CHAPTER-II

2 REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 TAMIL NADU TEA PLANTATION CORPORATION LIMITED

HIGHLIGHTS

Tamil Nadu Tea Plantation Corporation Limited was incorporated in August 1975 to rehabilitate repatriate families from Sri Lanka. The Company has developed tea plantations covering 4,431.92 hectare in four phases up to 1995. The present activity of the Company is confined to raising of tea in already developed areas.

(Paragraphs 2.1.1 and 2.1.2)

Shortfall in Green Tea Leaves yield compared to the budgeted yield resulted in loss of contribution of Rs.15.98 crore during the five years ended 31 March 2004.

(Paragraph 2.1.8)

Green Tea Leaves yield in the Company was lower than that in private tea estates resulting in loss of contribution of Rs.17.97 crore during 1999-2004.

(Paragraph 2.1.11)

Setting up a new factory at a cost of Rs.7.59 crore instead of expanding the capacity of an existing factory at a cost of Rupee one crore, was not justified.

(Paragraph 2.1.15)

Non-achievement of district average price in the auction sale by the Company resulted in revenue loss of Rs.12 crore during the five years ended 31 March 2004.

(Paragraph 2.1.19)

Introduction

2.1.1 The Government of Tamil Nadu started a Government Tea Project in 1968 through the Forest Department to implement the Shastri-Sirimavo Agreement of 1964 for rehabilitating some of the repatriate families from Sri Lanka. In order to achieve efficiency in administration, better return from investment and also to avail of institutional finance, the Government Tea Project was entrusted to a newly formed Government company, *i.e.*, Tamil Nadu Tea Plantation Corporation Limited. The Company was incorporated on 22 August 1975 and commenced its operation with effect from 1 April 1976. The Company is under the administrative control of Department of Environment and Forests.

The Company absorbed 2,445 repatriate families from Sri Lanka so far (March 2004) as against the target of 2,825 families. The absorption of less number of families (in Phase-III tea divisions) was stated to be due to absence of organised repatriation from Sri Lanka. The tea plantations were developed in four phases between 1969 and 1995 covering an area of 4,431.92 hectare. The Company has 11[*] tea divisions and eight[♣] tea factories as on 31 March 2004.

Objectives

2.1.2 The main objective as envisaged in the Memorandum of Association of the Company are:

- To acquire, purchase and take over tea and coffee estates that are offered for sale from time to time;
- To promote, purchase, lease or develop tea and coffee estates in Tamil Nadu after being fully satisfied about their economic viability with a view to safeguard the future of tea and coffee industry; to protect the interest of workers and to increase employment potential;
- To carry on the business of planters, cultivators, sellers and dealers in tea and coffee and other commercial crops.

The present activity of the Company is confined to raising of tea in the already developed areas. The Company had not acquired coffee estates as envisaged at the time of formation of the Company so far (September 2004).

[*] Coonoor, Kotagiri, Cherambady, Cherangode, Nelliyalam, Kolapalli, Devala, Pandiar, Lawson, Ryan, and Naduvattam.

[♣] Quinshola, Tigerhill, Cherangode, Cherambady, Pandiar, Nelliyalam, Lawson and Ryan.

Scope of Audit

2.1.3 The working of the Company was last reviewed and included in the Report of the Comptroller and Auditor General of India (Commercial) for the year 1982-83. The review was discussed (January 1990) by the Committee on Public Undertakings in their 18th Report of 1989-90.

The present review was conducted by test checking records for the five years from 1999-2000 to 2003-04 in all the tea divisions, tea factories and Head Office of the Company during September 2003 to March 2004.

Audit findings, as a result of test check, were reported to the Government/Company in April 2004, with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the view point of Government/Management was taken into account before finalising the review. The meeting of ARCPSE, held on 19 May 2004, was attended by the Chairman-cum-Managing Director of the Company. No representative from the Government side attended the meeting. The replies of the Government were, however, received in September 2004. The views expressed by the members have been taken into consideration during finalisation of the review.

Organisational set-up

2.1.4 The Management of the Company is vested in a Board of Directors. As against the maximum strength of 10 Directors including the Chairman-cum-Managing Director, there were eight Directors on the Board, as of 31 March 2004, all nominated by the State Government. The Chairman-cum-Managing Director (in charge) is the Chief Executive of the Company and is assisted by the General Manager and Divisional Managers, who are heading the tea divisions and tea factories.

Financial position and working results

2.1.5 The financial position and working results of the Company for the last five years ended 31 March 2004 are given in **Annexures-9** and **10**. Some of the key data are shown in the following table:

Sl.No	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Tea sold (in lakh kg)	111.16	97.64	109.60	105.48	108.77
2.	Average cost of production (Rupees/kg)	54.09	54.16	50.67	45.62	42.64
3.	Average realisation per kg of tea (Rupees/kg)	54.31	47.59	44.42	41.97	38.22

The Company incurred loss of Rs.9.10 crore during 2000-04 due to higher cost of production.

It could be seen from the table and the **Annexures** referred to in the paragraph that the cost of production per kilogram of tea was higher than its average realisation price during 2000-04. This resulted in losses aggregating Rs.9.10 crore during 2000-04.

Area under plantation and lease rent

2.1.6 The Company had taken land on lease from the Forest Department of State Government for raising tea plantation. The details of land taken on lease are as under:

(Area in hectare)

Phase	Divisions	Total area acquired	Area under planta-tion	Total number of fields	Area lying vacant for plantation	Reason for not planting
I (1969-79)	Cherambady	402.06	344.79	36	57.27*	***Rock patches, roads, swamp, residential and factory buildings, *etc*.
	Cherangode	444.04	381.85	36	62.19*	
	Nelliyalam	393.34	360.22	31	33.12*	
	Coonoor	254.54	205.74	34	48.80*	
	Kotagiri	238.89	218.44	34	20.45*	
	Kolapalli	347.70	347.70	32	NIL	
II & III (1979-84)	Devala	300.00	300.00**	32	NIL	****Includes 4.05 hectare in respect of which suit is pending before the Court.
	Pandiar	777.20	619.68	60	157.52*	
IV (1990-95)	Naduvattam	696.24	568.00	70	128.24*	***Surplus area to be surrendered to the Government due to ban on felling of trees imposed (August 1994) by it.
	Anamalais (Lawson, Ryan)	2,642.51	1,085.50	114	1,557.01***	
	TOTAL	**6,496.52**	**4,431.92**	**479**	**2,064.60**	

It would be seen from the above that 68.2 *per cent* of the total area acquired was under tea plantation. The unplanted area of 1,557.01 hectare in Phase IV is yet to be surrendered to the Forest Department though the Company knew that further planting was not possible due to ban imposed by the Government in August 1994. The inordinate delay in surrendering the surplus land resulted in avoidable expenditure of Rs.14.01 lakh on lease rent for 1995-2004. The Company stated (May 2004) that the matter was pending with the Government and it would follow-up the matter.

2.1.7 The annual lease rent was payable by the Company in one lumpsum before the end of the financial year and the Company was liable to pay interest for belated payments. On review of the lease rent records, Audit observed the following:

- While the Company had entered into 99 years lease agreement with the State Government for Phase-I, II and III, no such agreement was entered into for Phase-IV.
- The Company had calculated the lease amount payable as Rs.31.37 crore for 1990-2004 in respect of Phase I to IV as against the Forest Department claim of Rs.14.04 crore for the same period. A Committee was formed (August 2002) to reconcile the differences and its final report was awaited (September 2004).
- The Company paid Rs.29.42 lakh towards land revenue for the lands taken on lease from the nine tea divisions though these lands were owned by the Government and the Company was only a lessee.
- The Company did not pay the lease rent for Phase-IV on the stipulated dates and consequently Forest Department claimed Rs.13.51 crore as interest for belated/non-payment of lease rent.
- The Company has shown an amount of Rs.9.81 crore as remittance to the Forest Department towards lease rent for 1999-2000 for Phase-IV, but an amount of Rs.6.62 crore only has been shown as receipt by the Forest Department in their books for the same period, resulting in a difference of Rs.3.19 crore. The Government stated (September 2004) that the matter had been taken up with the Forest Department for reconciliation of the difference.

Plantation activities

Shortfall in Green Tea Leaves (GTL) yield

2.1.8 The division wise budgeted yield of GTL *vis-a-vis* actual yield and resultant shortfall during the five years ended 31 March 2004 are given in **Annexure-11**. No norms had been fixed by the Company for per hectare yield to be achieved annually by the tea divisions. Though the budgeted yield had been fixed considering the factors like field potential, previous year yield, age of the plant, pruning and weather conditions, the actual yield achieved was less than the budgeted yield:

- in all the five years in six divisions *viz*., Coonoor, Kotagiri, Cherangode, Nelliyalam, Devala and Pandiar.
- in four years in three divisions *viz*., Cherambady, Kolapally and Lawson.
- in three years in two divisions *viz*., Ryan and Naduvattam.

Non-achievement of budgeted GTL yield resulted in loss of contribution of Rs.15.98 crore.

The short fall in GTL yield ranged between 1.46 lakh kg and 17.01 lakh kg compared to the budgeted yield during the period under review. The total loss of yield due to non-achievement of budgeted yield was 218.04 lakh kg of GTL equivalent to 50.15 lakh kg of tea. This resulted in loss of contribution[♣] of

[♣] contribution represents difference between sale value and direct variable cost of production.

Rs.15.98 crore during the five years ended 31 March 2004. The Government stated (September 2004) that the rainfall distribution during 1999-2000 was favourable compared to the subsequent three years and admitted that the application of inputs was not optimum during the subsequent three years and hence the yield obtained was less.

The avoidable reasons for shortfall in GTL yield are discussed in the succeeding paragraphs:

Fertiliser application

2.1.9 The Company reduced the quantum of fertiliser to be applied from 2000-01 due to financial constraints and non-availability of labour. The reduced quantities were applied to the fields in two/three times against the normal application of four times. The Government stated (September 2004) that when the sale price of tea was much lower than the cost of production, it was a recommended practice to reduce the inputs by 10 to 15 *per cent*. The reply is not tenable as the fall in GTL yield would be more if the application of inputs is reduced continuously. Further, the expenditure on cost of inputs would have been much lower than the contribution that would accrue to the Company by way of increase in GTL yield.

Less yield obtained in third year pruned fields

2.1.10 The operation of cutting the branches of tea bush at a pre-determined height at a specified interval is known as pruning. This activity is being carried out with the main objective to induce more vegetative growth, to achieve better crop distribution, minimise banji[♦] formation and maintain convenient height for plucking, *etc*.,

In a four years pruning cycle, the yield obtained from the third year after pruning would be more by approx 10 to 20 *per cent* compared to the second year yield. Audit analysis of GTL yield of 1999 and 2000 pruned fields revealed that instead of achieving 10 to 20 *per cent* more yield in the third year compared to the second year, the yield was less by one to 23 *per cent* corresponding to GTL loss of 10.70 lakh kg equivalent to 2.46 lakh kg of tea[*]. This resulted in loss of contribution of Rs.80.15 lakh to the Company. The Government stated (September 2004) that the yield loss in the third year was mainly due to unfavourable climatic conditions. The reply is not tenable, as unfavourable climate should have affected all the fields in a division. Audit, however, observed that out of 37 fields pruned in 1999-2000 in Cherangode and Lawson tea divisions, 13 fields had registered an increase in GTL yield in the third year by 2.06 lakh kg, while in the remaining fields, the GTL yield in the third year decreased by 3.67 lakh kg.

[♦] Dormant terminal bud.

[*] One kg of Green Tea leaves give 0.23 kg of tea.

Poor per hectare yield of GTL compared to private tea estates

2.1.11 The average yield of GTL per hectare of the tea divisions of the Company was less compared to private tea estates situated in the same areas. The table below indicates the actual average yield per hectare obtained in the tea divisions of the Company *vis-a-vis* yield obtained in private tea estates during 1999-2004.

(In kg/per hectare)

Year	**Average yield obtained per hectare**				**Shortfall with reference to private tea estates**			
	TANTEA Tea Divisions		**Private Tea Estates**		**Plateau Region**		**Wynaad Region**	
	Coonoor and Kothagiri (Plateau region)	**Cherambady, Cherangode, Nelliyalam, Kolapalli, Pandiar and Devala (Wynaad region)**	**Plateau region**	**Wynaad region.**	**Kg**	**Percentage**	**Kg**	**Percentage**
1999-2000	13,369	13,146	15,161	15,521	1,792	11.82	2,375	15.30
2000-01	13,327	11,149	13,661	13,443	334	2.44	2,294	17.06
2001-02	12,816	11,989	14,204	13,857	1,388	9.77	1,868	13.48
2002-03	11,810	12,453	13,666	13,309	1,856	13.58	856	6.43
2003-04	13,273	11,471	14,708	11,602	1,435	9.76	131	1.13

Lower GTL yield compared to private estates resulted in loss of contribution of Rs.17.97 crore.

It could be seen from the above that the average yield per hectare obtained in the Company was on the lower side when compared with the average yield per hectare in the private tea estates. The shortfall ranged between 1.13 to 17.06 *per cent* of private tea estates yield. Consequently there was shortfall in GTL yield by 212.05 lakh kg equivalent to 48.77 lakh kg of tea resulting in loss of contribution[*] of Rs.17.97 crore during this period. Even from the fresh data on district average GTL yield in private tea estates furnished (May 2004) by the Company, Audit observed that the yield in Wynaad region was much less than the district average yield and that there was shortfall in GTL yield by 78.76 lakh kg corresponding to 18.11 lakh kg of tea and consequent contribution loss of Rs.7.01 crore during 1999-2002.

The Government stated (September 2004) that the yield from a given tea estate was influenced by agro climatic conditions and as such there would be difference in the yield. It also stated that the yield in private estates pointed out were that of highest yielding estates in the districts and added that several private estates registered lower yield compared to its estates. The reply is not tenable, as yield from the same region had been compared to arrive at the shortfall. Further; the main reasons for shortfall in Company tea divisions

[*] Difference in yield X Area under plantation X 0.23 X Contribution per Kg of made tea.

were lesser application of fertilisers, insufficient pruning, *etc*., as stated in paragraphs 2.1.9 and 2.1.10 *infra*.

Non-maintenance of leaf standard

2.1.12 The Company fixed percentage of good leaf for manufacturing "Crush, Tear, Curl" (CTC) tea in Non-Reconditioned (NRC) process at 80 *per cent*. Nelliyalam tea factory, which manufactures CTC tea in NRC process, gets the tea leaves from Nelliyalam, Cherambady, Cherangode, Kolapalli, Devala, Pandiar and Naduvattam tea divisons. Due to non maintenance of 80 *per cent* leaf standard in these tea divisions, Nelliyalam tea factory could not produce better quality tea. This resulted in quality deterioration and consequent lower price realisation on tea produced and a loss of Rs.1.90 crore during 2001-04 (computed with reference to per kilogram realisation price of tea and the cost price of this factory).

The Government stated (September 2004) that the sudden insistence on very high quality of tea leaf affected the morale of pluckers and improvement was being adopted for getting the required quality of tea leaves in the recent years. It also stated (September 2004) that the leaf standard could not be maintained during high cropping seasons. The reply is not tenable in view of the fact that during high cropping seasons, the Company should have also equally concentrated on quality of GTL plucked to get remunerative prices.

Performance of tea factories

Capacity utilisation

2.1.13 One of the objective stated in the Memorandum of Association was to manufacture, sell and deal in tea and coffee in all its forms. In accordance with this objective, the Company set up eight tea factories at various locations. There are two manufacturing processes, *viz*., "Orthodox" tea manufactured in the traditional method where tea is in small twigs form and CTC tea manufactured in the modern method, where the machine crushes, tears and curls the GTL and the tea is made in granular form. Orthodox tea commands higher average sales realisation price compared to CTC tea.

There are two orthodox tea factories at Coonoor (Tigerhill) and Kotagiri (Quinshola) with a combined capacity of 1.5 million kg *per annum* and six CTC tea factories at Cherangode, Cherambady, Pandiar, Nelliyalam, Lawson and Ryan with a combined capacity of 10.5 million kg *per annum*. The Company produced 105.55 lakh kg of tea out of 1,248.68 lakh kg produced in the State of Tamil Nadu in 2003-04. As against the global output ratio of 23:77 of Orthodox/CTC tea and all India output ratio of 11:89, the ratio in the Company was 18:82. A review of the capacity utilisation in the eight factories as detailed in **Annexure-12** revealed that four factories♦ achieved excess production ranging from 0.07 lakh kg to 4.58 lakh kg *per annum* over and above the achievable capacity and in the other four factories♣ there was a short

♦ Tiger hill, Quinshola, Nelliyalam and Pandiar.

♣ Cherangode, Cherambady, Lawson and Ryan.

fall in production, which ranged from 0.24 lakh kg to 7.01 lakh kg during the period under review.

Avoidable loss in dual processing

2.1.14 The Company proposed (March 2000) to start dual manufacture (*i.e*., simultaneous manufacture of Orthodox and CTC tea) in the Pandiar Tea Factory with a modification in the civil works and installation of machinery at an estimated cost of Rs.27.89 lakh to reap benefit of the existing price situation, where Orthodox tea was fetching better price than CTC tea. The Company estimated a saving of more than Rs.15 lakh by re-utilisation of one CTC line along with the accessories lying idle in some other factories. It was also estimated that with a minimum production of 7.5 lakh kg of Orthodox tea *per annum,* the additional revenue of Rs.37.50 lakh (based on minimum price difference of Rupees five per kg) would accrue.

The Company commenced dual processing in April 2001 after spending Rs.34.96 lakh (civil works - Rs.8.03 lakh and machinery - Rs.26.93 lakh). The factory experienced the following difficulties while carrying out dual processing:

- The supervision of both kinds of manufacturing appeared to be very difficult as the two types of manufacturing required entirely different kind of parameters at each stage right from the stage of withering to packing;
- The out turn of primary grade was less due to the problems faced in getting right kind of withering, inability of the tea making staff to concentrate on particular manufacture, *etc;* and
- Absence of proper type of pulverise machine resulted in half of tea from orthodox secondary to be used as reconditioned material.

The dual process was, therefore, discontinued from March 2002. As a result, Company suffered the losses on the installation and removal of dual processing:

- Special flooring laid for a value of Rs.8.03 lakh could not be used after dispensing with the dual system;
- Machinery installed at a cost of Rs.26.93 lakh was dismantled without beneficial use. This machinery could not be utilised in other factories and was sold for Rs.0.23 lakh in December 2003. This resulted in loss of Rs.26.70 lakh; and
- As against anticipated revenue of Rs.4.26 crore by producing 7.5 lakh kg of Orthodox tea in 2001-02, the Company produced and sold 2.54 lakh kg for Rs.1.44 crore only.

The Government stated (September 2004) that the dual processing had its inherent problems. It also stated that loss of CTC market in Kerala, quality of CTC tea and sacrifice in overall processing capacity of CTC tea were the reasons for abandonment. The reasons adduced above should have been considered by the Company before planning the dual processing.

Injudicious decision of setting up a new factory

Setting up a new factory at a cost of Rs.7.59 crore instead of expanding the capacity of an existing factory at a cost of Rupee one crore, was not justified.

2.1.15 The State Government approved (November 1997) the proposal to establish a new tea factory (Ryan Tea Factory) in Anamalai Region at an estimated cost of Rs.6.15 crore. The Company commenced work (March 1999) and completed the same in October 2001 at a total cost of Rs.7.59 crore, with a capacity to produce 1.5 million kg of tea *per annum*.

In the meantime, the Board approved (August 1998) a proposal even before the work on the new factory commenced, for the increase in the installed capacity of the existing Lawson Factory from 1.5 million kg to 2.25 million kg of tea *per annum,* by installing additional machinery at an estimated cost of Rupee one crore. The expanded capacity of Lawson factory was sufficient for processing 9.78 million kg of GTL *per annum;* which was more than sufficient to take care of the then prevailing yield (5.49 million kg *per annum*) of GTL in the region.

The expansion work commenced in December 1999 and up to March 2001, an expenditure of Rs.72.64 lakh was incurred on the project (Rs.32.08 lakh on machinery and Rs.40.56 lakh on civil works). The project was abandoned (March 2001) citing financial constraints as the reason. The machinery was transferred to other tea factories of the Company and the expenditure on civil works (Rs.40.56 lakh) was rendered wasteful.

Audit observed that establishment of the new factory at Ryan at a huge cost of Rs.7.59 crore without completing the cheaper expansion work and that too citing financial reason lacked justification in view of the following:

- The Company projected a GTL yield of 163 lakh kg in 2007-08 based on per hectare yield of 15,000 kg and stated that the capacity of the existing Lawson Tea Factory was 60 lakh kg of GTL only. It is pertinent to mention that in Anamalai Region, GTL yield of 15,000 kg per hectare was never achieved and that the maximum yield per hectare achieved was 9,077 kg only.
- The Company did not undertake cost-benefit analysis of expansion of Lawson Tea Factory *vis-a-vis* setting up a new tea factory. Instead of expanding the capacity by 0.75 million kg of tea by spending Rupees one crore, the Company chose to set up a new factory to produce 1.5 million kg of made tea by spending Rs.7.59 crore.
- The capacity utilization of Lawson Tea Factory which was 129 *per cent* and 116 *per cent* in 1999-2000 and 2000-01, respectively, was drastically reduced after the commissioning of Ryan Tea Factory and dwindled to seven *per cent* and 18 *per cent* in 2002-03 and 2003-04, respectively.

The Government stated (September 2004) that during high cropping season, GTL yield would be considerably high and therefore the factory capacity has to be based on high cropping season. The reply is not tenable as the maximum yield of GTL in a month during the three years ended 31 March 2004 in Anamalai region was in October 2002 *viz*., 10.34 lakh kg, which corresponds to 41,360 kg per day (for 25 working days) and this yield could have been easily processed by the existing capacity of the Lawson Tea Factory (30,000 kg per day) plus the expanded capacity (15,000 kg per day). Audit observed that Lawson Tea Factory had processed GTL quantities in excess of 30,000 kg per day (existing capacity) on 87 days in 1999-2000, 39 days in 2000-01 and 49 days in 2001-02.

Marketing and Sales

2.1.16 Sale of tea is subject to statutory provisions envisaged in Tea Marketing Control Order, 1984. As per Clause 17 of Tea Marketing Control Order, every manufacturer is required to sell a minimum of 70 *per cent* of bulk tea in India through the country's public tea auction centres. Auctions are organized under the auspices of Tea Trade Association at each centre. The Government of India amended (January 2001) Clause 17 of Tea Marketing Control Order, 1984 and permitted the tea manufacturers to sell their produce in any manner they desire. Audit observed that even after 28 years of existence, the Company had not built up its own marketing set up and had not laid down marketing policy so as to maximise sales realisation.

Sales performance

2.1.17 The sales performance of the Company during the five years ended 31 March 2004 is given below:

(In lakh kg)

	1999-2000	2000-01	2001-02	2002-03	2003-04
Auction sale	108.08	93.85	100.51	95.19	101.74
Direct sale	0.11	1.06	2.87	6.62	2.41
Packet sale	0.77	1.10	1.55	1.19	1.20
Total sale (including tea waste)	111.16	97.64	109.60	105.48	108.77
Percentage of Auction sale to Total sale	97.23	96.12	91.71	90.24	93.54
Average Auction sale price (Rupees per kg)	54.31	47.59	44.42	41.97	38.22
Average Direct sale price (Rupees per kg)	65.00	65.27	29.77♣	44.63	38.67
Average Packet sale price (Rupees per kg)	95.49	88.80	79.95	77.67	75.26

It could be seen from the above that the Company was mostly depending on auction sales and direct and packet sale was minimum. Short comings/irregularities noticed in Audit are discussed in succeeding paragraphs.

♣ Sale of secondary grade tea only.

Auction sales

2.1.18 The Company sold tea mainly in auction through six brokers, who were entitled to a commission of one *per cent* of net sale value. Audit observed that the Company did not have any control over the brokers and had relied on the brokers to get good prices. It did not have any direct mechanism to obtain maximum price for tea and its officials were not represented during auction sales. Consequently, the Company has been realising prices lower than its cost price. This resulted in loss of Rs.26.46 crore during 1999-2004.

The Government stated (September 2004) that periodical review of the performance of brokers and follow-up action based on the review was enough to improve the prices in auction and that officials of the Company were visiting the auction centre as and when necessary. The reply is not tenable as the lower prices obtained by the Company compared to the prices obtained by private tea factories indicated the inadequate system of monitoring of brokers. Moreover, there has been continuous decline in the average sales realisation in auction sale during the period of review.

Non-achievement of district average price in the auction sale by the Company resulted in revenue loss of Rs.12 crore.

2.1.19 Tea produced by the Company is mainly sold through auction centres at Cochin, Coonoor and Coimbatore. Audit observed that the auction sales price realised was much less compared to the district average price. The less realisation, as compared to district average price, aggregated to Rs.12 crore during five years ended 31 March 2004.

The Government stated (September 2004) that the district average prices were only reference price for the purpose of review and were not comparable due to the fact that most of the private factories offered only minimum quantity of primary grades for auction sales, whereas Company offered maximum quantity both in primary and secondary grades. The contention is not correct as the primary grades despatched by the Company to auction centres ranged between 73.25 and 98 *per cent*. Further, the Company has been evaluating the performance of the brokers and tea divisions based on the district average price.

2.1.20 The average ranking position of the Company in auction sale of tea in the three auction centres (based on the auction sales realisation) was poor and ranged between 10 to 13 out of 28 participants.

2.1.21 As per the rules of the Tea Trade Association, the buyer to whom a lot was sold had to make payment to the brokers and the brokers had to pay to the seller within 15 days. There was no penal clause in the rules against the brokers, who did not remit the sale proceeds to the seller in time. In December 2002, one broker remitted Rs.20.37 lakh only out of sale proceeds of Rs.42.98 lakh realised by him and has not remitted the balance amount till date (September 2004). The Company admitted (November 2003) that the present conditions for auction sale did not have any provision to safeguard the interest of the seller and that the Tea Board has been addressed in this regard.

Direct sale of made tea

2.1.22 Even after relaxation (January 2001) of Tea Marketing Control Order, the Company mostly depended on auction sale. Considering the additional realisation of Rs.0.45 to Rs.17.68 per kg on direct sale, failure of the Company to sell atleast 30 *per cent* of its tea in direct sale resulted in less realisation of Rs.9.35 crore during 1999-2004. The Government stated (September 2004) that the existing financial condition of the Company did not permit huge expenditure on advertisement to increase direct sales. The fact remains that considering the huge financial benefit in open market sale, the Company should have made all out efforts *viz*., by contacting State and Central Public Sector Undertakings, big private companies, *etc*., to improve direct sales atleast after relaxation of Tea Control Marketing Order.

Non-promotion of packet tea sales

2.1.23 Sale of packet tea fetches better realisation than auction sale tea. The Company set up an exclusive sales and packaging unit in 1983 at Coonoor to promote sale of packet tea. No production capacity, however, has been fixed so far for this Unit. It has a packing machine that can pack 10 MTs/month (*i.e*.,) 120 MTs/*per annum*. The details of packet tea sales and average sales realisation price per kg up to the year ended 31 March 2004 are given below:

	1999-2000	**2000-01**	**2001-02**	**2002-03**	**2003-04**
Quantity of tea sold in packet (in kgs.)	77,388	1,10,376	1,54,864	1,18,943	1,20,278.
Average sales realisation price of packet tea (in rupees per kg.)	95.49	88.80	79.95	77.67	75.26

It is seen from the above that the packet tea sales commands very high realisation price. Audit observed that the Company has not given full thrust to promote sale of packet tea. The dealer network was not widespread to increase the sale of packet tea. The Company neither has made any effort to create brand image for TANTEA packet sales nor has attempted to diversify to packet tea to a considerable extent on its own or by building brand image or through tie up with other brand leaders for blending and packaging of branded packet tea. Audit observed that though the Company has set up the packaging unit with a capacity to packet 120 MT *per annum*, no action has been taken by it to increase the installed capacity so far (August 2004).

Man Power

2.1.24 The total manpower in the Company, which stood at 7,019 in 1999-2000 decreased to 6,329 in 2003-04. As on 30 September 2004, 4,365 Sri Lankan repatriates were working in various tea divisions of the Company. The State Government directed (May 2002) the Company to identify the surplus posts in all categories. Consequently the Company identified

(September 2002) 115 employees as surplus and only three employees were relieved so far out of 36 applications received under Voluntary Retirement Scheme (VRS). The Company is still retaining 112 surplus employees. Even among the 36 VRS applications received, the Company decided (January 2003) to accept applications of only those employees in whose cases the percentage of compensation and terminal benefits payable to net present value of future salary plus terminal benefits was equal to or less than 50 *per cent*. Audit observed that in respect of 25 employees, where net present value of future salary plus terminal benefits was more than the compensation and terminal benefits payable now were not considered for relief under VRS. Failure to do so resulted in avoidable extra expenditure of Rs.39.12 lakh.

Internal Audit

2.1.25 The Company is having its own Internal Audit wing consisting of three members. This audit wing is reporting to the Chief Executive through Chief Accounts Officer, who is in charge of the Internal Audit wing. Since, the Internal Audit wing is a separate function required to work independent of accounts, the reporting through Chief Accounts Officer is not as per the established convention. The Internal Audit did not cover vital areas like procurement of materials, marketing, administration, *etc*. though the manual provided for the same. The inspection reports of the Internal Audit were not presented to the Board and discussed till January 2003, when Audit Committee was formed. The inspection reports submitted to the Audit Committee did not cover the areas like performance of the Tea Divisions/factories, other related Company operations and instead gave data to the Board as required by the Government in the questionnaire form. Thus, even after formation of the Audit Committee, no points specifically relating to the main activity of the Company were discussed. As on 31 March 2004, a total of 171 paragraphs were outstanding for periods ranging from one to 23 years.

Conclusion

The key problem area of the Company is its inability to get good price for tea. Despite 28 years of existence, its dependence on auction sales resulted in realisation of substantially low prices for tea. This has resulted in huge losses during the last four years as the fall in tea prices was much higher compared to reduction in production expenses. In order to overcome this deficiency, the Company should take immediate and effective steps to reduce its over dependence on auction sales and to improve direct sales and sale of packet tea in the liberalised tea marketing scenario. This would enable the Company not only to wipe out its losses but also earn sufficient profits in future.

2.2 TAMIL NADU INDUSTRIAL INVESTMENT CORPORATION LIMITED

HIGHLIGHTS

Tamil Nadu Industrial Investment Corporation Limited was incorporated in March 1949 with a view to aid/provide financial assistance to industrial units. The Company also disbursed State capital subsidy/subsidy bridge loan to the industrial units and issued eligibility certificate under Sales Tax waiver/deferral schemes to the units assisted by it.

(Paragraph 2.2.1)

Accumulated losses of Rs.328.85 crore as on 31 March 2004 completely eroded the paid up capital.

(Paragraph 2.2.6)

Deficiencies in the appraisal of projects resulted in non-recovery of Rs.67.42 crore from 18 units as on 31 March 2004.

(Paragraph 2.2.11)

Faulty implementation and poor follow-up not only resulted in non-recovery of Rs.62.20 crore but also did not serve the intended purpose of Mudalipalayam scheme.

(Paragraph 2.2.12)

Deficiencies in follow-up of overdues resulted in non-recovery of Rs.34.21 crore from six units.

(Paragraph 2.2.15)

Target fixed for recovery of principal steeply declined from 72.60 per cent in 1999-2000 to 42.27 per cent of the dues in 2002-03 and marginally increased to 47.24 in 2003-04. Target for recovery of interest was at a all time low of 18.71 per cent of dues in 2003-04.

(Paragraph 2.2.21)

Introduction

2.2.1 Tamil Nadu Industrial Investment Corporation Limited (TIIC) was incorporated (March 1949) under the Companies Act, 1956 with a view to aid/provide financial assistance to medium and small scale industries and to extend financial assistance by way of direct participation in the equity of the assisted units. The Company also disbursed State capital subsidy/subsidy bridge loan to the industrial units and issued eligibility certificate under Sales Tax waiver/deferral schemes to the units assisted by it. The Company had introduced bills discounting scheme from 2003-04 for the purchases made by Tamil Nadu Electricity Board (TNEB).

Objectives

2.2.2 The following are the main objective, as envisaged in the Memorandum of Association of the Company:

(i) To render financial assistance by way of loans, guarantees, under writing subscriptions to shares, debentures or other securities to an industrial concern situated in the State.

(ii) To carry out business of equipment leasing and hire purchase financing to industrial concerns.

(iii) To set up, provide and/or participate in providing venture capital, technology funds or any other funds for seed capital.

(iv) To underwrite issue of stock, shares, bonds or debentures by industrial concerns.

(v) To take over and manage, administer and generally control any firm, concern or limited company which had defaulted or contravened any of the conditions agreed by it at the time of sanction of loan and subsequently or otherwise.

The activities of the Company are presently confined to the first three objectives.

Scope of Audit

2.2.3 The recovery performance of the Company for the period up to 31 March 1988 was reviewed and included in the Report of the Comptroller and Auditor General of India (Commercial) 1989 - Government of Tamil Nadu. Committee on Public Undertakings (COPU) discussed (November 1990) the review and the recommendations of the COPU are contained in its 21st Report presented to the State Legislature in October 1991. A draft paragraph (4A.4) on irregular sanction of leasing/hire purchase loans was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1998 (Commercial) – Government of Tamil Nadu. This is yet to be discussed by COPU.

The present review conducted from November 2003 to March 2004 covered the overall sanction and disbursement, the efficiency level achieved by the Company in monitoring the functioning of assisted units, recovery performance of loans for the five years ended 31 March 2004, by test checking records in 15 out of 33 branches, and at the Head Office of the Company.

Audit findings, as a result of test checks, were reported to the Government/Company in May 2004 with a specific request for attending the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE), so that the view point of Government/Management was taken into account before finalising the review. The meeting of ARCPSE held on 2 June 2004, was attend by the Secretary, Industries Department and the Managing Director of the Company. The replies of the management were received in August 2004. The views expressed by the members have been taken into consideration during finalisation of the review.

Organisational set-up

2.2.4 The management of the affairs and business of the Company is vested in a Board of Directors. The Articles of Association of the Company provide for a maximum of 15 Directors including the Chairman and the Managing Director. The present Board of the Company is having eight Directors comprising the Chairman, Managing Director, four part-time Directors appointed by the State Government and two Directors, appointed by Small Industries Development Bank of India (SIDBI). The Managing Director looks after the day-to-day affairs of the Company and is assisted by General Managers/Deputy General Managers.

Financial position and working results

Capital structure and borrowings

2.2.5 The authorised share capital of the Company was Rs.100 crore. The paid up capital, as on 31 March 2004, was Rs.72.50 crore; contributed by the State Government (Rs.55.02 crore), Industrial Development Bank of India (IDBI) {Rs.17 crore} and other institutions (Rs.0.48 crore).

The Company was granted (between December 1984 and March 2000) loan of Rs.103.50 crore in lieu of capital (Rs.91 crore from State Government and Rs.12.50 crore from IDBI) at the interest rate varying from 7.5 *per cent* to 15 *per cent*. The State Government converted (May 2003) Rs.30 crore out of loan in lieu of capital as share capital.

The other borrowings of the Company as on 31 March 2004 were refinance from IDBI/SIDBI (Rs.164.25 crore), issue of bonds and raising of deposits (Rs.483.85 crore).

Financial position

2.2.6 The financial position of the Company for the five years ended 31 March 2004 are given in **Annexure-13**.

From the Annexure, it could be observed that:

Accumulated loss of Rs.328.85 crore as on 31 March 2004 completely eroded the paid-up capital.

- The networth of the Company was negative during the five years ended 31 March 2004.
- The accumulated losses of Rs.328.85 crore as on 31 March 2004 had eroded the entire paid up capital.
- Loans and advances include Rs.10 crore paid (April 2003) as loan to Tamil Nadu Telecommunications Limited, a deemed Government company without any security. The loan was repayable in three monthly instalments from March to May 2004. Post dated cheques given by the loanee for repayment of principal are yet to be honoured (September 2004).

Working results

2.2.7 The working results of the Company for the five years ended 31 March 2004 are given in **Annexure-14**.

From the Annexure, it could be observed that:

- The interest income on term loan, which was Rs.135.61 crore in 1999-2000 decreased to Rs.98.48 crore in 2003-04. This was due to inadequate follow up of loans disbursed. This also resulted in cash loss during these years.
- During 2001-03, the Company made provision of Rs.100.98 crore for non-performing assets. Prior to this, the Company did not route provisions through profit and loss account. Had such provisioning been considered in the Profit and Loss account, the reported profit of Rs.32 lakh and Rs.56 lakh during 1999-2000 and 2000-01 would stand converted into loss of Rs.33.69 crore and Rs.28.80 crore respectively.

Sources and utilisation

2.2.8 The sources of finance and their utilisation for the five years ended 31 March 2004 are given in **Annexure-15**.

From the Annexure, it could be seen that disbursement of loans as a percentage of recovery, which was 58 *per cent* in 1999-2000, declined thereafter (except in 2001-02) indicating that the major portion of the recoveries were utilised to repay the borrowings of the Company rather than ploughing back. The plough back, as a percentage of the recoveries, was between 16.21 to 20.56 *per cent* during 1999-2002. The Company could not plough back any amount from the recoveries made by it during 2002-04. This was due to the fact that the Company was under obligation to pay back its borrowings.

Sanction and disbursement of loans

Procedure for financial assistance

2.2.9 The Company provides financial assistance for setting up of new industrial units as well as for expansion, diversification and modernisation of existing units. Besides, the Company extends loans for transport sector such as auto, taxi, passenger vehicles, rigs, truck, *etc*. The financial assistance is extended to the beneficiaries on receipt of application with detailed project reports. The Company conducts technical and financial appraisals in order to assess the economic viability of the projects. Loans up to Rs.25 lakh (increased to Rs.30 lakh in September 2002) are sanctioned by Branch Sanction Committee, loans over Rs.30 lakh and up to Rs.1.50 crore are sanctioned by Executive Committee and loans above Rs.1.50 crore are sanctioned by the Board of Directors. Loan is disbursed after verifying the genuineness and adequacy of securities provided by the borrower.

In order to reduce its over dependence on the borrowed fund and to improve its recovery performance, the Company was required to adhere to the laid down procedure in respect of sanction, disbursement, post disbursement follow-up, *etc*. In test check of records, it was noticed that the loans were sanctioned by the Company though its appraisal notes pointed out various adverse factors against the proposed schemes/projects such as recession in the industry, stiff competition in marketing of the product and various risks involved in implementation of projects. The disbursement of loan was made without adhering to the general terms and conditions of sanction *viz*., ensuring availability of working capital from the banks, conducting proper inspection of unit, *etc*., as discussed in succeeding paragraphs.

Sanction and disbursement of loan

2.2.10 The details of applications for loan received, sanction and disbursement of term loans made during the last five years ended 31 March 2004 are given in **Annexure-16**. It could be seen from the annexure that the Company sanctioned and disbursed loans of Rs.1,102.09 crore and Rs.827.46 crore respectively during the five years up to 31 March 2004. The number of applications received for loan decreased from 3,315 in 1999-2000 to 1,974 in 2003-04. Audit analysis revealed that one of the main reasons for dwindling number of applications was the higher interest rate charged by the Company compared to the market rate. As the Company depended mainly on refinance, it was not in a position to take effective decision on lowering of interest rates.

Deficiencies in appraisal, sanction and disbursement of loan are discussed in succeeding paragraphs.

Deficiencies in the appraisal of projects resulted in non-recovery of Rs.67.42 crore from 18 units.

2.2.11 A test check in Audit revealed that due to deficiencies in appraisal of projects, an amount of Rs.67.42 crore was outstanding (March 2004) against 18 units as detailed in **Annexure-17**.

Major deficiencies noticed in appraisal, sanction and disbursement of loan assistance to projects were as follows:

- Non-evaluation of viability of projects independently.
- Non-verification of export tie-up.
- Disbursement to known and chronic defaulters.
- Failure to ensure tie-up for entire working capital requirement of the project.
- Disbursement of assistance to promoters, who had no experience in the relevant industry.
- Assisting projects, when already assisted similar projects were not functioning satisfactorily and were in default.

Disbursements under Mudalipalayam scheme

2.2.12 The Government of Tamil Nadu (State Government) had decided in July 1992 to set up industrial estate at Mudalipalayam, Coimbatore District for the welfare of Scheduled Castes and Scheduled Tribes. The State Government selected (between July and December 1995) 100 beneficiaries from the list given by a Committee constituted for the purpose. The Company received (1996) 80 applications out of the 100, selected by the State Government and sanctioned term loan to 78 beneficiaries. After sanction of loans, the same were not availed of by the beneficiaries immediately due to various reasons like revision of project cost, means of finance, change of machinery, *etc*. An amount of Rs.34.62 crore was disbursed between April 1998 and February 2001, against the sanctioned amount of Rs.35.92 crore to 54 beneficiaries only. The overdues as on 31 March 2004 were Rs.62.20 crore (principal: Rs.19.92 crore, interest: Rs.42.15 crore and others: Rs.0.13 crore).

A review of the scheme revealed the following:

Faulty implementation and poor follow-up not only resulted in non-recovery of Rs.62.20 crore but also did not serve the intended purpose.

- None of the 54 units paid even a single instalment of principal due up to 31 March 2004. In respect of interest, against demand of Rs.46.07 crore till 31 March 2004, Rs.3.92 crore only were paid.
- Twenty two units (loan disbursed:Rs13.63 crore) were closed/defunct/not performing well due to inexperience of the promoters in the knitting industry.
- Eighteen units (loan disbursed:Rs.12.03 crore) were held by benamies.
- There was over invoicing of imported machinery in seven cases (loan disbursed: Rs.4.64 crore).
- The Company appointed (January 1999) Industrial and Technical Consultancy Organisation of Tamil Nadu (ITCOT) to study the scheme. ITCOT in its report stated (February 1999) that the knitwear industry was facing severe competition from other Asian countries. It also stated that there was over capacity in the industry and addition of more units would adversely affect the performance of new units. The Company went ahead with the scheme and disbursed the loan of Rs.7.66 crore to 12 beneficiaries even after receipt of the report.

- The field officer of the Company gave unfavourable/adverse remarks (December 1996) on the implementation of scheme. The beneficiaries also informed (November 1996) the Company about the unviability of the scheme due to presence of large number of similar units at one point. But the Company did not act on the suggestion and disbursed the loans.

Thus, faulty implementation and poor follow up by the Company not only led to recovery of Rs.62.20 crore being doubtful but also did not serve the intended purpose.

Follow up of dues

2.2.13 The follow up of dues is continuous in nature and ceases only with discharging of loan accounts. Monitoring during implementation of a project ensures proper documentation, disbursement of loan and progress of construction, bringing in promoters capital and timely implementation of the project. Regular and periodical inspections of units help in this process.

Follow up after implementation is ensured by inspecting periodically units under control to ensure the working of the units and also verification of securities offered to the institution; ensuring periodical recovery of interest dues and principal instalments as per schedule; and nominating a Director on the Board of the assisted units.

Audit observed that periodical inspection of assisted units was not carried out regularly to assess their performances. In the absence of regular receipt of annual accounts/report and their critical scrutiny, the Company could not identify the symptoms of sickness at the initial stage for taking remedial measures. The position of inspections carried out in the assisted units of the Company as a whole was not furnished to Audit. Therefore, overall inspection position could not be verified.

2.2.14 The table below indicates the details of post sanction inspection of the assisted units due and actually conducted in respect of six out of 15 branches selected for review during the five years up to 31 March 2004:

Sl.No.		1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Total number of units to be inspected	6,302	5,753	5,623	4,623	3,188
2.	Total number of units inspected	4,140	4,438	3,738	3,632	2,117
3.	Total number of units not inspected	2,162	1,315	1,885	991	1,071
4.	Percentage of units not inspected to total number of units	34.3	22.8	33.5	21.4	33.6

It could be seen that the number of units not inspected ranged between 21.4 to 34.3 *per cent*. The shortfall was stated to be mainly due to the shortage of staff.

The SIDBI in its evaluation report for the year 2001 also highlighted the lapses in follow-up of dues and observed that on an average, the Loan Administrative Officer (LAO) was entrusted with 100-130 cases for follow up; the visit reports were sketchy and did not contain enough details relating to capacity utilisation, sales, *etc*; Company had no system of obtaining periodical progress report to assess the performance of units.

Deficiencies in follow-up of dues

Deficiencies in follow-up of overdues resulted in non-recovery of Rs.34.21 crore from six units.

2.2.15 A test check in Audit revealed that due to deficiencies in follow up of loans extended, an amount of Rs.34.21 crore was outstanding (March 2004) against six units as detailed in the **Annexure-17**.

Besides, some of the cases involving serious lapses in follow up are discussed below:

2.2.16 The Company sanctioned (March 1996) a term loan of Rs.2.50 crore to Goverdhan Spinning Mills Limited for purchase of land, construction of building and purchase and erection of machinery for production of cotton yarn. Rupees 2.49 crore were disbursed between July 1997 and June 1998. The loan was repayable in 28 quarterly instalments after two years moratorium. The unit commenced production in March 1998. It was, however, irregular in repayment of dues to the Company. From the records made available to Audit, it is not clear, whether the unit was inspected regularly. From the records, it is also not clear whether the annual accounts of the units were received regularly and analysed. The Company foreclosed the accounts (February 2000) and decided to take over the possession of unit from March 2000. The unit paid (March 2000) Rupees two lakh against overdues of Rs.1.18 crore and committed to pay Rupees five lakh per month from August 2000. Audit observed that LAO, while inspecting (July 2000) the unit stated that the unit was running continuously for three shifts and was not paying dues wilfully. The Company, however, did not take any action. The Company issued foreclosure notice again in January 2001. The unit remitted Rs.18 lakh as against overdues of Rs.2.22 crore and the Company withdrew the foreclosure notice. The unit again defaulted in repayment and approached BIFR (September 2001), seeking reliefs/concessions. BIFR is yet to give its verdict (August 2004).

The Company inspected and analysed the previous years' accounts of the unit in October 2003 and found that the unit has been under invoicing the sales. The unit created additional assets of Rs.1.07 crore even though it was showing losses during these years. Based on these facts, the Company informed (December 2003) BIFR that the unit was a willful defaulter and requested dismissal of its petition for relief. As on 31 March 2004, the overdues amounted to Rs.11.23 crore (principal: Rs.1.76 crore plus interest: Rs.9.47 crore).

From the above, it could be seen that the Company did not take effective follow up action like periodical inspection, obtaining and analysing of annual accounts of the assisted unit, *etc*., which would have revealed the irregularities like under-invoicing and acquisition of assets from internal generation without repaying the loan. Further, on receipt of paltry sums against huge overdues, Company withdrew (January 2001 and March 2002) foreclosure notices.

The Company stated (July 2004) that action like taking possession of the unit was not taken overnight for a single default or few defaults. The reply is not tenable due to the fact that the loanee was a willful and chronic defaulter.

2.2.17 The Company sanctioned (January 1996) a term loan of Rs.2.50 crore to Marson Textiles Limited to set up a spinning mill at Kodiyalam Village and disbursed Rs.1.92 crore. Unit commenced production in March 1997 and defaulted in repayment of dues from the beginning. In all, it paid Rs.38.86 lakh (up to 1999-2000 including insurance claim of Rs.9.12 lakh).

Audit observed that despite this, the Company, based on a request (January 1999) by the unit, funded (March 1996 to April 1999) interest of Rs.1.04 crore up to 30 April 1999 under rehabilitation package. The unit remained closed from November 1999. The unit approached BIFR in 2000 and the matter was pending (March 2004). Failure to take effective follow-up action and funding of interest even after knowing that the unit had been defaulting since beginning resulted in non-recovery of dues. The Company has not inspected the unit after June 2000 and was not aware whether all the machinery financed by it were available inside the factory premises. As on 31 March 2004, the overdues amounted to Rs.4.91 crore (principal: Rs.1.10 crore and interest: Rs.3.81 crore) besides funded interest of Rs.1.04 crore.

Withdrawal of Nominee Directors

2.2.18 The Company under the provisions of State Financial Corporation Act, 1951 and by virtue of terms and conditions of loan sanction letter, could nominate a Director on the Board of Directors of the assisted units. The policy of the Company prescribed nomination of Directors in the following cases:

- Where loan sanctioned has been more than Rs.50 lakh.
- Where the equity participation of the Company has been more than Rs.10 lakh.
- Defaulting units and joint finance cases.

The Company had not maintained any consolidated records to show the number of units in which nominee Directors were to be appointed, number of nominee Directors appointed, number of meetings attended by the nominee Directors, number of Directors who sent their reports and action taken on the reports. The Company withdrew (2000-01) the nominated Directors from all but three units, citing the following reasons:

(i) The nominated Directors were not co-opted as Directors on the respective Boards of 83 units.

(ii) The assisted units did not conduct meetings and even if meetings are conducted, did not invite the nominated Directors.

(iii) The Company received only a few reports and purpose of nominee Directors was not served.

Instead of plugging the above loopholes by suitable action, the Company withdrew the nominee Directors, which is detrimental in the long run.

Recovery performance

Procedure

2.2.19 The Company lends money at interest rates varying from 12.25 *per cent* to 16 *per cent per annum* depending on the type of loan and location of the assisted unit. As per terms of sanctions, the principal amount is to be repaid in 24 equal quarterly instalments after a moratorium of two years, whereas interest is to be paid in quarterly instalments and no moratorium is allowed for interest. Loans under transport scheme and loans to commercial establishment are repayable in monthly instalments and the maximum period allowed for repayment is 36/60 months. Assistance under hire purchase scheme is recovered on Equated Monthly Instalments (EMI) basis in 36/60 months.

A Default Review Committee (DRC) is functioning in the Company, which reviews the defaulting units periodically and advises the management on the course of action to be taken.

Recovery and Overdues

2.2.20 The details of term loan and interest due for recovery, amount recovered and the overdue/shortfall in recovery during the five years ended 31 March 2004 are given in **Annexure-18.** Audit observed that separate targets for recovery of old and current dues were not fixed.

An analysis of the recovery and arrears position of the Company for the five years ended 31 March 2004, revealed the following:

Target fixed for recovery of principal steeply declined from 72.60 per cent in 1999-2000 to 42.27 of the dues in 2002-03 and marginally increased to 47.24 in 2003-04.

2.2.21 The targets fixed for recovery of principal as against total amount due during the year were very low. The percentage of targets to the principal amount due during the year steeply declined from 72.60 *per cent* in 1999-2000 to 42.27 *per cent* of the dues in 2002-03 but marginally increased to 47.24 *per cent* in 2003-04. In respect of recovery of interest also, the targets were fixed at very low levels compared to the dues and this touched an all time low of 18.71 *per cent* of the dues in 2003-04. It is also interesting to note that even these very low targets for interest were not achieved in any of the years except 2003-04. It is pertinent to note that COPU in their 21st Report recommended (October 1991) and reiterated in May 1999 that the targets should be fixed at sufficiently higher levels and effective follow up action on defaulters should be taken. Audit observed that the Company had not acted upon these recommendations as it continued to fix lower targets. The overall recovery percentage had also not improved.

2.2.22 The low levels of interest collection affected the working results of the Company and this was the main reason for cash losses in 2001-02 and 2002-03. Another fall-out of low recovery was non-availability of funds for plough back/recycling.

2.2.23 Seventy eight units availed loan of more than Rs.50 lakh each from the Company from which even a single instalment of principal was not recovered. The principal and interest overdues outstanding from these units aggregated to Rs.67.31 crore and Rs.146.20 crore, respectively as on 31 March 2004.

Categorisation of outstanding dues

2.2.24 As per IDBI/SIDBI guidelines of May 1999 and as modified from time to time, the loan portfolio has been classified into five categories for the purpose of income generation/recognition and provisioning as given below:

1.	Standard assets	Where the payments are regular, loan as well as interest remained unpaid up to six months..
2.	Sub-standard assets	Where the loan as well as interest remain overdue for more than six months but less than two years.
3.	Doubtful assets-I	Where loan as well as interest remain overdue for more than two years but less than five years
4.	Doubtful assets-II	Where loan as well as interest remain overdue for more than five years
5.	Loss assets	Where loans for which the loss has been identified but not written off wholly or partly

The position of outstanding loans and classification of loans for the last five years is given below:

(Rupees in crore)

Sl. No	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
1.	Loans outstanding at the close of the year	1,012.00	989.48	957.57	864.63	764.94
2.	(a) Standard assets	438.16	419.85	378.02	319.91	282.07
	(b) Sub-standard assets	253.66	128.06	101.13	65.89	62.57
	(c) Doubtful assets-I	227.26	306.51	259.98	188.74	109.63
	(d) Doubtful assets-II	92.92	135.06	218.44	290.09	310.67

Sl. No	Particulars	1999-2000	2000-01	2001-02	2002-03	2003-04
	(e) Loss assets	5.82	12.26	35.53	42.62	49.47
3.	Total non performing assets (b) + (c) + (d)	573.84	569.63	579.55	544.72	482.87
4.	Percentage of NPA to total outstanding	56.70	57.57	60.52	63.00	63.10

It could be seen from the table that the loss assets increased from Rs.5.82 crore in 1999-2000 to Rs.49.47 crore in 2003-04. The percentage of NPA to the total outstanding also hovered around 60 *per cent*.

Roll over scheme

2.2.25 Based on request from the borrowers and on the offer by IDBI/SIDBI for roll over package by reducing interest rate, the Company introduced (February/July 2001) a roll over scheme. In this scheme interest on loans was brought down to 17 *per cent* wherever it was more than that percentage subject to down payment of 20 to 50 *per cent* of simple interest arrears. The balance simple interest was payable in 18 to 24 monthly instalments and the penal and compound interest was repayable after repayment of outstanding principal. Roll over premium was 50 *per cent* of Net Present Value of differential interest.

The Company recovered Rs.2.27 crore as down payment and Rs.95.36 lakh as premium from 679 borrowers, who responded to this scheme, as against 7,836 eligible borrowers.

2.2.26 As the response to the scheme was not encouraging, the Company introduced a second roll over scheme in April 2003. The salient features of the scheme were as follows:

- Down payment of entire overdue interest in respect of standard assets.
- Down payment of entire interest overdues up to Rupee one lakh and Rupee one lakh plus 50 *per cent* of overdues above Rupee one lakh in respect of sub-standard asset.
- Down payment of 15 *per cent* and 10 *per cent* overdues in respect of Doubtful-I and Doubtful-II categories respectively.
- Roll over premium reduced to 25 *per cent* from 50 *per cent* in the earlier scheme for the remaining period.
- Entire balance interest was interest free and was repayable in instalments after principal repayment. Penal and compound interest was waived off.

The Company collected Rs.7.02 crore (against the target of Rs.12.64 crore) as down payment and Rs.49.68 lakh as premium as on 31 March 2004 from 1,922 borrowers as against 3,869 eligible borrowers.

2.2.27 Audit analysis of these two roll over schemes revealed that in the second scheme additional concessions (compared to the first scheme) were extended by way of:

- waiver of penal and compound interest
- reduction in roll over premium from 50 to 25 *per cent.*
- balance overdue interest was made interest free and repayable after repayment of principal.

As Company availed of loans from financial institutions and was regularly repaying the principal and interest, interest free funding of overdue interest lacked justification and resulted in loss of Rs.2.86 crore *per annum* to the Company (computed on the funded interest of Rs.18.76 crore at minimum interest rate of Rs.15.25 *per cent*) from December 2003 and would be recurring till repayment of funded interest starts.

Rehabilitation of sick units

2.2.28 The Reserve Bank of India and IDBI have issued guidelines periodically in regard to rehabilitation of sick small scale industrial units with specific reference to definition of sick SSI units, viability norms and also the extent to which reliefs and concessions may be provided by the financial institutions under the rehabilitation packages. Rehabilitation packages included relief and concessions like waiver of penal/compound interest, funding of interest (with or without interest) and reschedulement of repayment schedule within the terminal date or by extending the terminal date.

The Company allowed rescheduling of repayment of principal instalment based on the request from the defaulters as a measure of relief to prevent further default. During 1999-2004, the Company rescheduled term loan of Rs.93.53 crore in respect of 370 defaulted units. An amount of Rs.6.60 crore towards interest overdue was funded and an amount of Rs.86 lakh towards penal/compound interest was waived and frozen in respect of 334 units. The Company neither called for reports on the results achieved as a result of rehabilitation programme nor reviewed the effectiveness of the scheme on which it had foregone Rs.7.46 crore.

Audit analysis of 75 cases in which repayments were rescheduled revealed that the rescheduling did not result in improved recovery in 44 cases. As against the principal and interest demands of Rs.18.37 crore and Rs.27.29 crore respectively subsequent to rescheduling, the recovery from these 44 units was only Rs.2.57 crore (14 *per cent* of demand) and Rs.9.55 crore (35 *per cent* of demand) respectively.

Repossession of units

2.2.29 The details regarding the number of units taken possession, principal and interest outstanding at the time of taking over, amount realised through disposal and balance amount to be realised for the five years ended 31 March

2004 are given below:

(Rupees in crore)

Year	**Number of units at the beginning**	**Number of units in respect of which possession taken during the year**	**Number of units under possession**	**Number of units disposed off**	**Total loan amount outstanding against units disposed off**	**Amount realised on disposal**	**Loss on disposal of assets**
1999-2000	1,094	484	1,578	289	62.40	12.32	50.08
2000-01	1,289	15	1,304	303	79.49	9.81	69.68
2001-02	1,001	196	1,197	169	39.98	6.87	33.11
2002-03	1,028	712	1,740	405	120.27	16.25	104.02
2003-04	1,335	361	1,696	637	173.95	17.35	156.60

Audit observed that:

The Company was yet to dispose off 1,059 units out of 2,862 units taken over during the five years ended 31 March 2004.

- The Company could dispose off assets of only 1,803 units and realised an amount of Rs.62.60 crore as against total dues of Rs.476.09 crore during 1999-2004. During 2002-04, the Company realised Rs.33.60 crore in the disposal of 1,042 units, which did not cover even the principal amount of Rs.60.39 crore. The Company did not make available the break up of principal and interest outstanding in respect of assets disposed off up to 2001-02.
- In respect of 1,059 units in possession of the Company, from whom Rs.606.48 crore were due as on 31 March 2004, 405 units (38.2 *per cent*) were taken over more than five years ago and the amount due from these 405 units aggregated to Rs.260.62 crore (43 *per cent*).
- In 224 cases, assets could not be sold even after five to 10 auctions for want of bidders for the amount fixed by the Company. Due to delay in disposal of these assets, the Company had not only to incur Rs.9.46 crore on security charges, insurance, advertisement and maintenance of assets up to 31 March 2003, but also had to bear the loss due to deterioration in the value of assets. Further, major defaulting units, from whom Rs.139.20 crore were due, were in the possession of Official Liquidator/State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT)/banks.

Absence of any concrete strategy for timely disposal of assets taken over and lack of realistic assessment of value of assets resulted in their non-disposal and consequent deterioration.

Agency operation

2.2.30 The State Government was providing capital subsidy for industries set up in the specified areas till February 2003. The Company received subsidy from the Government and disbursed the same to the eligible units. The Company disbursed Rs.28.42 crore as subsidy to 598 units during the five years period ended 31 March 2004. As per the terms and conditions of sanction of subsidy, the units that availed subsidy, were required to be in operation continuously for five years from the date of receipt of subsidy, otherwise the entire subsidy was to be refunded to the State Government. Audit observed that the Company did not maintain proper records to monitor the continued functioning of those units to which subsidy was given and the number of units, which did not fulfil the conditions stipulated. The Company stated (July 2004) that 541 units, which received Rs.12.99 crore as subsidy did not run continuously for five years and hence became liable to refund the subsidy. No amount, however, has been recovered from these units. Besides this, the Company also allowed 56 units, which received Rs.86.03 lakh as subsidy and did not run continuously for five years, to settle their dues with the Company without recovering the subsidy from them.

Man power

2.2.31 The staff strength of the Company as on 31 March 2004 was 708 as against the sanctioned strength of 967. The Board of Directors while considering the business plan policies and strategies for operations for 1999-2000 decided (April 1999) to undertake an exercise to properly assess and rationalize the man power in the Company. The Company identified (April 2001) 176 employees as surplus in all categories and sent a proposal to the State Government (May 2001) for Voluntary Retirement Scheme (VRS) to these surplus employees. The State Government approved (May 2002) this scheme and issued (May 2002) detailed guidelines for VRS. The State Government further directed (July 2002) that all State Public Sector Undertaking should form a Committee of Directors to give recommendations on reducing the staff by 30 *per cent* over a period of five years and identification of surplus posts in all categories.

The Committee of Directors formed by the Board identified (August 2002) 170 posts as surplus. The Committee arrived at this figure taking into account pruning of Regional and Branch offices from eight to six and 36 to 25 respectively. The Board while approving the proposal, decided to implement the rationalisation of strength in a phased manner and the progress in the implementation of VRS was to be reviewed by the Committee after one year. It was estimated that due to reduction of staff and pruning of Branch and Regional offices, the Company could save Rs.3.36 crore *per annum* on salaries and wages and Rs.52.75 lakh on establishment expenses. This proposal was approved (October 2002) by the State Government.

Audit observed that out of 170 posts identified as surplus only 80 officials have been sent on VRS so far (March 2004). The Company brought down number of Branch Offices from 36 to 33 instead of 25 as envisaged.

Internal Audit

2.2.32 The Internal Audit Department (IAD) of the Company is headed by a Deputy General Manager assisted by a Manager and an Assistant Manager. The Internal Audit Department conducts audit of operational activities like sanction, disbursement, follow up, administration, *etc.* From 1999, Internal Audit Department confined itself mostly with the checking of interest on loans, verification of cash and bank vouchers, ledger postings, ensuring the availability of insurance coverage for the assets created by the loanees, validity of the available guarantee, *etc*. The audit findings were reported to the Managing Director. No major irregularities were found by the IAD during the period under review.

Conclusion

The Company was established to provide financial assistance to medium scale industries, transport and small scale units to accelerate and sustain industrial growth in the State. Loans were sanctioned in several cases in the face of adverse factors brought out in the appraisal notes. The loans were also disbursed without adhering to the general terms and conditions of the sanction. The steady increase in percentage of non-performing assets to total outstanding amount indicates that the recovery mechanism of the Company was ineffective. The Company needs to improve the recovery performance.

In order to reduce the dependence on borrowed funds, which was a consequence of poor recovery performance, the Company has to scrupulously adhere to the laid down procedures in respect of sanction, disbursement, monitoring and follow-up of the loans. The Company should also have to evolve an action plan for speedy disposal of units under its possession in order to realise the outstanding amount to eliminate/minimise deterioration in the value of assets taken over. The Company also need to rationalise the interest rate so as to survive in the highly competitive business and this would not only provide finance to entrepreneurs at affordable rates but would also spur industrial growth in the State.