MINISTRY OF TEXTILES

CHAPTER : XIV

National Textile Corporation (APKK&M) Limited

Sale of surplus Land and Buildings

Highlights

By not considering latest index formula of Income Tax department, government guidance rates and by applying unjustified deductions for various charges the Company worked out the reserve price as Rs.173.70 crore instead of Rs.279.89 crore as worked out in Audit. This resulted in lower fixation of reserve price by Rs.106.19 crore.

(Para 14.5.1)

According to the guidelines issued (August 2002) by National Textile Corporation Limited (Holding Company), reserve price was to be fixed at the highest of Registration/CBDT/CPWD or Registered Valuers' valuation. However, the Holding Company revised (December 2002) the method of computation of reserve price to ‘average’ of the three valuations. This resulted in fixation of lower reserve price by Rs.199.56 crore. On being pointed out in Audit, the Holding Company again changed the method of computation to highest valuation of the values.

(Para 14.5.2)

Due to fixation of lower reserve price by Rs.67.65 crore, one party managed to purchase 18.69 acres of land of Mysore Mills on single bid basis for Rs.79.16 crore only which was even below the Government guidance value as admitted by the purchaser himself. The Administrative Ministry had advised that Asset Sale Committee may sub-divide the land into plots urgently in case there were no bids (or satisfactory bids). This was not followed in case of Mysore Mills land where only one bid was received which was also not a satisfactory bid.

(Para 14.6.1)

Even though the purchasers had matched the reserve prices, the Company had foregone a potential revenue realisation of Rs.23.26 crore and Rs.5.50 crore in respect of Minerva Mills and Netha Mills respectively due to fixation of reserve price, on lower side.

(Para 14.6.2 and 14.6.3)

Non-consideration of remunerative offer from Karnataka Housing Board, Bangalore resulted in foregoing of opportunity to sell the surplus land for a higher consideration to the extent of Rs.55.61 crore.

(Para 14.7.1)

14.1 Introduction

The National Textile Corporation (APKK&M) Limited, Bangalore (Company) was set up in October 1974, on reorganisation of National Textile Corporation Limited, New Delhi (Holding Company) by transferring 16 mills located in Andhra Pradesh, Karnataka, Kerala and Mahe. These mills were nationalised under the provisions of Sick Textile

Undertakings (Nationalisation) Act, 1974. The Company, engaged in manufacture of yarn and cloth of cotton and polyester blended varieties, incurred losses since early 1980s. Consequent on its networth becoming negative, it was referred (1992) to the Board for Industrial and Financial Reconstruction (BIFR) and was declared a Sick Industrial Company on 12 January 1993. The Ministry of Textiles (MoT), Government of India, formulated a revival strategy based on which a revival scheme proposed (July 2001) by the IFCI (Operating Agency) was sanctioned by BIFR in March 2002 for implementation.

The approved BIFR scheme *inter alia* envisaged income of Rs.314.04 crore on sale of 744.70 acres of surplus land and buildings by 2003-04 through an Asset Sale Committee (ASC) to be constituted by the Holding Company. The Company sold 55.70 acres of land of three mills (18.69 acres of Mysore Mills, 9.83 acres of Netha Mills and 27.18 acres of Minerva Mills) during January to September 2004.

14.2 Scope of the Review

The review examines the method adopted by the Company for valuation and fixation of reserve price and the tendering process in the sale of land and building with particular reference to sale of surplus land and buildings belonging to three mills, viz. Mysore Spinning & Manufacturing Mills (Mysore Mills), Bangalore; Minerva Mills, Bangalore and Netha Spinning Mills (Netha Mills), Secunderabad.

14.3 Asset Sale Committee (ASC)

As per the directions of the Ministry of Textiles (MoT) (November 2001), the Company constituted (June 2002) an Asset Sale Committee (ASC) for sale of surplus assets, with the Chairman and Managing Director (CMD) of the Holding Company as Chairman and CMD of the Company as Member Secretary. The representatives of MoT, Operating Agency, respective State Governments and a Special Director of BIFR were the other members of the ASC.

The ASC was entrusted with the responsibility of formulating necessary guidelines for disposal of the assets to ensure that

(i) the land was sold in such a manner as to generate maximum resources for the revival plan;

(ii) the sale was conducted in a transparent and fair manner and through open notifications; and

(iii) the procedures for sale and maintenance of accounts were as per highest professional standards and by engaging professional agencies for specific periods.

As the ASC had to ensure the sale in a transparent and fair manner and through open notifications, notice inviting bids for sale of land in Bangalore and Hyderabad should have been through global tenders by giving wide publicity. The Company did not go for global tendering which resulted in limited response and the Company could not get the advantage of competitive rates.

The Management stated (September 2004) that the Company could not go for global tendering process as it was not in the scheme for disposal of assets in any of the mills and in fact had notified the sale of land to major IT companies, which had given negative response or not responded at all to the offer. The reply is not tenable as the fact remains that the Company had not gone for global tendering due to which the Company could not receive competitive rates for land at Bangalore and Hyderabad.

The succeeding paragraph indicates that the land was undervalued by the Company, was sold at low rates due to fixation of low reserve price and 18.69 acres of land of Mysore Mills was sold on the basis of single bid without having competitive rates.

14.4 Valuation

For the purpose of valuation of land, the Holding Company directed (December 2002) that the reserve price be determined on the basis of average of three values i.e., valuation of Central Board of Direct Taxes (CBDT), valuation under Draft Revival Scheme (DRS) and Registered Valuers' Valuation. Accordingly the Company fixed the reserve price as the average of these three values. The deficiencies noticed in audit on valuations are discussed in subsequent paragraphs.

14.4.1 CBDT Valuation

CBDT valuation of land done in 1994-95 was updated to 2001-02 by the Company by applying index formula of Income Tax Department. The same was not updated to March 2003 even though the index formula for 2002-2003 was available at the time of tender advertisement (in April 2003 for Mysore Mills, in August 2003 for Netha Mills and in October 2003 for Minerva Mills). This resulted in under-valuation by Rs.52.77 crore (Rs.47.85 crore for Mysore Mills, Rs.4.13 crore for Minerva Mills and Rs.0.79 crore for Netha Mills).

14.4.2 DRS Valuation

The DRS valuation was based on State Government guidance rates relating to 1998-1999. The latest available rates of land effective from 1 August 2002 were not considered for the purpose of DRS valuation of Mysore Mills and Minerva Mills. The major portion of land belonging to Mysore Mills, situated in a prime locality, 'Sampige Main Road' of Bangalore and that of Minerva Mills, situated on Magadi Road of Bangalore, carrying higher rates as per the Government notification, were undervalued by applying the lower rates applicable for 'Malleswaram' and 'Gopalapura' in respect of land of Mysore Mills and Minerva mills respectively. However, in respect of Netha Mills, there was overvaluation by Rs.4.43 crore due to adoption of incorrect rates. This resulted in undervaluation by Rs.134.30 crore (Rs.80.44 crore for Mysore Mills, Rs.58.29 crore for Minerva Mills and Rs. (-) 4.43 crore for Netha Mills).

14.4.3 Valuation by Registered Valuer

The Registered Valuer, while valuing the land pertaining to Mysore Mills and Minerva Mills, allowed deductions to the extent of 25 per cent towards amenities and open spaces, Rs.175 per sq.meter towards earth filling charges for low-lying areas and Rs.225 per sq.meter towards land conversion charges from Industrial use to Commercial/Residential use. In respect of Netha mills, allowances given were to the extent of 40 per cent towards amenities and open spaces and Rs.70 per sq.meter towards land conversion charges. These deductions were not justified since the land put on sale was on 'as is where is' and 'as is what is' basis. These resulted in undervaluation by Registered Valuer to the extent of Rs.135.08 crore (Rs.76.39 crore in the case of Mysore Mills, Rs.32.69 crore for Minerva Mills and Rs.26.00 crore for Netha Mills).

14.4.4 The Management stated (September 2004) that:

(i) indexation was considered to bring CBDT value close to the year of valuation by the Property Consultants who relied upon market value as of 1 April 2002. Therefore, it would be proper to compare the 1 April 2002 rates of the valuers' report with the rate of CBDT valuation indexing as on 31 March 2002, instead of comparing with the CBDT rates indexed as on 31 March 2003.

(ii) the guidance rates advised by the State Government were for residential and commercial land and not for industrial land. The industrial rates were now being published since August 2004 which were generally about 50 per cent of residential rates. Thus the rates applied by the Company in DRS valuation were much higher and reasonable.

(iii) the land was not a developed one and it was a generally accepted principle to give allowance for setback area, development cost, profit margin etc. to arrive at the market price of the property and this was being followed by any valuation agency. Further, the land put on sale was all industrial land which required change of land use involving additional cost and time.

(iv) in respect of Minerva Mills, no portion of surplus land was situated on Magadi Road but was surrounded by Mysore deviation road and road to Rajajinagar, high school and play ground. Further, rates applicable for Gopalapura were to be applied as against Magadi Road rates applied by Audit.

The replies are not tenable as:

(i) the land was advertised for sale during April 2003/August 2003/October 2003 by which time the index formula for the year 2002-2003 was available and as a prudent measure, should have been taken into account for CBDT valuation.

(ii) the land of Mysore mills was situated in a centrally located commercially/ residentially viable locality of the city viz., Sampige Road, Malleswaram. Even the Registered Valuer, while valuing the property, applied the commercial rate only.

(iii) conversion charges for conversion of land to commercial use was to be waived by the State Government as per Sanctioned Scheme of BIFR and thus deduction in valuation on this account was unwarranted.

(iv) allowing the deductions on account of open space for amenities and earth-filling charges for low-lying area was against the spirit of offering the land on 'as is where is' and 'as is what is' basis.

(v) the Minerva Mills land faces the Magadi Road and, therefore, as a prudent measure, the rates applicable for Magadi Road should have been applied.

14.5 Fixation of reserve price

14.5.1 As per the Holding Company guidelines (December 2002), the reserve price was to be the average of the three valuations. By adopting the unrealistic methods of computing the three types of valuations (CBDT, DRS and Valuers' valuation) as mentioned in preceding paragraphs, the Company worked out the reserve price as Rs.84.35 crore (Mysore Mills), Rs.67.03 crore (Minerva Mills) and Rs.22.32 crore (Netha Mills) instead of average reserve price worked out in audit as Rs.152.00 crore, Rs.98.72

crore and Rs.29.17 crore respectively. Thus the reserve price fixed by the Company was lower by Rs.106.19 crore (Rs.67.65 crore in the case of Mysore Mills, Rs.31.69 crore in the case of Minerva Mills and Rs.6.85 crore in the case of Netha Mills).

14.5.2 The Holding Company had (August 2002) initially stipulated that the reserve price would be the highest of the valuations by Registration Department/CBDT/Central Public Works Department (CPWD) or Registered Valuers. Had the Company considered the above guidelines for fixation of reserve price i.e., highest of three valuation figures, the reserve price would have been Rs.186.19 crore for Mysore Mills, Rs.140.18 crore for Minerva Mills and Rs.46.89 crore for Netha Mills. Thus the reserve price fixed by the Company was lower by Rs.199.56 crore (Rs.101.84 crore – Mysore Mills, Rs.73.15 crore – Minerva Mills and Rs.24.57 crore – Netha Mills).

The Management stated (September 2004) that it had followed guidelines received from the Holding Company in averaging the three valuations and the ASC was informed about the components. The reply is not tenable as the three valuations varied widely and the average of three became unrelated to any of these three values. Further, ASC was not informed about the method of computation of each valuation figure.

The Management further stated (September 2004) that as a follow up to the audit comments and a review undertaken by the Company, a meeting of all the members of ASC was held at the Holding Company on 14 September 2004 which analysed the entire procedure being followed and a decision was taken to revise the formula as follows:

- NTC should have a panel of government-approved reputed registered valuers; NTC should get the property evaluated at least by three different valuers, discreetly i.e., each valuer should not know that another valuer is appointed for the same task, before going for sale and the highest of these three values should be fixed as reserve price for land.
- NTC should revise its format of advertising, (i) to include the strong points of land; (ii) inherent strengths should be highlighted in the advertisements; and (iii) should be handled in a more commercial manner.
- The sale of land is not a matter of administration and/or governance but a commercial deal and, therefore, the reserve price should not be indicated in the newspaper advertisement.

However, the fact remains that the Company incurred loss by fixing low reserve prices.

14.6 Tendering and Price Negotiation

14.6.1 Mysore Mills

The Company fixed the reserve price at Rs.84.35 crore for land of 18.69 acres relating to Mysore Mills. There was only one bid (19 May 2003) for 18.27 acres from M/s.Hamara Shelters Private Limited (HSPL). As the bid (Rs.13.62 crore) was far less than the reserve price (Rs.82.45 crore), HSPL was asked to revise its price bid and the revised price bid (Rs.46.19 crore) of 30 May 2003 was also less than the reserve price. During negotiation, HSPL refused (13 June 2003) to match the reserve price and ASC decided to re-tender. Before action on re-tendering was taken, HSPL agreed (16 June 2003) to match the reserve price for total land of 18.69 acres and submitted its second revised offer (17 July and 29 July 2003) with some deductions (Rs.5.19 crore) towards encroachments on two parcels of land. The revised offers for Rs.79.16 crore were accepted (3 July 2003 and 2 August 2003) by the ASC.

Considering the fact that the purchaser had matched the reserve price, the lower fixation of reserve price of Rs.84.35 crore led to the Company suffering a loss of potential realization of Rs.67.65 crore.

Further, MoT had directed (March 2003) that in cases where there was no bid (or satisfactory bid) the land could be sub-divided into plots and sold but the Company did not take any action to sub-divide the land into plots even though a single unsatisfactory bid was received. The single bid should have been rejected and the Company should have reinvited the bids by giving wider publicity.

The Management stated (September 2004) that:

(i) Audit had assumed that the 18.27 acres situated on Sampige Main Road, which was not correct as on the basis of surrounding circumference, only 12126 Sq.meters (2.997 acres) of the land was situated on Sampige Road. Besides, the Stamp Duty paid was accepted by the authorities which indicated that the sale value was not less than the guidance rates. Further, the DRS value to be adopted for land measuring 18.27 acres worked out to Rs.70.99 crore only.

(ii) there were two valid bids and both bidders were given an opportunity to revise their offers.

(iii) as per directions, sub-division of plots could be resorted to only when there was no response for the tender notification.

(iv) the process of formation of lay-out and sub-division of plots was highly technical for which the Company did not have expertise.

(v) as the sanctioned scheme had to be implemented within two years, it was not found prudent to sub-divide land into plots.

(vi) it was felt that re-tendering would not have good response.

The replies are not tenable as:

(i) the entire stretch of 18.27 acres of land is a single continuous piece of prime land and applying the rates on the basis of circumference of area is not justified and it led to undervaluation. This is further corroborated by the fact that the purchaser, HSPL, had admitted (October 2003) that the purchase price was less than the existing Government guidance value.

(ii) for sale of 18.27 acres of land, there was only one bid and not two as contended by management which was also unsatisfactory as it was much below the reserve price.

(iii) the Company could have availed the services of the architects for formation of lay-out and for subdivision of plots as the Ministry had delegated (March 2003) the powers to the Company to appoint the architect(s) without going through the tender process.

(iv) subdivision of plots could be resorted to not only when no response to tender notification was received but also when no satisfactory bid was received.

(v) the sanctioned scheme, in any case, had not been implemented within the stipulated period and the Company had approached (December 2003) BIFR for extension of implementation period by another two years i.e., upto 2005-06. Hence, sufficient time was available to subdivide the land into plots.

14.6.2 Netha Mills

The land (9.8326 acres) and building (11191 Sq. meter) were advertised for sale in August 2003. The reserve price was fixed at Rs.23 crore (Rs.22.32 crore for land and Rs.68 lakh for building) which was lower by Rs.6.85 crore (Para 14.5.1) and the highest offer of Rs.24.35 crore received from M/s. Airforce Naval Housing Board, New Delhi, was accepted (October 2003) by ASC. Though the Company realised Rs.1.35 crore more than the reserve price, considering the short fixation of reserve price by Rs.6.85 crore there was short realisation of revenue by Rs.5.50 crore.

The Management stated (September 2004) that considering the three valuations, the sale value realised amounting to Rs.24 crore was still higher than the highest of the above three valuations of Rs.23.79 crore. The reply is not tenable as the Company had not considered adding back the unjustified deduction allowed in the Valuers' valuation while fixing the reserve price.

14.6.3 Minerva Mills

The Company advertised (October 2003) 28.616 acres (8 parcels) of land for sale. While the highest offers (three offers) for five parcels of land were above the reserve price, in respect of two parcels it was below the reserve price and there was no offer for one parcel. Offer for one parcel of land where it was above the reserve price was withdrawn (December 2003) and remaining offers for four parcels of land were accepted by ASC (December 2003). The offer for two parcels where it was below the reserve price was also accepted as the party agreed to match the offer to reserve price. The ASC also decided to re-tender the remaining two parcels.

The reserve price for 27.18 acres of land sold worked out to Rs.94.78 crore as computed in Audit, against which the Company realised Rs.71.52 crore only due to fixation of lower reserve price of Rs.63.67 crore. Thus the sales realisation of Rs.71.52 crore was short by Rs.23.26 crore as compared to reserve price of Rs.94.78 crore.

The Management in its reply (September 2004) stated that Audit had considered higher rates applicable to Magadi Road as against rates applicable to Gopalapura where the Mill was situated. Further, in comparison to three valuations viz., CBDT indexed to 2002-2003 as per Audit, DRS valuation as per 2002-2003 applying Gopalapura rate and Valuers' valuation after deducting development cost, the sale value realised was higher. The reply is not tenable in view of the fact that the Company had considered Gopalapura rate instead of Magadi Road rate though the land faces Magadi Road and had not added back the development cost (Rs.31.05 crore) to the Valuers' valuation.

14.7 Other points of interest

14.7.1 Offer of Karnataka Housing Board (KHB)

Karnataka Housing Board (KHB) had evinced interest (February 2003) in purchasing 17 acres of land of Mysore Mills and 11 acres of Minerva Mills and requested the Company to consider giving the land at guidance value or the rate fixed by the Deputy Commissioner, Bangalore. Further, KHB requested for fixing the price for 50 per cent of the area at half of the rate for other areas since KHB had to earmark 50 per cent of space for civic amenities and open spaces. The Company, however, informed (February 2003) KHB that as the State Government guidance rates were far below the valuation rate of registered valuers, it was not possible to allot the land at guidance rates. If the Company had allotted the land to KHB at State Government notified rates even by charging half the price for 50 per cent of the area, it would have realised Rs.116.59 crore in respect of 17 acres of Mysore Mills land and Rs.45.73 crore in respect of 11 acres of Minerva Mills land. But the Company realised (January, May and September 2004) only Rs.73.08 crore and Rs.33.63 crore respectively. Calculated on this basis the short-realisation was Rs.55.61 crore.

The Management stated (September 2004) that:

(i) KHB's letter was received during February 2003, whereas the advertisement was published in April 2003. If they were really interested they could have responded to the advertisement and participated in the tender process.

(ii) KHB had requested for fixation of price on acreage basis and not on sq.foot basis. Further, in a wholesale market, rates were much lower than the retail market. Thus considering 50 per cent of the guidance rates, the value of Mysore Mills land if allotted to KHB worked out to Rs.58.29 crore only and the value of Minerva Mills land worked out to Rs.11.43 crore considering Gopalapura rates against Magadi road rate considered by Audit. As against this the Company had received Rs.73.08 crore in respect of Mysore mills and Rs.33.63 crore in respect of Minerva mills in open tender process without any loss of revenue.

The reply of the management is an afterthought as the Company had not made any negotiation with KHB regarding valuation of the land.

14.8 Conclusions

- Due to not considering the current index formula of 2002-03, Government guidance rates effective from 1 August 2002 and allowing unjustified deductions on account of development cost, even the average reserve price was not computed properly by the Company. This resulted in foregoing of potential revenue realisation of Rs.96.41 crore (Rs.67.65 crore in Mysore Mills, Rs.5.50 crore in Netha Mills and Rs.23.26 crore in Minerva Mills).
- The Company had not gone in for global tendering for sale of land due to which limited response was received.
- The ASC did not follow the Ministry's guidelines to sub-divide the land into plots in case of unsatisfactory bids.
- Due to undervaluation of reserve price by Rs.67.65 crore, 18.69 acres of land of Mysore Mills was sold to one party on single bid basis for Rs.79.16 crore which was even below the Government guidance value as admitted by the purchaser.
- Non-consideration of the offers of KHB resulted in foregoing an opportunity to sell the surplus land at a higher consideration by Rs.55.61 crore (Rs.43.51 crore in Mysore Mills and Rs.12.10 crore in Minerva Mills).

14.9 Recommendations

(i) The Company should fix the reserve price of the land taking all factors into account, including current market valuation, so that its financial interest would be protected.

(ii) In case of single and/or unsatisfactory bids, the land should be sub-divided into plots as per MoT's guidelines (March 2003). The process of re-tendering may also be followed in such circumstances.

(iii) To ensure fair and competitive rates, wide publicity should be made through invitation of Global Tender.

(iv) In case of sale of 18.69 acres of Mysore Mills land to HSPL, the matter may be investigated to find out the reasons for sale below the Government guidance rates.

The review was issued to the Ministry in October 2004; its reply was awaited (March 2005).

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New Delhi **Deputy Comptroller and Auditor General**
Dated **Cum Chairman, Audit Board**

Countersigned

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