scrutinising the implementation of decision of BLSC, it was observed that credit of Rs.20.40 crore was given as against credit of Rs.5.56 crore approved by the BLSC. It was observed that unauthorised credit of Rs.14.84 crore was allowed by first adjusting the payments towards principal, against the decision of BLSC. No responsibility has so far being fixed for this lapse (September 2001).

2C.8.2.MICO Steels Private Limited

The unit of Suraj Alloy Private Limited was purchased by MICO Steels Private Limited (purchaser) from RIICO in auction held on 31 March 1995. The purchaser approached Assistant Engineer (O&M) Bhiwadi, when he was told to clear the arrears before reconnection of power supply. MICO Steels Private Limited filed a writ petition in Rajasthan High Court against liability to pay the charges of the earlier consumer. The court dismissed (November 1995) the writ petition stating that the petitioner had purchased the property with clear understanding that the dues, if any, of the Board and other authorities would be paid by him. As per orders of the court, power supply was restored in August 1996 on an interim deposit of Rs.20 lakh, against the total arrears of Rs.1.36 crore.

The consumer approached (October 1996) BLSC for settlement of his disputes. The case was settled (September 1998) by BLSC for Rs.12 lakh, payable in ten equal monthly installments from October 1998, in full and final settlement of all dues of erstwhile consumer. No reasons were recorded in writing for waiving Rs.1.04 crore. The settlement of dues of erstwhile consumer at Rs.32 lakh was even lesser than Rs.34 lakh, which the purchaser was willing to pay in December 1995. Thus, BLSC settled the case by recovering only Rs.32 lakh representing 23.53 *per cent* of arrears and for a sum which was less than amount which the consumer was willing to pay earlier.

2C.8.3 Kota Steel Re-Rolling Mills, Kota

The BLSC extended undue favour of Rs.7.68 lakh to a consumer.

In November 1995, the consumer requested for settlement of his dispute regarding charging of interest on LPS. BLSC decided (September 1996) to charge dues outstanding on the date of disconnection along with interest @ 18 per cent till date of payment. The consumer did not deposit the amount and requested BLSC (February 1999) not to charge interest. Kamayani Agencies Pvt. Limited who had purchased the unit in auction held in September 1999 from Rajasthan Financial Corporation requested (April 2000) BLSC to settle the dues under concessional package. The case was settled for Rs.8 lakh after charging interest @ 15 per cent as against Rs.15.68 lakh claimed from original promoter.

It was observed that while BLSC did not allow reduction in rate of interest to original consumer, such relief was allowed to consumer who had purchased the unit of original promoter. The BLSC also did not allow credit for cost of service line deposited by original consumer, which was adjustable in future bills. Thus it was observed that principles of merit, equity and justice was not uniformly applied in settlement of the cases.

2C.8.4 R.G. Ispat Limited, Jaipur

Undue credit of Rs.36.49 lakh was extended to a consumer.

The consumer approached (March'91) BLSC for settlement of his dispute relating to reduction in contract demand from 4950 KVA to 3350 KVA w.e.f. 1 January 1988 and from 3350 KVA to 2250 KVA w.e.f 17 February 1989. The BLSC rejected his representation in the meeting held in December 1991 stating that his contract demand was correctly reduced from 3 August, 1988 i.e. after expiry of six months notice period as requested by him. The Honourable High Court vide its order of March 1993 also dismissed writ petition filed by the consumer.

In November 1995, the consumer requested BLSC to review the decision taken earlier. The BLSC discussed the case in its meeting held in March 1996 and in a mutual settlement accepted *inter-alia* consumers request for reduction in contract demand from 4950 KVA to 3350 KVA from 1 January 1988 and from 3350 KVA to 2250 KVA from 17 October 1989. Thus, by accepting reduction in contract demand from prior date as requested by consumer, an undue credit of Rs.36.49 lakh was given to him.

The decision of BLSC of March 1996 was not justified, as there was no change in the facts of case, which was earlier rejected by the BLSC itself as well as dismissed by the Honourable High Court. Thus, BLSC allowed undue benefit of Rs.36.49 lakh to consumer.

2C.9 Waiver of the recovery raised at the instance of audit

Board claimed Rs. 5.10 lakh at the instance of audit which was waived by BLSC.

While conducting audit of the billing case of Rama Oil and General Mill Limited, Kota it was observed that the Board did not bill minimum charges for seasonal period of 1996-97, 1997-98 and 1998-99. Accordingly an under charge of Rs.4.90 lakh (1996-97: Rs.1.31 lakh, 1997-98: Rs.1.84 lakh, 1998-99:

Rs.1.75 lakh) was pointed out. The amount was claimed from the consumer in the bill for the month of January 2000, after verification of facts.

The consumer approached BLSC (February 2000) for settlement of his dispute stating that he had requested (October 1996) Board to treat their unit under non-seasonal general category.

The BLSC while discussing the case in March 2000 recorded in the minutes that the letter of the consumer dated 29 October 1996 was not received by the Board and decided to consider the consumer under non-seasonal category and consequently a credit of Rs.5.10 lakh (principal: Rs.4.90 lakh, LPS: Rs.0.20 lakh) was given in the bill of April 2000.

The decision of BLSC was not proper as the consumer subsequently requested (November 1997) Board to treat their unit under seasonal category. As such the waiver of the amount was not on the merit of the case but was in the nature of ex-gratia waiver.

Conclusion

The BLSC did not follow an objective and consistent policy in settling disputed revenue cases. An amount of Rs.25.90 crore was recovered against Rs.53.13 crore in settling 127 cases. No amount was recovered in 46 cases as these cases, as claims were wrong due to mistakes and irregularities committed by Board officers/officials. The BLSC should recommend remedial measures for reducing the extent of such cases. The recovery was lowest in theft/vigilance cases, where stringent action was expected to be taken. The BLSC waived revenue in cases of LPS, minimum charges and compensation for theft despite being aware of court judgements upholding such charges. The BLSC while deciding valid claims should take into consideration the interest of the Board and also prescribe system of pre-audit of waivers granted in term of its decision.