CHAPTER II

SECTION 2A

STATE INDUSTRIES PROMOTION CORPORATION OF TAMIL NADU LIMITED

HIGHLIGHTS

State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) was formed in March 1971 to promote industrial development in the State. Subsequently in March 1992, Government formed Tamil Nadu Corporation for Industrial Infrastructure Development Limited (TACID) for providing infrastructure facilities for development of industrial complexes in the State. After being pointed out in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1994-95, the Government decided to merge SIPCOT and TACID considering overlapping nature of their activities.

(Paragraph 2A.1)

The Company, based on Government orders, is engaged in area development activities even though the main objective did not provide for the same.

(Paragraph 2A.2)

The Company has been incurring losses in the last four years mainly due to increase in non-performing assets and poor marketing of industrial plots.

(Paragraph 2A.7)

Out of 14,225 acre of land acquired, only 4,421 acre were developed and 1,637 acre sold resulting in blocking of Rs.72.94 crore in land acquired but not developed.

(Paragraph 2A.8.2)

Erroneous projection of requirement of land at Perundurai resulted in expenditure of Rs.89.14 crore remaining unproductive.

(Paragraph 2A.8.2.3)

Infrastructure facilities created by incurring Rs.59.84 crore remained largely under-utilised.

(Paragraphs 2A.8.5)

Infrastructure for water supply created at Rs.79.35 crore remained grossly under-utilised.

(Paragraph 2A.8.5.4.1)

Pipelines for carrying water laid at a cost of Rs.11 crore remained unutilised due to non-availability of water.

(Paragraph 2A.8.5.4.4)

Infructuous expenditure of Rs.2.26 crore was incurred on conducting a feasibility study on minor ports without assessing the traffic potential.

(Paragraph 2A.10)

Poor recovery performance resulted in increase in outstanding dues from Rs.144.86 crore in the beginning of 1997-98 to Rs.368.63 crore in March 2002. Only 22 out of 275 borrowers are regular in repayment of dues.

{Paragraphs 2A.11.2 (i) and (iv)}

Non-performing assets increased from Rs.93.03 crore to Rs.161.34 crore during the five years ended 31 March 2002 due to poor follow-up.

(Paragraph 2A.11.3)

Disbursement of term loan to a known defaulter (Rs.2.58 crore) and without ensuring clearance by Pollution Control Board and other Statutory Authorities (Rs.1.76 crore) resulted in loss of Rs.4.34 crore.

(Paragraphs 2A.11.4.1 and 2A.11.4.2)

2A.1 Introduction

After being pointed out in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1994-95, the Government decided to merge SIPCOT and TACID, considering overlapping nature of their activities.

State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) was formed in March 1971 to promote industrial development in the State by providing financial assistance, incentives and other ancillary services to the medium scale industries besides developing industrial complexes in the State. Subsequently, the Government formed (March 1992) another Company *viz*., Tamil Nadu Corporation for Industrial Infrastructure Development Limited (TACID) with main objective of identifying and providing all or left over infrastructural facilities for development of industrial complexes and growth centres. Considering the overlapping nature of functions of these two companies, audit pointed out the need for review of the position by the Government in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1994-95. However, only in May 1999, Government ordered merger of both the companies, which was finally effected in November 1999. As per this order, SIPCOT would henceforth concentrate only on creating industrial infrastructure facilities. Term-lending operations hitherto undertaken by SIPCOT were transferred (May 1999) to another Government company *viz*., Tamil Nadu Industrial Investment Corporation Limited (TIIC). However, follow-up and recovery of loans already extended by SIPCOT continued with it. The Company requested (June 2002) the Department of Company Affairs (DCA), Government of India, New Delhi to treat the share capital of the merged Company as share advance in order to save the payment of fees for enhanced capital. Pending approval of this proposal, final orders of DCA for merger of companies has not been received (August 2002) and hence, separate accounts are being maintained for SIPCOT and TACID.

2A.2 Objectives

The following are the main objectives envisaged in the Memorandum of Association of the Company:

(i) To carry on the business of an investment company for providing finance to industrial enterprises in the State for starting, running, expanding, modernising or otherwise.

The Company, based on Government orders, is engaged in area development activities even though the main objectives did not provide for the same.

(ii) To encourage and promote participation of capital in industrial enterprises in the State of Tamil Nadu.

(iii) To sponsor and underwrite new issues of shares, debentures and other securities in which the industrial undertakings in the State of Tamil Nadu are directly or indirectly participating.

(iv) To undertake or assist investigation of problems concerning industrialisation in general and prepare statistics useful to such industrial enterprises.

The main objectives did not provide for area development activities. However, based on orders (November 1971) of the Government, the Company is engaged in acquisition and development of land with necessary infrastructural facilities to promote industrial development in the State.

2A.3 Activities

At present, the Company is mainly engaged in acquisition of land, development of industrial complexes with the required infrastructure and allotment of plots to entrepreneurs either on sale or on long-term lease basis. Further, during the period of review the Company had been sanctioning/following-up term loans to medium scale industries and issuing eligibility certificates for sales tax deferral/waiver and grant of subsidies.

2A.4 Scope of Audit

The activities of the Company for the period up to February 1995 were reviewed and i`ncluded in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1994-95. The Committee on Public Undertakings (COPU) discussed the review in its meeting held in September 2000 and its recommendations are awaited (April 2002). The present review conducted from December 2001 to April 2002 covered the activities of the Company including TACID for the last five years ending March 2002. The present review is based on test check of records of head office and 10 project offices out of 17 project offices.

2A.5 Organisational set up

The Management of the Company is vested in a Board of Directors consisting of 12 directors including Chairman and Managing Director. Of them 10 Directors are appointed by the State Government and of the remaining two, Industrial Development Bank of India (IDBI) and Small Industries Development Bank of India (SIDBI) nominate one each. There is no functional director and all the directors except two are nominated by Government from amongst officials. The day-to-day management is being looked after by the Managing Director, who is assisted by four general managers.

2A.6 Capital Structure and Borrowing

Due to failure to create charge on specific assets, the Company could not avail concession of one per cent in interest on loan taken from SIDBI.

As against the authorised capital of Rs.60 crore and Rs.90 crore in respect of SIPCOT and TACID, the paid-up capital as on 31 March 2002 was Rs.57.91 crore and Rs.85.30 crore respectively, wholly contributed by the State Government. These two companies had also taken loan of Rs.19.79 crore and Rs.27.17 crore respectively from the State Government as on 31 March 2002. Both the companies are not repaying the loan instalments/interest to Government, which resulted in accumulation of unpaid interest of Rs.15.35 crore as on 31 March 2002. SIPCOT was depending mainly on refinance from IDBI/SIDBI (Rs.121.18 crore as on 31 March 2002) and issue of bonds guaranteed by Government of Tamil Nadu (Rs.17.09 crore). In this connection, it was noticed that due to non-creation of charge on specific assets, the Company could not avail a concession of one *per cent* in interest on Rs.15 crore loan availed from SIDBI in February/July 2001. This resulted in additional interest burden of Rs.15.83 lakh for the period of March 2001 to April 2002 with further liability of Rs.15 lakh *per annum*. TACID depended entirely on Government for financial assistance. It was observed that Government released Rs.85.30 crore of share capital during the six years up to 1997-98 to TACID ahead of requirement, which was invested by the Company in short-term deposits.

2A.7 Financial position and working results

The financial position and working results for five years ended 31 March 2002 in respect of SIPCOT are given in **Annexure 10** and **11** and TACID in **Annexure 12** and **13**.

From **Annexure 10** and **11**, it may be seen that SIPCOT, which was earning profit up to 1997-98 started suffering losses from 1998-99 onwards, which accumulated to Rs.63.16 crore as on 31 March 2002 and the net worth was eroded completely. The loss was mainly attributable to:

The Company has been incurring losses in the last four years mainly due to increase in non-performing assets and poor marketing of industrial plots.

(a) Increase in non-performing assets by Rs.68.31 crore over the last four years up to 2001-02 with consequential provisioning of Rs.49.24 crore and write off of Rs.8.48 crore for bad and doubtful debts. In addition to this, the Company had to make a provision of Rs.4.16 crore towards non-recovery of term deposits made with another defunct Government Company (*viz*., Tamil Nadu Steels Limited).

(b) Reduction in income by Rs.15.16 crore in 2000-01 was mainly due to poor marketing of industrial plots.

A review of the working results of TACID revealed the following:

(a) Loss of Rs.4.94 crore in 2000-01 and Rs.10.03 crore in 2001-02 was mainly due to increased depreciation (on assets commissioned during the year) and write off of expenditure on abandoned projects (Rs.1.39 crore) in 2000-01.

(b) Reduction of interest income by Rs.0.67 crore in 2000-01 also contributed to the increased loss.

2A.8 Area development activities

2A.8.1 Land acquisition

As mentioned in Paragraph 2A.3, the Company is engaged in development of industrial complexes and creation of necessary infrastructure for development of industries. For the purpose of developing industrial complexes, the Company acquired both Government Poramboke♠ land and private land. While the Poramboke land was acquired by getting alienation orders of the Government, the private land was acquired by invoking general/urgency provisions of Land Acquisition Act by engaging the services of officials of State Revenue Department on deputation. The Company developed 13 (including 6 developed by TACID up to November 1999) such complexes in various parts of the State and acquired 14,225 acre of land by investing Rs.117.85 crore (**Annexure-14)**.

2A.8.2 Lack of planning in setting up of industrial complexes

Out of 14,225 acre of land acquired, only 4,421 acre were developed and 1,637 acre sold resulting in blocking of Rs.72.94 crore in land acquired but not developed.

A mention was made in the Audit Report (Commercial) for the year 1994-95 regarding formation of two industrial complexes at Pudukottai and Manamadurai without demand from the entrepreneurs. Despite this, it was noticed in Audit that the Company established industrial complexes or acquired land for formation of industrial complexes without any planning or preparation of project reports indicating suitability of project site with regard to availability of water, access to National Highway and firm commitment from a minimum number of entrepreneurs. From the **Annexure-14** it would be observed that the Company developed only 4,421 acre out of 14,225 acre of land acquired and kept 9,804 acre vacant (69 *per cent*) for over three years. The Company was able to sell only 1,637 acre (11.5 *per cent*) to the entrepreneurs, indicating that proper feasibility study was not conducted before embarking upon new projects. The amount blocked up in land acquired but not developed aggregated to Rs.72.94 crore. Even though the Company was well aware that it was incurring losses in the area development activity, new projects with huge capital outlays were added without assessment of demand for plots.

A further analysis in audit on land acquisition activity indicated the following deficiencies/lacunae:

♠ **Land used or reserved for Public or Government purpose.**

2A.8.2.1 Deficiencies in location of site

It was observed that lands acquired at a cost of Rs.38.98 crore in three locations lacked justification as discussed below:

(i) Acquisition of 2,031 acre at Sriperumbudur at a cost of Rs.18.01 crore was faulty due to its location near Irungattukottai Industrial Complex (10 KM) and dependence on unreliable water source of Chembarambakkam.

(ii) Acquisition of 608 acre at Siruseri for Information Technology (IT) Park at a cost of Rs.18.30 crore, was improper since another IT Park (TIDEL Park Limited) was already developed much closer to this area and to Chennai city.

(iii) Acquisition of 2,035 acre at a cost of Rs.2.67 crore at Gangaikondan was faulty as it is a rocky terrain and requires blasting to commence development activities.

2A.8.2.2 Acquisition without preliminary site survey

(i) The land (511 acre) acquired (1997) at a cost of Rs.2.24 crore at Cheyyar, is in an interior location and to connect this area to National Highway, an approach road at a cost of Rs.5.50 crore is necessary. Considering the poor demand for industrial plots and weak financial position of the Company, scope for development of this project is remote and hence the investment of Rs.2.24 crore remains unproductive.

(ii) The Company decided (1997) to establish a satellite town at Nemili in anticipation of establishment of industrial units in Irungattukottai and Sriperumbudur complexes. After engaging land acquisition staff for three years and incurring Rs.1.77 crore towards their salary, etc., the scheme was dropped in September 2001 due to the following reasons:

(a) The proposed area did not have access to National Highways.

(b) The Company apprehended difficulty in arranging water supply to the satellite town.

(c) High Tension overhead power lines were passing through the area.

These factors were known to the Company beforehand. Hence, engaging land acquisition staff at a total expenditure of Rs.1.77 crore lacked prudence.

2A.8.2.3 Acquisition without studying economic viability

Erroneous projection of requirement of land at Perundurai resulted in expenditure of Rs.89.14 crore remaining unproductive.

In respect of the largest industrial complex *viz.*, Perundurai Growth Centre, a project report was prepared (1994), which projected that industries for textile, leather and foundries would be set up. The initial requirement of 2000 acre of land was increased to 2,800 acre based on the projected demand, consequently increasing the project cost from Rs.42 crore to Rs.110 crore. The Company acquired (1996-1999) 2,460 acre of land at a cost of Rs.36.53 crore and went ahead with further development works by diverting funds received for other projects. The Company could sell 349 acre so far. However, no major industries have been set up at this complex. Thus, the projection of requirement of 2,800 acre turned out to be erroneous and the expenditure of Rs.89.14 crore incurred till March 2002 remained largely unproductive.

2A.8.2.4 Acquisition without studying environmental impact

Acquisition of land without studying environmental impact resulted in idle investment of Rs.7.08 crore on land at Cuddalore.

The Company acquired (1997-98) 978 acre of land in Cuddalore at a total cost of Rs.7.08 crore for setting up a leather industries park. But this project could not be taken up in view of stiff resistance from the public. The Company's subsequent proposal to set up a general industrial park has also not yet been taken up rendering the expenditure of Rs.7.08 crore unproductive for more than four years.

2A.8.3 Acquisition of land without agreement

Based on a request from Tamil Nadu Industrial Development Corporation Limited (TIDCO), TACID decided (May 1998) to acquire land at Cuddalore for a petroleum refinery to be set up by a private company, *i.e.*, Nagarjuna Oil Corporation Limited (NOCL). The Board of Directors of TACID directed (September 1998) the management to obtain an undertaking from NOCL that they would pay cost of land, establishment charges and overhead charges besides additional compensation, if any, payable later. However, no such undertaking was obtained by TACID. After the merger of TACID with SIPCOT, Government directed (November 1999) SIPCOT (Company) to acquire and hand over land to NOCL on 99 years lease basis. The Company acquired 495 acre up to December 2001 against the proposed 902 acre. Though NOCL was not handed over land officially, it started civil works on this land. Out of Rs.4.56 crore spent by the Company on acquisition of land, NOCL reimbursed only Rs.3.03 crore. In the absence of any enforceable agreement with NOCL, the prospects of recovery of the balance Rs.1.53 crore are bleak with a consequential interest loss of Rs.22 lakh (calculated at 13 *per cent per annum* from July 2001 to August 2002). The Company also exposed itself to the risk of having to pay enhanced compensation, if any, at a later date without possibility of recovering the same from NOCL.

2A.8.4 Marketing of plots

2A.8.4.1 The Company sells plots on long-term lease of 99 years. The details of land sold during the last five years up to 2001-02 are given in **Annexure-15.**

From the Annexure, it may be seen that the Company could sell only 1,301 acre of land during the last five years. It was further noticed that even though the Board of Directors decided (November 2000) to undertake aggressive marketing to improve the critical financial situation, the Company could sell only 244 acre of land in 2001-02, out of 11,284 acre of land available as on 31 March 2001. The total area remaining unsold with the Company as on 31 March 2002 was 11,040 acre and this remained unsold for periods ranging from one to seven years.

In two complexes *viz*., Export Promotion Industrial Park at Gummidipoondi (discussed under Paragraph 4A.3.3 of Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2001) and Nilakottai, the Company could not sell a single plot even three years after development and the sale of plots in Bargur and Gangaikondan complexes was confined to just three cases(36 acre).

2A.8.4.2 Fixation of plot cost

In respect of the new industrial complexes, the plot costs are fixed on the basis of cost estimate of the scheme after adding cost of funds for the duration of development along with service charges at 20 *per cent*.

The average cost per acre of land, cost of development of infrastructure, selling price *etc*., are given in **Annexure-16**.

Creation of infrastructure at prohibitive cost resulted in non-sale of industrial plots.

2A.8.4.2.1 From **Annexure-16**, it may be seen that the cost of development was very high and ranged between 216 and 725 *per cent* of the land cost. This was mainly due to incurring of huge expenditure in creating infrastructure without matching demand from the prospective entrepreneurs. It was also noticed that instead of adopting phase-wise development, the Company resorted to development of the entire/large area in new industrial complexes with high standards of infrastructure involving huge expenditure (refer Paragraph 2A.8.6 *infra*). It is pertinent to mention here that the selling price of the plots varied from 403 per cent to 2,553 *per cent* of land cost, due to execution of development works at very high cost. In Perundurai complex the demand for plots was very poor even after lowering the selling price.

It may be seen from **Annexure-16** that the selling price of plots in respect of three projects was high and ranged between 121 to 285 *per cent* of cost. In the absence of strategy for fixation of prices realistically with reference to market scenario, the Company continued to sell at the prices fixed originally, which led to poor sales performance.

It is also observed that whereas the Company was not able to market the plots, it also permitted surrender of plots and refunded an amount of Rs.2.38 crore (2001-02) received for the plots.

2A.8.5 Development of industrial complexes

The land acquired for industrial complexes is developed with infrastructure facilities *viz*., roads, sewerage systems, streetlights, water supply system, *etc*. The details of physical and financial outlay achieved in respect of roads, sewerage and streetlights in five industrial complexes during the last five years ended 31 March 2002 are given in **Annexure-17**.

Infrastructure facilities created by incurring Rs.59.84 crore remained largely under-utilised.

The creation of infrastructure in industrial complexes was not on the basis of any minimum number of entrepreneurs requesting for allotment of plots. The Company created infrastructure facilities at huge costs over large areas of land instead of developing in a phased manner. Even though the Company was aware of the general recession in industrial growth as early as in 1997-98, it resorted to development of infrastructure by incurring Rs.59.84 crore in five complexes *viz*., Nilakottai, Sriperumbudur, Siruseri, Perundurai and Irrungattukottai.

Audit analysis revealed that in Nilakottai, where the entire land acquired (388 acre) was developed by incurring an expenditure of Rs.3.07 crore, not a single acre has been sold till date (March 2002). Similarly in Irungattukottai, out of 1,253 acre developed (other than land allotted to M/s Hyundai Motors Limited) by spending Rs.26.67 crore, only 219 acre had been sold. In Perundurai, where 1,300 acre were developed at a cost of Rs.20.12 crore, the Company could sell only 349 acre. This proves that the Company created infrastructure facilities without matching demands and that even after creation of such facilities was unable to sell the developed plots.

2A.8.5.1 Execution of road works

A critical analysis of execution of road works by the Company revealed the following:

(i) The main roads, internal roads, medians and storm water drains in the industrial complexes were constructed as per the standards of Ministry of Surface Transport (MOST), which are stipulated and adopted for laying National Highways, where traffic potential and intensity are very high. While the average cost of laying road at Nilakottai was Rs.15.42 lakh per km. in 1995-96, the same was Rs.56.53 lakh per km. in respect of Perundurai, Irungattukottai, Siruseri and Sriperumbudur, which were laid within four years thereafter. This resulted in escalating the cost of industrial plots to non-saleable level. It was replied (May 2002) that MOST standards for laying of roads were adopted as per the recommendations of the consultant to bear heavy industrial loads.

Unnecessary increase in road length resulted in extra expenditure of Rs.4.64 crore.

(ii) In Sriperumpudur industrial complex, 120 acre (out of 160 acre sold so far) were allotted to one industry *viz*., Saint Gobain Glass India Limited. For their use, internal roads of 1.65 km. length were proposed to be laid at a cost of Rs.1.96 crore. Though the demand for plots in this complex was poor, the Company increased the road length to 6.10 km. and awarded (November 1998) the work at a total cost of Rs.5.96 crore. The road works are yet to be completed (March 2002) and the Company has incurred Rs.6.60 crore so far. In view of poor demand for plots in this complex, the additional expenditure/commitment of Rs.4.64 crore on road works lacked justification.

(iii) In Siruseri industrial complex, in addition to the contract value of Rs.4.25 crore for laying of roads, additional works to the extent of Rs.0.98 crore were given to the same contractor in violation of Government Order prohibiting award of additional works to the same contractor without calling for tender for a value exceeding Rs.2.50 lakh. Further, it was noticed that a portion of the road (1.6 km.) was in damaged condition due to design defect, poor workmanship, *etc*., but no action has, so far, been taken against the contractor and the consultant.

(iv) (a) In Irungattukottai industrial complex, the Company paid (August 1997) Rs.2.45 crore to National Highway Department for widening the National Highway in front of Hyundai Motors Limited for facilitating easy movement of vehicles in expectation of reimbursement from National Highway Department later. However, it was observed that the Chief Engineer, National Highway Department had stated in June 1997 itself that this was not their work and hence no reimbursement was possible. Widening work carried out on a road not owned by the Company was unwarranted.

(b) Similarly, the Company spent (2000-02) a sum of Rs.2.32 crore out of borrowed funds from SIDBI for improvements to a village road belonging to State Highway Department. The Company stated (June 2001) that the proposed road would serve as another approach for the Irungattukottai complex particularly to the proposed truck terminal. It was, however, observed in Audit that the improvement work was not included in the scheme for the complex approved by the Government and that the proposed truck terminal had not materialised till date (March 2002). Viewed from the fact that only 219 out of 1,253 acre has been sold in the complex, improvement to the village road by incurring Rs.2.32 crore was unwarranted.

2A.8.5.2 Execution of works for sewerage system

The sewerage system includes laying of pipelines to receive the industrial wastes of units and convey them for treatment to oxidation pond or common effluent treatment plant. A review of records relating to sewerage system completed in Nilakottai, Irungattukottai and Perundurai industrial complexes revealed the following:

(i) For Nilakottai, the contract relating to sewerage systems at a cost of Rs.59.82 lakh awarded in June 1994 to Tamil Nadu State Construction Corporation Limited (TNSCC), a State Public Sector Undertaking, was cancelled (December 1997) due to slow progress of work. The balance work was given (October 1999) to a private contractor and the Company incurred a total expenditure of Rs.81.25 lakh on this work. The Company could not recover additional expenditure of Rs.21.43 lakh from TNSCC in the absence of an enabling clause in the contract. As there was no demand for the plots, as could be seen from the fact that not a single plot had been sold, the cancellation of sewerage works awarded to TNSCC due to slow progress and getting the same executed at an additional cost lacked justification. It was replied (May 2002) that the sewerage works were executed through private contractor to increase the demand potential. However, the fact remains that in this complex not a single plot has been sold till date (March 2002).

Sewerage system constructed at a cost of Rs.6.63 crore was kept idle.

(ii) In Irungattukottai the sewerage system executed at a cost of Rs.6.63 crore was not put to beneficial use even after a lapse of more than one year due to the failure of the Company to hand over the site for oxidation pond and the existing industries are discharging their effluents in the open area.

Laying of HDPE pipes over the entire area in haste resulted in idle investment of Rs.3.89 crore.

(iii) In order to cover an area of 47 acre sold out of 516 acre earmarked for polluting industries, a proposal to set up Common Effluent Treatment Plant (CETP) at Perundurai complex was approved (January 1999) by Government with a condition that the work should be executed with the contribution from the entrepreneurs. However, the Company laid High Density Polyethylene (HDPE) pipelines over the entire 516 acre at a cost of Rs.4.28 crore. As this CETP was to cater to the needs of the existing industries in 47 acre only, laying of pipelines for the whole area was not justified. This resulted in idle investment of Rs.3.89 crore.

2A.8.5.3 Execution of street light works

The work of providing street lights in industrial complexes included erection of steel tubular poles with double or single fittings for sodium vapour lamps and provision of underground cables between the poles. A detailed analysis of the works executed at the four complexes in Nilakottai, Perundurai, Siruseri and Irungattukottai revealed the following:

(a) A comparison of expenditure on provision of street lights incurred by the Company with that incurred by Chennai Corporation revealed that while the cost of electric lamp post was Rs.21,000 in Siruseri, Rs.19,900 in Irungattukottai and Rs.15,210 in Perundurai, the same was Rs.9,676 in Chennai Corporation. This resulted in an avoidable extra expenditure of Rs.0.81 crore on 1,232 lamp posts provided in these three complexes.

(b) The Company has not standardised the fixtures and fittings for its industrial complexes nor carried out any survey before finalising the requirement. During the last five years, in three industrial estates (Perundurai, Irungattukottai and Nilakottai) 1,602 (out of total 1,821) street lights remained (September 2002) to be energised.

2A.8.5.4 Execution of water supply works

2A.8.5.4.1 The execution of water supply system includes tapping of water from under ground or lakes/rivers, laying of pipes for conveying water, installation of booster pumps, construction of sumps/overhead tanks, laying distribution water line, *etc*. The table in **Annexure-18** indicates the expenditure incurred, capacity created for water supply and actual consumption.

Infrastructure for water supply created at Rs.79.35 crore remained grossly under-utilised.

From the table, it would be observed that the Company incurred Rs.79.35 crore for creation of capacity to draw 28.3 Million Gallons Per Day (MGD) against the actual consumption of just 2.83 MGD indicating that infrastructure created at a cost of Rs.79.35 crore remained grossly under-utilised.

2A.8.5.4.2 Government of India guidelines stipulate that the growth centres should be located close to a dependable and adequate water source. However, most of the industrial complexes established by the Company were away from water sources by more than 20 km., thereby increasing the cost of water supply schemes. It was also observed that the water sources for the industrial complexes were inadequate and undependable.

Assessment of water requirement for industries was not based on specific demand or on realistic basis. Even though State Government approval was a pre-condition for drawal of water of more than one MGD from ground source, it was not obtained in respect of Bargur complex.

2A.8.5.4.3 Execution of works through Tamil Nadu Water Supply and Drainage Board (TWAD)

(i) All the schemes except Chemabarampakkam were executed through TWAD. It was noticed in Audit that while entrusting water supply schemes to TWAD, no cost-analysis was done or detailed estimates prepared.

The Company did not obtain detailed accounts for remittance of Rs.22.80 crore deposited with TWAD.

(ii) Though the Company had taken technical officers from TWAD on deputation for coordinating with various agencies and overall technical supervision, the water supply schemes were entrusted to TWAD on turnkey basis.

(iii) The Company remitted (1993 to 1998) Rs.22.80 crore to TWAD as deposit for execution of water supply works for Perundurai, Nilakottai, Gangaikondan and Bargur complexes. But it was noticed that the details of actual expenditure and the balance receivable were not obtained from TWAD even three years after completion of the schemes.

(iv) The Company paid centage at 22.5 *per cent* of value for all capital items *viz*., pipes and equipment, which could have been avoided had these items been purchased directly and supplied to TWAD. A test check in respect of Tuticorin Water Supply Scheme indicated that payment of centage on capital items (value: Rs.4.31 crore) worked out to Rs.0.97 crore.

(v) In respect of Araniyar Water Supply Scheme (Gummidpoondi complex), a sum of Rs.4.28 crore was deposited with TWAD in 1995-96, but the statement of accounts for the expenditure of Rs.2.98 crore only was received in September 2001 after protracted correspondence. The balance amount of Rs.1.30 crore was not refunded by TWAD so far (March 2002). Further, during the execution of the scheme, TWAD supplied capital equipment, *viz*., voltage stabilizers, 14 generator sets, *etc*., costing Rs.42.75 lakh, which were neither required for the system nor in the working condition.

A critical analysis of the implementation of water supply schemes in three locations, *viz*., Chembarambakkam, Araniyar and Perundurai indicated the following deficiencies:

2A.8.5.4.4 Chembarambakkam Water Supply Scheme

(i) The Government permitted (March 1997) the Company to draw 5 MGD of water from Chembarambakkam lake for Irungattukottai and Sriperumpudur complexes subject to availability of water in the lake.

In spite of this, the Company created infrastructure for drawing and conveying 10 MGD from Chembarambakkam to Irungattukottai and Sriperumbudur at a total cost of Rs.35.29 crore. As the Government permitted drawal of 5 MGD only for both the projects, the Company should have restricted the infrastructure to draw 5 MGD water from Chembarambakkam.

Pipelines for carrying water laid at a cost of Rs.11 crore remained unutilised due to non-availability of water.

(ii) The Company laid pipelines for carrying water from Irungattukottai to Sriperumbudur at a cost of Rs.11 crore. These pipelines completed in November 1999, has been lying idle since then due to non-availability of water at Chembarambakkam lake. The water for Sriperumbudur complex is being supplied through locally dug bore wells and lorries, rendering the entire expenditure of Rs.11 crore infructuous. The Company replied (May 2002) that it has requested the Government to increase the permitted drawal to 10 MGD. The fact remains that there is no water supply through these pipelines and no possibility of Government increasing the permitted drawal in view of the poor storage in the lake. Moreover, the actual drawal of water by the Company was 0.5 MGD only.

(iii) The Company deposited (May 1998) Rs.1.16 crore with Public Works Department (PWD) for the construction of a sluice and a watch tower at Chembarambakkam lake for the anticipated drawal of 15 MGD. As stated above, the water supply from the lake was inadequate and undependable and the actual drawal of water by the Company was a meagre 0.5 MGD against the permitted 5 MGD, thus, the decision to construct a sluice and watch tower at a cost of Rs.1.16 crore lacked justification.

(iv) In order to extend water supply from Irungattukottai (13th km. from Chembarambakkam) to Sriperumpudur via Nemili (17th km. from Chembarambakkam) the Company decided (November 1998) to install a booster station at Nemili to increase water pressure and accordingly laid 800 mm dia pipes from Irungattukottai to Nemili and 600 mm dia pipes from Nemili to Sriperumbudur. The Nemili project was shelved in September 2001{*vide* Paragraph 2A.8.2.2 (ii)} and the Company decided to locate the booster station at Irungattukottai itself. This implied that 600 mm dia pipes would have been sufficient for the entire length from Irungattukottai to Sriperumbudur. As the reasons attributed for shelving Nemili project, *viz*., absence of access to National Highways and non-availability of water were known even before initiating the project, the Company should have laid the 600 mm dia pipe only up to Nemili. Laying of 800 mm dia pipes in haste up to Nemili resulted in avoidable extra expenditure of Rs.1.55 crore being the differential cost involved in laying 800 mm dia pipes instead of 600 mm dia pipes from Irungattukottai to Nemili.

(v) At Chembarambakkam head works, as against the actual requirement of two motors (including one as a standby), the Company procured six motors at a cost of Rs.46.94 lakh. Installation of four additional motors was unwarranted and resulted in avoidable expenditure of Rs.31.29 lakh.

2A.8.5.4.5 Araniyar Water Supply Scheme

Investment of Rs.4.28 crore on Araniyar Water Supply scheme remained largely under utilised.

Araniyar Water Supply Scheme was executed (1997) through TWAD for supply of 2 MGD of water to the Gummidpoondi industrial complex at a total cost of Rs.4.28 crore. Though the work included erection of 29 bore wells in the river basin for supply of 2 MGD of water, TWAD could erect only 14 bore wells due to objections by the local public. Even out of 14 bore wells erected, only five were functioning as of March 2002 with a yield of 0.6 MGD and the remaining bore wells were in damaged condition. In view of the poor yield of water in the river bed, the Company had to drill 14 bore wells within the Gummidipoondi industrial complex during 2001 at a cost of Rs.14.70 lakh rendering the investment of Rs.4.28 crore on Araniyar water supply scheme largely under utilised.

2A.8.5.4.6 Cauvery Water Supply Scheme for Perundurai growth centre

For supply of water to Perundurai growth centre, the erstwhile TACID decided (1992) to draw water from Cauvery river at Bhavani. Accordingly, the water supply scheme for drawal of 12.5 Million Litre Per Day (MLD) of water was entrusted to TWAD on turnkey basis at an estimated cost of Rs.9.23 crore. Even when there was no firm demand from the prospective entrepreneurs for allotment of plots, the Company *suo motto* increased the water requirement to 18 MLD and the investment to Rs.14.13 crore (September 1995). After payment of Rs.10.57 crore during the period from 1993 to 1997, the work was completed by TWAD in December 1998. It was noticed in Audit that as against the capacity of 18 MLD, the actual drawal of water was only 0.153 MLD. From this it would be clear that the Company hastily increased the scheme capacity without matching demand and incurred a minimum avoidable extra expenditure of Rs.1.34 crore on the above scheme. Though the Company had no demand even for raw water from the entrepreneurs, installation of water treatment plant in 1999 and laying of pipelines at a cost of Rs.2.58 crore lacked commercial prudence. It was replied (May 2002) that the water treatment plant was installed to improve the sale of plots in future but it was observed that the demand had not picked up.

2A.9 Maintenance of industrial complexes

The Company undertakes maintenance of the industrial complexes on behalf of the industrial units and as per the terms of agreement with the industrial units is entitled to recover general maintenance charges and water charges.

2A.9.1 General maintenance charges

(i) A review of outstanding maintenance charges in respect of three complexes *viz*., Hosur, Ranipet and Gummidpoondi revealed that a sum of Rs.0.93 crore remained to be recovered from the allottees and the major portion of this amount was due from sick units and hence prospects of recovery are remote.

(ii) Though Perundurai growth centre was completed and inaugurated in July 2000, the Company had not fixed the maintenance charges to be recovered from the allottees so far (March 2002) due to low occupancy. This resulted in non-recovery of Rs.49.06 lakh incurred on the maintenance up to the same period.

2A.9.2 Fixation and collection of water charges

The amount spent by the Company on water supply schemes and other revenue expenses like water charges to TWAD, royalty to PWD and the expenditure on maintenance of water supply installations are recovered from the allottees by way of water charges. The Company decided (July 1997) to recover 50 *per cent* of the capital expenditure from the allottees at the time of allotment of the industrial plots and the balance amount was to be collected over 30 years on annuity basis.

It was noticed that:

Non- existence of agreement for water supply resulted in non-recovery of Rs.6.23 crore of capital cost from allottees.

(i) The Company failed to collect the 50 *per cent* of capital expenditure amounting to Rs.5.07 crore from the allottees of Sriperumpudur complex and Rs.1.16 crore from the allottees of Perundurai complex because of non-existence of an agreement for water supply. It was replied (May 2002) that the Board took a decision not to collect capital charges for Perundurai as the allottees felt that the capital cost was very high.

(ii) The Company suffered a loss of Rs.4.26 crore on supply of water at Tuticorin, Hosur and Gummidipoondi complexes during the last five years ended 31 March 2002. This was mainly due to delay in revision of water charges and the method adopted for recovery of arrears.

(iii) The Company could not recover the entire annual maintenance expenditure incurred in Perundurai complex, as the area sold was very much less compared to the total area provided with water supply facilities. This resulted in a loss of Rs.0.62 crore for the period from April 2000 to December 2001.

2A.10 Infructuous expenditure on consultancy for port development

Infructuous expenditure of Rs.2.26 crore was incurred on conducting a feasibility study on minor ports without assessing the traffic potential.

The erstwhile TACID was directed (September 1996) by the Government to develop minor ports at Cuddalore and Colachel. Without doing preliminary study of traffic potential and identifying the prospective promoters for the above ports, the Company engaged (August 1997) M/s Consultancy Engineering Services (Private) Limited, New Delhi for preparation of techno-economic feasibility report at a cost of Rs.1.85 crore and incurred Rs.40.57 lakh towards other incidentals in this regard. The feasibility report received in February 1999 could not be used as the Company was unable to identify any promoter to make use of the feasibility report. Subsequently, it was found (March 2001) that the traffic potential was not adequate to develop the ports. Since the feasibility report remained untested from 1999 onwards, the total expenditure of Rs.2.26 crore was rendered unfruitful. The Company replied (July 2002) that the development of Cuddalore port was deferred due to non-implementation of anticipated projects in the area, which only confirms the fact that the expenditure was incurred without assessing the traffic potential.

2A.11 Lending activities

2A.11.1 Sanction and disbursement of term loan

The term-lending activities of the Company were transferred (May 1999) to TIIC but the follow-up and recovery of loans already sanctioned by the Company remained with it. The Company actually transferred these activities in October 2000 only and in the meantime continued to sanction/disburse term loans in violation of the instructions of the Government.

The following table indicates the position regarding year-wise sanction and disbursement of loans during the five years up to 2001-02:

(Amount – Rupees in crore)

Year	Sanctions		Disbursement	
	Number of units	Amount	Number of units	Amount
1997-98	23	41.08	56	40.67
1998-99	21	39.75	47	27.49
1999-2000	15	28.30	22	10.33
2000-01	18	0.71	18	11.53
2001-02	---	---	6	3.99
TOTAL	**77***	**109.84**	**149***	**94.01**

* **The variation in figures between sanctions and disbursement is due to disbursement of loans sanctioned in previous years and subsequent cancellations of sanction.**

It may be seen from the above table that the term loan sanctioned/disbursed up to 1999-2000 showed a declining trend, which was attributed by the Company to general recession and availability of funds at lower interest rates in the market. Even after transfer of term-lending operations to TIIC from May 1999, the Company sanctioned term loans amounting to Rs.29.01 crore and disbursed Rs.25.85 crore during the same period in violation of Government Order. The Company admitted (July 2002) that even after receipt of Government order, sanctions of loans were made for existing assisted units for expansion besides hotel and hospital projects.

2A.11.2 Recovery of dues

The details of loans due for recovery, amount actually recovered and amount over due for recovery at the end of each of the last five years ending 2001-02 are given in **Annexure-19.**

From the Annexure, it would be observed that:

Poor recovery performance resulted in increase in outstanding dues from Rs.144.86 crore in the beginning of 1997-98 to Rs.368.63 crore in March 2002.

(i) The amount to be collected, which was Rs.144.86 crore (Rs.40.51 crore principal plus Rs.104.35 crore interest) in the beginning of 1997-98 increased to Rs.368.63 crore (Rs.79.31 crore principal plus Rs.289.32 crore interest) in 2001-02.

(ii) The recovery has been showing a declining trend from 28 *per cent* in 1997-98 to 10 *per cent* in 2001-02.

(iii) The recovery of arrears was abysmally low in 2001-02 (Rs.11.80 crore) despite collection of Rs.5.24 crore under one-time settlement scheme.

Only 22 out of 275 borrowers are regular in repayment.

(iv) No separate targets for collection of current dues and arrears were fixed. The targets fixed for recovery of dues were never correlated with the outstanding dues. The targets fixed for recovery of principal steadily decreased during the last five years from 72 *per cent* in 1997-98 to 23 *per cent* in 2001-02. It was also observed that only 22 out of 275 borrowers are regular in repayment of dues. Further, even after expiry of the full repayment period of eight years for term loan, the Company could not recover the dues in many cases, which increased from 32 units in March 1997 to 136 units in March 2001 with corresponding increase in principal outstanding from Rs.7.66 crore to Rs.34.45 crore. While the Company was not able to recover the dues fully from the loanees, it paid back all the refinance dues to SIDBI on time, thereby depleting the scarce funds. It was replied (July 2002) that separate targets were not fixed for current dues and arrears since that was not considered as a means of achieving recovery. The reply only confirms the fact that the Company was not exercising any control over recovery of dues.

2A.11.3 Non-performing assets

In terms of IDBI guidelines of October 1994 as modified from time to time, the loan portfolio of the Company is classified as Standard Assets or

Performing Assets (PA) and Non-performing Assets (NPA) for the purpose of income generation/recognition and provision. An asset becomes a NPA, when it ceases to generate income for the Company or the interest remain due for a period exceeding two quarters. The following table gives the details of NPA as at the end of last five years.

Non-performing assets increased from Rs.93.03 crore to Rs.161.34 crore during the five years ended 31 March 2002 due to poor follow-up.

(Amount – Rupees in crore)

Type of assets	1997-98	1998-99	1999-2000	2000-01	2001-02 (Provisional)
Total asset/loan balance	255.69	250.02	227.49	214.77	197.58
LESS: Standard assets	162.66	132.78	103.27	50.42	36.24
Non-performing assets	93.03	117.24	124.22	164.35	161.34
Percentage of NPA to total assets	36.38	46.89	54.60	76.52	81.66

The above table indicates the gradual increase in NPA from 36.38 to 81.66 *per cent*, which was abnormally high as compared to 7 to 9 *per cent* in the case of other Financial Institutions and Nationalised Banks.

It was replied (July 2002) that the NPA had gone up due to recessionary trend and sudden stoppage of lending activity. The reply is not acceptable as the high percentage of NPA, which increased to 81.66 *per cent* could be attributed to poor follow-up.

NPA are further subdivided in to substandard, doubtful and loss assets depending upon the periods for which they remain unpaid. A further analysis of NPA for the five years up to 2001-02 revealed that the Company failed to prevent the slippage of standard assets in to sub-standard, doubtful and loss assets as detailed below:

Loss assets increased from Rs.3.39 crore in 1997-98 to Rs.24.01 crore in 2001-02.

(Amount – Rupees in crore)

Details	1997-98	1998-99	1999-2000	2000-01	2001-02 (Provisional)
Sub-standard	41.25	43.27	49.14	45.49	47.28
Doubtful	48.39	67.41	57.51	91.13	90.05
Loss Assets	3.39	6.56	17.57	27.73	24.01

Note:

1. **Sub-standard asset is one, which remains unpaid up to two years.**
2. **Doubtful asset is one, which remains unrecovered for more than two years.**
3. **Loss asset is one, which requires to be written off either fully or partly.**

The steep increase in loss assets, in which there are no chances of recovery indicates poor follow-up action by the Company. In addition, the borrowers' balance sheet and profit and loss accounts are not obtained periodically and analysed by the Company to have a complete picture of risk profile of the assets. Increased NPA were mainly attributable to system failures and follow-up failures as discussed in following paragraphs.

2A.11.4 Irregularities in sanction and failure in follow-up of loans

A critical study of appraisal memoranda and other records relating to 60 units, out of 275 assisted units pending recovery as on March 2002 revealed that the subsequent sickness of the assisted units and non-recovery of dues could be traced to one or more reasons of inadequate pre-sanction appraisal or post sanction failures as summarised below:

Sl.No.		**No. of units**
A	**Deficiency in pre-sanction appraisal**	
(i)	Unproven technology and unviable projects	16
(ii)	Failure to analyse the financial soundness of promoters/data	5
(iii)	Collateral security offered was inflated	6
(iv)	Non-enforceability of claims in respect of primary assets	3
B.	**Post sanction failures**	
(i)	Non-verification of assets	6
(ii)	Inadequacy of working capital	11
(iii)	Non-availability of skilled labour and market demand	20
(iv)	Inefficiency/deficiency in management	12
(v)	Non-compliance with statutory provisions/regulations	11
C.	**Follow-up failures**	
(i)	Periodical inspection not conducted/Progress Report not obtained	7
(ii)	Acceptance of cheques even after dishonour of earlier cheques	19
(iii)	Delay in invoking personal guarantee or taking possession of assets	7
(iv)	Missing assets	7

Poor recovery performance of the Company due to incorrect appraisals of the project, poor follow-up of loans after disbursal and inadequate follow-up of closed accounts were analysed by audit and 27 such cases involving total overdue amount of Rs.50.69 crore are given in **Annexure-20.**

Apart from the above, some of the cases involving serious irregularities in extension of financial assistance are discussed below:

2A.11.4.1 Sanction of loan to known defaulter

Loss of Rs.2.58 crore due to sanction of term loan to a known defaulter.

M/s Chimique Labs (India) Limited was sanctioned (May 1998) lease finance of Rs.2.07 crore for purchase of machinery. Even though two cheques for Rs.4.94 lakh given by the loanee unit towards upfront fee were dishonoured (July 1998), Managing Director condoned the lapse of the loanee. Later on, loan amounting to Rs.2 crore was disbursed in August and November 1998 with a warning letter to the loanee that further dishonour of cheques would be viewed seriously. Shortly after disbursal, machinery worth Rs.1.12 crore were found (June 1999) missing from the project site. Even after this, no action was taken to recall the loan as the loanee intimated that the machineries had been sent for repair and assured that these machineries would be installed by July 1999. From the records made available to Audit, it is not clear whether the

Company took any action after July 1999. All the cheques for Rs.2.31 crore received from the unit during the period from May 1999 to October 2000 were dishonoured. However, the loan was foreclosed only in May 2001 after a delay of two years and simultaneously a criminal complaint for dishonour of cheques was lodged. The Company did not take possession of assets of the unit immediately in spite of having collateral security for a meagre amount of Rs.33.64 lakh. The over due position of loan as on March 2001 was Rs.2.58 crore including interest amounting to Rs.12 lakh. The unit had gone in to liquidation from February 2002. The Company replied (July 2002) that they had taken possession of the unit and legal action is being initiated for recovery of dues. However, the fact remains that the extension of loan even after knowing the poor credit worthiness of the party compounded with follow-up failures resulted in non-recovery of Rs.2.58 crore. The Company has not fixed any responsibility for the lapses.

2A.11.4.2 Disbursement without ensuring statutory clearance

Loss of Rs.1.76 crore due to sanction of loan to a unit without ensuring clearance by Pollution Control Board and other Statutory Authorities.

A request for a loan to set up HDPE/PP sack manufacturing unit from M/s Harikrishna Polymers (Private) Limited in a residential area at Valasarawakkam in Chennai was rejected by the Company (June 1994), since managerial and financial capabilities of the promoter were considered doubtful. However, in August 1994, the Company on reconsideration of loan application sanctioned Rs.1.20 crore with a condition that the unit should obtain statutory, local body and pollution control clearances before setting up a manufacturing unit in the residential area. An amount of Rs.1.08 crore was disbursed in March 1995 by relaxing the above conditions. The unit was closed (November 1995), as it could not get clearance from the Pollution Control Board and in view of stay obtained by the residents. Even though the unit was not working, action to recall the loan was not taken. The proposal (January 1997) for foreclosure of loan due to default in repayment of loan was also withdrawn after accepting payment of Rs.9.63 lakh only. However, no payments were received thereafter resulting in mounting of overdues to the extent of Rs.1.76 crore including interest amounting to Rs.0.71 crore (March 2002). The chances of recovery are bleak as the unit is liable to pay a sum of Rs.5.69 crore to various statutory authorities and other private parties. Further, the machineries are also not in running condition. It was replied (July 2002) that the requirement of Pollution Control Board clearance was relaxed before disbursement by withholding 10 *per cent* of loan. The reply is untenable as withholding just 10 *per cent* of loan for not getting statutory clearance was against the financial interest of the Company.

Thus, the sanction of loan to promoters, whose financial background was doubtful and disbursal of loan amount by relaxing the main condition of obtaining clearance from Pollution Control Board stipulated for grant of loan resulted in a loss of Rs.1.76 crore.

2A.11.4.3 Sanction of loan to an unviable unit

Non-recovery of Rs.1.13 crore due to sanction of loan to an unviable unit.

A request from Renaisance Petrolube Limited for a term loan for setting up a unit to produce lubricant oil in SIPCOT complex at Manamadurai was turned down (August 1996) by the Company as it was thought that it would be difficult for the small units to compete with big companies like Indian Oil Corporation, Bharat Petroleum Corporation, *etc.*, and it would be necessary to have a minimum production capacity of 15,000 tonne *per annum* to stay in the industry. The Company reversed this decision and sanctioned (December 1996) a loan of Rs.1.40 crore on the basis of the report of the consultant of the unit that even with the capacity of 10,000 tonne *per annum* it would be financially viable to operate. The loan amount was disbursed between December 1997 and December 1998. In view of severe problems in marketing and finance, the unit could achieve production to the extent of only 3.3 *per cent* of the capacity. Consequently, the unit defaulted in repayment of loan despite rephasement in December 1999. Over dues as on 31 March 2002 were Rs.1.13 crore including interest of Rs.0.63 crore. The loan is yet to be foreclosed.

Thus, extension of financial assistance to an unviable unit with inherent marketing problems resulted in accumulation of over dues amounting to Rs.1.13 crore.

2A.11.5 Delay in disposal of units taken over

2A.11.5.1 In case of default in repayment of loan by the borrowers, the Company is empowered under Section 29 of the State Financial Corporations Act, 1951 to take over the assets of the assisted units and sell the property to realise the dues. A test check of 31 cases, where the assets were taken over and not disposed off till April 2002 by the Company, revealed that there were enormous delays in disposal of assets as detailed below:

Value of assets taken over against dues of Rs.65.60 crore was Rs.19.17 crore only.

(Amount – Rupees in crore)

Sl.No.	Age-wise delay after possession	Number of units	Overdue amount
1.	More than three years	23	38.62
2.	2 to 3 years	5	12.35
3.	1 to 2 years	3	14.63
	TOTAL	**31**	**65.60**

It was observed that the present value of assets taken over was only Rs.19.17 crore (as on 2000-01) as against the dues of Rs.65.60 crore, indicating a loss of Rs.46.43 crore on these assets. Moreover, 24 assets having book value of Rs.58.79 crore could not be sold even after more than two to three auctions for want of bidders. Due to delay in disposal, the Company had not only to incur Rs.3 crore towards security, insurance and maintenance of assets during the five years up to March 2002, but also to bear the loss due to deterioration in value of assets. It was replied (July 2002) that the buyers are discouraged from purchasing these assets due to claim of statutory dues *viz.*, Sales Tax, Electricity, *etc.*, relating to them and to reduce the expenditure on maintenance, the number of security guards were also reduced.

2A.11.5.2 Besides the 31 cases mentioned above, it was seen that assets of 10 units (outstanding loan of Rs.28.75 crore as on 31 March 2001) were taken over by official liquidators/TIIC/banks. In these assets, the Company had only proportionate claim over the value of assets, which could not be ascertained for want of details.

Absence of any strategy for timely disposal of assets taken over and lack of realistic assessment of the value of assets with related encumbrances/liabilities attached to them resulted in continued maintenance of assets indefinitely. Under these circumstances, the amount to be realised on disposal of assets would not even match the cost of maintenance/security charges, in many cases.

2A.12 Subsidy to industries

2A.12.1 Disbursement of subsidy without any follow-up

Failure to take any follow-up action as per the terms and conditions of the scheme, defeated the objective of scheme.

From the year 1982, the Company has been engaged in implementing the State capital subsidy scheme. Under this scheme, new/existing industries undertaking substantial expansion/diversification were extended capital subsidy. During the period under review, the Company disbursed subsidy of Rs.32.24 crore to 364 units.

As per the terms and conditions governing release of subsidy to industrial units, the beneficiaries are required to be in operation for a minimum of five years from receipt of subsidy failing which they would have to refund the subsidy with interest. They are also required to submit annual progress report. In this connection, it was noticed that the Company did not take any follow-up action to ensure the continuance of the beneficiary unit and no reports were received from them periodically, thereby defeating the objective of the scheme.

2A.13 Human resources

2A.13.1 As already discussed in Paragraph 2A.1, the functions of TACID were overlapping with those of SIPCOT and therefore, it was decided to merge TACID with SIPCOT. As a result of overlapping functions, the administrative expenditure of Rs.2.20 crore incurred by TACID during the period from 1995 to May 1999 when both the companies co-existed, could have been avoided.

2A.13.2 The Government ordered (May 1999) transfer of loan functions to TIIC along with the staff but the Company did not take any action to transfer 15 employees, who were engaged in the loan sanctioning activities. This is resulting in additional expenditure of Rs.18 lakh *per annum*.

The Company subsequently identified (November 2001) 71 employees as surplus and a Voluntary Retirement Scheme (VRS) was approved (June 2002) by the Board of Directors and the same is under implementation.

The above matters were reported to the Government in July 2002; their replies had not been received (September 2002).

Conclusion

Though the main objectives did not provide, the Company, based on the order of Government, is engaged in acquisition and development of land with necessary infrastructural facilities. The review of industrial development activities undertaken in the form of development of industrial complexes and sanction of term loans to entrepreneurs indicated dismal performance by the Company. The Company incurred losses in the last four years mainly because of development of industrial plots without considering the slow down in industrial growth and increase in non-performing assets.

The Company could not market the industrial plots developed, mainly because of improper selection of locations and failure to conduct preliminary survey. Further, undertaking of infrastructure development works with high standards over vast areas instead of in a phased manner, resulted not only in locking up of huge funds and consequent interest burden but also kept the entrepreneurs away from buying the plots due to their prohibitive cost. In the term loan activity, the Company suffered losses due to deficiencies in pre-sanction appraisal and post-sanction follow-up action.

Thus, the Company unnecessarily diversified its activities, which failed due to lack of expertise in infrastructural development. Concerted efforts are to be taken to have proper systems and policy guidelines for selection of site, market the vast area of developed land remaining unsold and to improve the recovery performance of principal and interest. The Company has to identify its core activities, amend its objectives suitably and formulate a long-term business strategy for its survival.

SECTION 2B

TAMIL NADU TEXTILE CORPORATION LIMITED

TAMIL NADU TEXTILE CORPORATION LIMITED

HIGHLIGHTS

Tamil Nadu Textile Corporation Limited was incorporated in April 1969 to provide employment to the workers of the closed textile mills in the State.

(Paragraph 2B.1)

Accumulated loss of Rs.3.42 crore as on 31 March 2002 completely eroded the paid up capital of Rs.1.54 crore as on that date. Accumulated losses of Rs.3.42 crore were inclusive of losses of Rs.6.52 crore of Somasundaram Super Spinning Mills and the write off of Rs.1.53 crore in respect of Cauvery Spinning and Weaving Mills vested with the Company.

(Paragraph 2B.6.1)

Capacity utilisation of available loom hours ranged from 38.11 to 66.14 *per cent* during last five years against norm of 90 *per cent*.

(Paragraph 2B.8.2)

Failure to achieve norm in loom-shed efficiency resulted in production loss of 69.88 lakh metre cloth valued at Rs.20.21 crore.

(Paragraph 2B.8.3)

Procurement of yarn at the rates higher than market rates resulted in extra expenditure of Rs.1.18 crore during last five years.

(Paragraph 2B.9)

The Company has neither formulated any marketing policy nor taken any efforts towards marketing development for polyester cloth.

(Paragraph 2B.10)

Retirement of 102 essential direct labourers under Voluntary Retirement Scheme resulted in idle capacity and corresponding production loss of 46.53 lakh metre cloth and contribution loss of Rs.1.96 crore during last three years.

(Paragraph 2B.11.2)

2B.1 Introduction

Tamil Nadu Textile Corporation Limited was incorporated in April 1969 to provide employment to the workers of the closed textile mills in the State.

The Company was incorporated in April 1969 to provide employment to the workers of closed textile mills, as a rehabilitation measure, when the textile industry was facing crisis due to increased cotton prices and a slump in the textile market. Initially, the Company took over the management of 14 sick private textile mills under the provisions of Industries (Development and Regulation) Act, 1951 and made them viable. Subsequently, these mills were nationalised (September 1974) under the Sick Textile Undertakings Nationalisation Act, 1974 and their management was handed over to the National Textile Corporation Limited (NTC), a Central Government Company. The Company was appointed by the Government of India (GOI) as "Authorised Person" to take over the management of Cauvery Spinning and Weaving Mills (CSWM) and Somasundaram Super Spinning (SSS) Mills during the period 1977-86 and 1986-94, respectively. CSWM was liquidated in April 1988 and SSS Mills was closed in July 1994.

The Company set up (1982) ten Power Loom Complexes (PLCs) each with 96 looms at a total project cost of Rs.4 crore. Out of these, seven PLC set up with subsidy (Rs.1.75 crore) from Integrated Rural Development Programme (IRDP) scheme, were later converted (1987) in to co-operative societies. The Company took over (February 1994) an Auto Loom Shed (ALS), commissioned in 1987, with 12 automatic CIMMCO looms at Kurichi, Coimbatore from Tamil Nadu Industrial Investment Corporation Limited (TIIC), a Government of Tamil Nadu Undertaking, at a cost of Rs.18 lakh. The present activities of the Company are confined to managing the remaining three PLC and one ALS, besides holding the defunct SSS Mills.

2B.2 Objectives

As per the Memorandum and Articles of Association, the main objectives of the Company are:

(i) To set up and run textile mills in the State of Tamil Nadu.

(ii) To carry on the business of textile mills in all its branches and to manage only such business or undertaking entrusted to it either by the Central or State Government.

(iii) To take over and run as an employment relief or other wise any textile mills in the State, which is closed or likely to be closed.

(iv) To weave or otherwise manufacture, buy and sell and deal in all kinds of cloth.

The following objectives were added to the object clause of the Company by an amendment in March/April 1999.

(v) To act as a "Nodal Agency" for extending financial assistance under GOI/State Government schemes for the power looms under co-operative sector.

(vi) To conduct market study in export/local markets.

(vii) To supply yarn (raw material) to the Power Loom Weavers Co-operative Societies.

It was observed in audit that none of the objectives added in 1999 have been taken up by the Company.

2B.3 Scope of Audit

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1992. Committee on Public Undertakings (COPU) discussed the review in November 1993. All recommendations of COPU excepting that relating to minimum tenure of three years for the Chief Executives of PSUs have been implemented. The present review conducted during January to May 2002 covers the performance of the Company during the period from 1997-98 to 2001-02, covering all the four units.

2B.4 Organisational set up

The management of the Company is vested in a Board of Directors consisting of eight Directors including Chairman. All Directors including Chairman are appointed by the Government. The Director of Handloom and Textiles (DH&T), Government of Tamil Nadu is presently the ex-officio Chairman of the Company. The Managing Director (MD), who looks after the day-to-day management of the Company, is a non-technocrat and is assisted by an Assistant Director of Handlooms and Textiles and an Assistant Manager of the Company.

Though COPU had recommended that the Chief Executives of the Public Sector Undertakings should have a minimum tenure of three years with a view to ensure continuity/stability and the Company had assured (January 1995) to follow-up the same, there were 11 MDs during the period of five years under review. In fact five MDs held the post for less than three months.

2B.5 Capital structure and borrowings

2B.5.1 Capital structure

The authorised and paid-up share capital as on 31 March 2002 were Rs.5 crore and Rs.1.54 crore respectively and the entire paid-up capital has been contributed by the Government of Tamil Nadu.

2B.5.2 Borrowings

As on 31 March 2002, the outstanding loans of the Company were as follows:

(Rupees in lakh)

Sl.No.	Particulars	Amount
(i)	**Loan from Canara Bank**	
	Principal	5.00
	Interest and other charges	14.69
(ii)	**State Bank of India – Import Cotton Account**	
	Principal	93.87
	Interest	224.99
(iii)	**Loan from Government of Tamil Nadu**	
	Principal	235.43
	Interest	232.52
	TOTAL	**806.50**

None of the loans was taken by the Company to meet its requirements.

Audit analysis of the loans revealed that none of the loans was taken by the Company to meet its requirements.

2B.5.2.1 Loan from Canara Bank was obtained (March 1992) to meet the day-to-day requirements of SSS Mills against the hypothecation of assets of SSS mills.

2B.5.2.2 Loan from Tamil Nadu Government, Rs.1.01 crore was a ways and means advance granted during the period 1981-1987 for providing funds to co-operative spinning mills (CSMs), SSS Mills and CSWM. The balance Rs.1.34 crore was sanctioned (April 2001) for settling retirement benefits under Voluntary Retirement Scheme (VRS) to workers and staff of SSS Mills.

2B.5.2.3 Loan from State Bank of India (SBI) was taken by the Company for extending financial assistance for import of cotton on behalf of CSMs in the State during 1988-89. SBI invoked (December 1995) State Government guarantee and filed (December 1998) an Original Application before the Debt Recovery Tribunal for the recovery of dues. The Company has taken up the matter (March 2002) with SBI for a negotiated out of court settlement. Though the loan amount (including interest) is shown in the accounts of the Company as recoverable from the beneficiaries (*i.e.*, CSMs), the chances of recovery are remote.

2B.6 Financial Position and Working Results

2B.6.1 Financial Position

Accumulated loss of Rs.3.42 crore as on 31 March 2002 completely eroded the paid-up capital of Rs.1.54 crore as on that date.

The financial position of the Company during the five years ended 31 March 2002 is given in **Annexure-21**. The accumulated losses sustained by the Company during the last five years ranged from Rs.1.92 crore to Rs.3.42 crore. Accumulated loss of Rs.3.42 crore as on 31 March 2002 had eroded the entire paid-up capital of Rs.1.54 crore as on that date. The net worth was negative throughout this period and ranged from Rs.0.25 crore to Rs.1.76 crore.

Audit analysis of the financial position revealed the following:

(i) The increase in unsecured loans in 2001-02 was due to the loan (Rs.1.34 crore) received from Tamil Nadu Government for settling VRS benefit to workers and staff of SSS Mills.

(ii) Current Assets of the Company as on 31 March 2002 include Rs.10.24 crore recoverable from 90 parties (Sundry Debtors). Out of this, Rs.5.64 crore (55.11 *per cent* of the total debts) were outstanding for more than three years. Out of 90 parties from whom the dues were recoverable, suits are pending in Civil Courts in respect of four parties for a total sum of Rs.22.69 lakh. The dues included Rs.3.19 crore consisting of Rs.0.94 crore towards principal and Rs.2.25 crore towards interest to be recovered from Srivilliputhur Co-operative Spinning Mills and North Arcot District Co-operative Spinning Mills towards the supply of imported cotton in 1987-88 for which Company had canalised the funds by acting as "Nodal Agency". In respect of dues amounting to Rs.2.11 crore, outstanding for more than three years from Government departments, it was observed that the concerned departments had not responded at all to the Company's request for settlement of dues.

Accumulated losses of Rs.3.42 crore were inclusive of accumulated loss of Rs.6.52 crore of SSS Mills and the write off of Rs.1.53 crore in respect of CSWM.

(iii) The net worth of the Company was negative only due to vesting of CSWM and SSS Mills with the Company. The accumulated loss of Rs.3.42 crore as on 31 March 2002 was inclusive of the accumulated loss of Rs.6.52 crore sustained by SSS mills during the period from 1986 to 2002 and Rs.1.53 crore, being the dues from CSWM, written off (1995-96) by the Company as discussed below:

(a) CSW Mills

As discussed earlier in Paragraph 2B.1, the Company was appointed (1977) as "Authorised person" to run CSW Mills. The mill was liquidated in 1988. Out of the total claim of Rs.1.98 crore, the Official Liquidator admitted only a sum of Rs.44.60 lakh and balance amount of Rs.1.53 crore was written off (1995-96) by the Company. Even the admitted amount of Rs.44.60 lakh had not been received (March 2002).

(b) SSS Mills

As discussed earlier in Paragraph 2B.1, the Company was appointed (August 1986) "Authorised Person" to take over the management of SSS Mills. The mill ceased its operation from July 1994 as it was not possible to revive and run the unit viably. Accumulated loss (Rs.0.95 crore) of SSS Mills at the time of vesting it with the Company increased to Rs.3.79 crore (March 1994) at the time of closure. As decided in the conciliation meeting held (July 2000) before the Deputy Commissioner of Labour, the Company finalised the package for the implementation of VRS to workers and staff of the mill. For this purpose, a loan of Rs.1.35 crore at the rate of 12 *per cent* interest was sanctioned (February 2001) by the Government. 151 workers had been paid Rs.1.07 crore and the remaining 35 workers are yet to be paid (April 2002). Accumulated loss has further swelled to Rs.6.52 crore by March 2002.

2B.6.2 Working Results

The working results of the Company during the last five years ended 31 March 2002 are detailed in **Annexure-22**.

Audit analysis of working results of the Company revealed the following:

(i) The Company earned profits in 1997-98 and 1998-99 and started incurring losses thereafter. But for absorption of losses suffered by defunct SSS Mills during these years, the profit earned by the Company in 1997-98 and 1998-99 would have been higher by Rs.7.12 lakh and Rs.49.64 lakh respectively. Similarly, the Company would have earned a profit of Rs.35.77 lakh in 1999-2000 and Rs.6.10 lakh in 2001-02. In 2000-01 the loss would have been reduced by Rs.74.88 lakh (**Annexure – 22 A**).

(ii) The high volume of sales achieved in 1997-98 was due to one time receipt of bulk orders earmarked for Co-optex from the Government of Tamil Nadu.

2B.7 Budgeting

The Company prepares production and finance budgets every year and the details of budget and actuals in respect of production and finance budgets for the five years ended 31 March 2002 are given in **Annexure-23**.

2B.7.1 Production budget and performance

The production budget is prepared taking in to account the number of looms, number of working days in a year and number of loomshifts assuming 80 *per cent* capacity utilisation for PLC and 90 *per cent* utilisation for ALS with 70 *per cent* efficiency for all the four units. It is pertinent to mention that while preparing production programme, the Company has been adopting an entirely different norm *viz*., 90 *per cent* capacity utilisation and 75 *per cent* efficiency in respect of all the four units (discussed separately in Paragraph 2B.8.2). The Government places orders to the extent of its capacity/budgeted production as indicated by the Company. Thus, there is no dearth of supply orders. Despite this, the Company has been reducing the budgeted production from 1999-2000 and even these reduced targets were not achieved in 2000-01 and 2001-02. To make up this under-achievement, the Company had been outsourcing to meet orders as discussed in Paragraph 2B.8.3. The Company has not analysed the reasons for shortfall in production with reference to budget. The causes for poor production performance as analysed in audit are as follows:

(i) Low capacity utilisation (as discussed in Paragraph 2B.8.2)

(ii) Low loom shed efficiency (as discussed in Paragraph 2B.8.3)

(iii) Imprudent reduction of essential labour force due to VRS (as discussed in Paragraph 2B.11).

It is interesting to note that there were inordinate delays in preparation of and getting the budget estimates approved by the Government. Budget proposals for 1997-98 were sent to Government in November 1997 and approved in March 1998. Budget for 1998-99 was approved by Board of Directors in August 1998. For 1999-2000 budget estimates were prepared in May 1999 and approved in November 1999. Budget for 2000-01 was finalised by the Board in June 2000 and approved by the Government in March 2001. Budget for 2001-02 was approved by the Government in March 2002. Thus, the very purpose of preparation of budget estimates *viz.,* as a tool of control had been defeated.

2B.7.2 Finance budget

The details of finance budgets prepared by the Company and actuals there against during the last five years ended 31 March 2002 revealed that:

(i) Actual income was less than the budgeted income in all the four years from 1998-99 onwards. In 1997-98, the reason for the high turnover was diversion of orders from Co-optex to the Company, which was a one-time affair. The budget for 1998-99 was based on the increase in the previous year but the actual turnover was far less compared to the budgeted one. The reason for sharp decline in actual income in 2001-02 was the belated receipt of anticipated orders during the fag end of financial year.

(ii) The higher percentage of variation in fixed expenses compared to that budgeted in 1999-2000 and 2000-01 was due to inclusion of retirement benefits paid to workers under VRS.

2B.8 Production performance

2B.8.1 Profile of manufacturing process

The manufacturing activity undertaken in the PLC/ALS is weaving of warp yarn (longitudinal) and weft yarn (lateral). Warp yarn is sent to co-operative sizing societies for sizing as the Company does not have the facility. The sized yarn is sent to the weaving units of the Company where the warp yarn is "drawn" through the heeled wires and then "reached" through the dents of the "reed". The sized beams are mounted on the looms. The weft yarn is sent to the weaving units and the pirns are wound with this weft yarn. Weaving of warp and weft yarn produces grey cloth, which is sent for bleaching and dyeing to outside units. The important varieties of cloth manufactured during the last five years were polyester suiting (PC 8005 and 8006), polyester shirting (PC 9004), polyester drill suiting (PC 8007), polyester drill shirting (PC 9005 and 9006), long cloth white suiting (LC 5004), long cloth dhotis (LC 5016), dhavanies (LC 5021) and long cloth drill varieties (LC 1002, LC 1021 and LC 1022).

2B.8.2 Capacity utilisation

The Company has three PLC with 96 looms each and one ALS with 12 looms. All the looms are operated on "3 shifts and 6 days" basis except PLC at Jayankondam, which is operated on "2 shifts and 6 days" basis. The details of number of loom hours available, number of loom hours utilised, percentage of loom hours utilised and the causes for under-utilisation are given for the five years ended 31 March 2002 in **Annexure-24** and **25**.

Capacity utilisation of available loom hours ranged from 38.11 to 66.14 per cent during last five years against norm of 90 per cent.

It could be seen from the details given in **Annexure-24** that

(i) The overall capacity utilisation of all the four units of the Company ranged from 38.11 to 66.14 *per cent* during the period under review as against the norm of 90 *per cent* adopted by the Company for the preparation of its production programme. Further, the Performance Study of the PLC and ALS owned by the Company conducted by South India Textile Research Association (SITRA) established (April 1999 to August 2000) achievable capacity utilisation at 92 *per cent.*

(ii) The percentage of loom hours worked in PLC steeply declined from 1998-99 onwards due to retirement of almost 50 *per cent* of essential workers of PLC in that year under VRS (discussed separately in Paragraph 2B.11).

(iii) The percentage of loom hours worked in ALS, Kurichi came down from 76.62 *per cent* in 1998-1999 to 67.87 *per cent* in 2000-01 and further slumped to 60.17 *per cent* in 2001-02.

From the break up of percentage of loom hours lost (**Annexure-25**), it could be seen that avoidable causes, *viz.*, idling of looms (due to retirement of essential workers), want of warp yarn (raw material) and labour accounted for 42 *per cent* of available loom hours.

2B.8.3 Loom-shed efficiency

Loom-shed efficiency of a textile mill is the maximum production efficiency in terms of cloth output that is attainable at a given percentage of capacity utilisation after giving allowances towards unavoidable causes like beam gaiting, repairs and maintenance, breakages of yarn, machinery failures, *etc*. The Company has prescribed following two norms for determining the loom shed efficiency:

(i) 80 *per cent* utilisation with 70 *per cent* efficiency for PLC and 90 *per cent* with 70 per cent efficiency for ALS

(ii) 90 *per cent* utilisation for PLC and ALS with 75 *per cent* efficiency

The first norm indicated above is adopted for preparing budget and the second one is adopted for production programme. Thus, it is evident that the Company has not conducted any scientific study to determine the optimum loomshed efficiency. However, SITRA after conducting a performance study (April 1999 to August 2000) has prescribed a norm of 92 *per cent* utilisation for all the four units with 76 *per cent* efficiency for PLC and 86 *per cent* for ALS. The details of maximum cloth output achievable, actual output and loss of production computed with reference to the lower efficiency level of 70 per cent fixed by the Company in respect of all the four units of the Company in the last five years ended 31 March 2002 are given in **Annexure-26**.

It could be seen that none of the four units attained the maximum cloth output in any of the five years under review. It could be observed that the loss of production (compared even to the lower efficiency norm of 70 *per cent*) started increasing steeply in PLC from 1998-99 onwards. This was mainly due to retirement of essential workers on VRS in that year. The actual cloth output ranged from 51.08 to 87.64 *per cent* of possible production. Among the individual units, loom-shed efficiency was low in Jayamkondam and Sivagiri as the maximum production achieved ranged from 36.51 to 77.28 per cent of possible production. The actual cloth output of ALS, Kurichi, which was 83.47 *per cent* of possible production in 1999-2000 fell steeply to 67.46 *per cent* in 2000-2001 and increased marginally to 75 *per cent* in 2001-2002.

Failure to achieve efficiency norm led to production loss of 69.88 lakh metre cloth valued at Rs.20.21 crore.

The failure to achieve even the low efficiency norm of 70 *per cent* resulted in loss of production of 69.88 lakh metre cloth valued at Rs.20.21 crore during the last five years ended 31 March 2002. It is interesting to note that during this period the Company purchased 283.43 lakh metre cloth to meet the supply orders received by it.

2B.8.4 Excess consumption of yarn due to its coarser count

During the period under review the Company procured warp and weft yarn from CSMs only. While the weft yarn was supplied to the PLC directly, the warp yarn was sent through sizing units. The sizing units measure the exact quality of the warp yarn in terms of actual count at the time of processing and beaming the warp yarn. The adverse impact of the coarser count of warp yarn would result in its excess consumption during weaving. However, the

Company did not include any clause in the purchase orders for the recovery of loss on account of adverse impact of coarser count of warp yarn.

Audit analysis of yarn purchased by the Company during the last five years revealed that the actual count ranged from 35.73 to 39.90, 17.54 to 19.98, 13.17 to 15.99 and 13.04 to 14.99 as against the nominal count of 40s, 20s, 16s and 2/30s respectively. It would be observed that in majority of the cases the actual beam count of the yarn was much lower than the nominal count of the yarn supplied, which indicated its coarser count and consequent excess consumption of yarn. The excess consumption of yarn due to its coarser count during the five years under review aggregated to 10,678.390 kg valued at Rs.10.34 lakh. Failure to include a clause in the purchase orders for recovery of excess consumption of yarn due to coarser count from the suppliers resulted in non-recovery of this loss.

2B.8.5 Crimp Analysis

Excess crimpage compared to norm led to sale value loss of Rs.23.34 lakh.

Crimp is the allowance given for interlacement of warp yarn over weft yarn during weaving. Different norms have been prescribed for different sorts of cloth taking in to account the required number of picks per inch (ppi) factor and the count of weft yarn used. Excess crimpage would result in extra consumption of warp yarn, which would in turn, reduce the expected output of cloth. It was noticed that the Company had not evolved any effective system to analyse and minimise production loss due to excess crimpage. The quantity of cloth (sort wise and year wise) lost on account of excess crimpage over the norm during the last five years ended 31 March 2002 and the corresponding loss of sale value are given in **Annexure**-**27**.

It could be observed from **Annexure-27** that actual crimpage in respect of LC 5004, LC 3117, LC 1001 and LC 8005 ranged from 15.25 to 21.61, 16.43 to 18.27, 16.58 to 26.26, and 13.70 to 18.47 against the norm of 15 *per cent*, 15 *per cent*, 15 *per cent* and 13 *per cent* respectively. Consequently, the Company suffered production loss of 96,785 metre cloth and loss of sale value (excluding processing cost) Rs.23.34 lakh.

2B.8.6 Value loss analysis

Excess production of cloth other than sound resulted in net loss of Rs.21.59 lakh.

Cloth is rendered substandard mainly on account of defects like floats, weft cracks, oil stains, *etc*. After production, cloth is categorised in to sound/short length/seconds/fents/rags and chindies through inspection. Clothes other than sound and short length are periodically sold through open tender system and these clothes always fetch a much lower price compared to the sound cloth. SITRA has prescribed a ceiling of 2.5 *per cent* of production as cloth other than sound, which was also adopted by the Company as benchmark. It was observed in Audit that the percentage of cloth other than sound produced by the Company was invariably higher than this ceiling. This excess production of other than sound cloth resulted in a net loss of Rs.21.59 lakh during the last five years ended 31 March 2002

2B.9 Procurement of yarn at higher rates

Procurement of yarn at the rates higher than market rates resulted in extra expenditure of Rs.1.18 crore.

The Company had been procuring yarn of different counts from different sources including private parties up to 1995-96. Certain irregularities, which *inter alia* included procurement of yarn from private parties without inviting open tenders and without ascertaining the suppliers' financial credentials, were noticed subsequently by the Company. Instead of taking action to plug the loopholes in the procurement procedures, the Company decided (June 1997) to purchase yarn from the CSMs only. A review of yarn purchased by the Company during the five years ended 31 March 2002 revealed that it purchased yarn from CSMs only at the prices invariably higher than the prevailing market rate. This resulted in avoidable extra expenditure of Rs.1.18 crore during the said period on purchase of 8.61 lakh kg of yarn. It was also observed in Audit that the quality of yarn supplied by CSMs was found to be inferior to that of open market yarn and consequently consumption of yarn was in excess.

2B.10 Marketing

The Company has neither formulated any marketing policy nor taken any efforts towards marketing development for polyester variety.

The Company produces two types of uniform cloth, *viz*., cotton uniforms for supplies to Government schemes and polyester varieties for institutional supplies like Tamil Nadu Electricity Board, Transport Corporations, *etc*. While in the first category, the Company gets orders from the Government for supply of maximum quantity of cloth that could be produced by the Company within the time frame fixed by the Government for such supplies, in the second category the Company has to market its polyester variety on its own. As the contribution from polyester variety ranged from Rs.3.93 to Rs.28.41 per metre during the last five years compared to that from cotton variety ranging from Rs.0.89 to Rs.12.50 per metre, it is imperative that the Company should make earnest efforts to maximise sale of polyester cloth. It was, however, observed that as against the sale of 6.87 lakh metre of polyester variety in 1999-2000, the Company could sell only 3.54 lakh metre and 3.68 lakh metre of polyester cloth in the subsequent two years. The Company has neither formulated any marketing policy nor taken any efforts towards marketing development for polyester variety during the period under review. This was the position despite the fact that the Government issued orders (March 1995) permitting Public Sector Undertakings including Statutory Boards to purchase uniform cloth from the Company. It was also observed that the Company had not made any efforts to secure orders from Government departments and private institutions for supply of uniform cloth. It was replied (April 2002) that the Company was not permitted to deal with private parties. The reply is not correct as the Company was not prohibited from marketing of its products to private parties.

2B.11 Human Resources

2B.11.1 The details of manpower requirement as per norm and the actual manpower employed by the Company are given below:

Unit	Norm	Actual deployment				
		1997-98	**1998-99**	**1999-2000**	**2000-01**	**2001-02**
Aruppukottai	148 up to 1998-99, 84 for 1999-2000 and 2000-01, 71 for 2001-02	122	121	75	74	64
Jayankondam	141 up to 1998-99, 60 from 1999-2000	84	81	42	38	38
Sivagiri	141 up to 1998-99, 80 for 1999-2000, 72 from 2000-01	118	117	75	72	62
	TOTAL	**324**	**319**	**192**	**184**	**164**

It could be observed that the actual manpower employed was always less than the norm and ranged from 74.19 to 85.71 *per cent* of the norm.

2B.11.2 Government of Tamil Nadu introduced (June 1991) VRS for the employees in State Public Sector Undertakings (PSUs). In March 1995, the Company assessed surplus staff of 26 employees and requested (April 1995) the Government to approve VRS to the employees, which was received in January 1996. In the meantime, the Company constituted (December 1995) a committee to identify the surplus staff. Based on the recommendations of the committee, the Company felt (June 1997) that there was no surplus staff under the changed circumstances. Despite this, the Board authorised (August 1998) MD to accept VRS applications submitted by a portion of the workers of the PLC. Consequently, 102 essential workers out of 324 in three PLC (37 in Aruppukkottai, 30 in Sivagiri and 35 in Jayankondam) were given (September 1998 to March 1999) VRS. The Company simultaneously reduced the number of looms available for production in these three PLC by 50 *per cent i.e.*, from 96 in each PLC to 48, thereby rendering 144 looms idle. Out of these, 48 looms in Jayankondam PLC have been disposed off (April 2002) for Rs.4.64 lakh. The remaining 96 looms are still kept idle.

Retirement of 102 essential direct labourers under Voluntary Retirement Scheme resulted in idle capacity and corresponding production loss of 46.53 lakh metre cloth and contribution loss of Rs.1.96 crore during last three years.

The Company also correspondingly reduced by half the number of loom shifts and the loom hours available in each PLC. Audit analysis revealed that the retirement of 102 essential workers was not justified as:

(a) The Government Order of June 1991 envisaged VRS only for the identified surplus workers of PSUs. As the PLC manpower was always less than the norms, retiring of essential workers was against the spirit of Government Order on the subject.

(b) The Company had adequate market potential to market 100 *per cent* production of the PLC, as it had bulk orders for supply of uniform cloth from the State Government and other Public Sector Undertakings (PSUs).

(c) PLC had been yielding positive contributions continuously before implementation of VRS in 1998-99. Retirement of essential workers through VRS not only resulted in rendering 50 *per cent* of the looms idle but also in production loss of 46.53 lakh metre cloth and corresponding contribution loss of Rs.1.96 crore during last three years. Consequently fixed overheads remained unabsorbed to that extent resulting in increase in cost of production.

2B.12 Injudicious closure of Central Testing Laboratory

Central Testing Laboratory (CTL) was established (1980) by the Company with imported equipment in order to facilitate scientific selection and procurement of qualitative cotton/yarn required by the Company and the CSMs. The laboratory had been functioning efficiently and fetching revenue to the Company by way of testing fees. However, DH & T ordered (February 1999) closure of the laboratory on the plea that the equipment were obsolete. In the closure order, DH & T also ordered that the samples should be got tested from either SITRA or Thiyagaraja Mills Testing Laboratory, a private laboratory. Audit analysis revealed that the decision to close the laboratory lacked justification in view of the following facts:

(a) No complaints were received from the end users of the test results.

(b) No major variations were found between the test results of the Company’s laboratory and that of SITRA on the same samples.

(c) The performance certificate of the laboratory’s equipment by the service engineers was not adverse (March 1999).

(d) Though the laboratory was closed for outsiders, yarn purchased by the Company continued to be tested in the laboratory till November 2001.

Injudicious closure of Central Testing Laboratory in February 1999 resulted in revenue loss of Rs.33.21 lakh.

The hasty decision to close down the Central Testing Laboratory of the Company had resulted in a minimum revenue loss of Rs.33.21 lakh for the three years ended 31 March 2002 (computed with reference to the average revenue *per annum* during the three years ended 31 March 1999 and deducting variable expenses like repairs and maintenance charges and electricity).

The above matters were reported to the Company/Government in June 2002; their replies had not been received (September 2002).

Conclusion

From the foregoing paragraphs, it could be observed that but for the vesting of two defunct loss incurring private textile mills with the Company *viz.*, SSS Mills (accumulated loss: Rs.6.52 crore) and CSWM (Rs.1.53 crore due from the mills was written off by the Company in 1995-96), the Company would have earned accumulated profit of Rs.4.63 crore and positive net worth of Rs.6.30 crore as on 31 March 2002. This performance could have been improved further had the Company increased its loom utilisation and productivity, purchased raw materials at competitive rates and not offered VRS to its essential staff resulting in idle capacity. Effective steps need to be taken

(a) to hive off the defunct SSS Mills and to get the loss for both SSS Mills and CSW Mills reimbursed from the Government

(b) to increase capacity utilisation and efficiency

(c) to streamline procurement of yarn with a view to reduce cost

(d) to formulate marketing strategies for polyester cloth to minimise dependence on Government/PSUs.