DEPARTMENT OF HEAVY INDUSTRIES

CHAPTER: V

HMT Limited

Marketing activities of Tractor Business Group

Highlights

The Tractor Business group (Group) persisted with the higher and unrealistic targets set in Turnaround Plan (TAP) despite the downward markets trends. Even the revised /downgraded targets for the years 2002-03, 2003-04 and 2004-05 were not achieved**.**

(Para 5.3.1.2)

The Group's market share of tractors declined from 6.1 *per cent* (1999-00) to 2.9 *per cent* (2004-05). Working capital shortage and quality problems contributed to the decline in the market share.

(Paras 5.3.1.9 and 5.3.1.11)

The Group was inflating sales by resorting to aggressive marketing techniques through advancing of tractors to the dealers over and above their requirements without considering the operational and financial risks. Dispatches to dealers exceeded the requirement indicated by the Area Offices in the years up to 2001-02, the excess ranging between 102 *per cent* (1999-00) to 130 *per cent* (2000-01). Stock with the dealers at the end of each year ranged from 36 *per cent* (2004-05) to 82 *per cent* (2002-03) of the total sales during the last five years ending March 2005.

(Paras 5.4.2.2 and 5.4.2.3)

The financial soundness of the dealers was not ensured. As a result, the Company was not in a position to execute decrees arising out of arbitration awards for recovery of dues from dealers in 15 cases amounting to Rs.5.54 crore. A dealer appraisal system after appointment/renewal of dealership was not in vogue.

(Para 5.4.3.1)

The unsold tractors with dealers were taken back irrespective of their physical condition and credit was given to the dealers (as sales return) amounting to Rs.3.68 crore, Rs.17.25 crore, Rs.9.42 crore and Rs.1.18 crore representing 1.28 *per cent*, 6.66 *per cent*, 5.76 *per cent* and 0.58 *per cent* of sales in 2001-02, 2002-03, 2003-04 and 2004-05 respectively.

(Para 5.4.3.3)

Sundry debtors of the Group ranged from 43.55 *per cent* (1999-00) to 89.59 *per cent* (2002-03) of the turnover and doubtful debts rose from Rs.0.99 crore in 1999-00 to Rs.26.76 crore in 2004-05 due to injudicious practice of dumping tractors on dealers.

(Para 5.7.1.1 and 5.7.1.2)

Gist of Recommendations

- A Marketing Manual prescribing the systems and procedures to be adopted by the Marketing Division/ Area Offices needs to be prepared.
- Tractors need to be dispatched based on the genuine requirement projected by dealers.
- Memorandum of Understanding entered into / renewed with dealers need to spell out annual target for off take, credit period, credit limit, interest on delayed payment, priority of adjustments of payment received etc. The compliance of the above conditions need to be watched irrespective of the status of the dealers.
- Area Offices need to be motivated with suitable schemes based on performance.
- Dealer Appraisal System needs to be introduced to analyse the performance of each dealer with regard to sales and collection.
- As far as possible, demand drafts and letters of credit be accepted as payment instruments. Security obtained be preferably in the form of bank guarantee with timely renewals.
- The Group needs to introduce a system of evaluating the benefits accruing out of incentive schemes vis-a-vis cost incurred on the scheme.

5.1 Introduction

5.1.1 HMT Limited (Company), incorporated in 1953 to produce machine tools, later diversified into production of watches and tractors etc. In terms of Turnaround Plan (TAP) implemented in August 2000, Machine Tools and Watch Business groups of the Company were converted into separate subsidiaries and Tractor Business group (Group) was retained with the Company. The Group comprises a tractor manufacturing division at Pinjore set up in 1971, (with a licensed capacity of 25,000 tractors and an installed capacity of 18,000 tractors per annum), marketing division at Chandigarh and a network of dealers and Area Offices all over India.

5.1.2 The decline in the turnover of the group for the period 1999-00 to 2003-04 was 64 *per cent* compared to 25 *per cent* in the industry during the above period. Hence, the marketing activities of the Group for the period 1999-00 to 2004-05 were taken up for performance review with a view to assessing the effectiveness of the strategies adopted as also reasons for accumulation of debtors.

5.1.3 Scope of Audit

The activities of the Group were reviewed based on the records/ information available in Tractor Division, Pinjore, selected Area Offices and Corporate Head office at Bangalore.

5.1.4 Audit Objectives

Performance audit was carried out to assess –

i. Whether the marketing activities in respect of tractors were effective

ii. Whether the targets fixed for turnover were based on realistic market potential

iii. Whether Area Offices could assess the market requirements and optimally utilise the dealer network

iv. Whether the Company’s dealer management techniques were effective

v. Whether the dealer appointment/ appraisal system in existence was efficient

vi. Whether the credit policy, incentive schemes etc., resulted in recovery of debts

vii. Whether effective internal control was exercised on realisation of debtors

viii. Action taken by the Company against defaulting dealers

5.1.5 Audit criteria

The following criteria were adopted for judging the performance:

i. The policies and the guidelines issued by the Board of Directors of the Company regarding marketing activities and sales promotion,

ii. The credit policies followed by the Group,

iii. Various schemes introduced by the Group to boost the sales performance and recovery of debts,

iv. The internal accounting guidelines and internal control procedures available,

v. The guidelines for recovery of debts, and

vi. Policy/procedure in appointing/ appraisal of the performance of the dealers.

5.1.6 Acknowledgement

The audit programme and objectives were discussed in meetings during the course of audit with the Group General Manager (Tractors) and other officers of the Group. The audit findings were discussed with the Management in June 2005. The co-operation of the Group during the meetings and course of audit is acknowledged.

5.2 Performance

5.2.1 Tractor Market in India

India, with an economy highly dependent on agriculture, has one of the largest tractor markets in the world. The industry is segmented on the basis of the power of the tractor engine expressed in terms of horse power (HP). Major factors that influence the demand for tractors are monsoon, land holding pattern, availability of credit, growth in income of farmers and level of implementation of scientific farming practices. The capacity of the tractor industry in the country grew from 1,50,300 tractors (1992) to 4,75,000 tractors (2000) (approximately) and ended up in negative growth since 2000-01.

5.3.1 Targets and Achievements

5.3.1.1 The target and actual production, sales and profit of the Group during 1999-00 to 2004-05 are indicated below:

Year/ Details	Production	Sales	Profit

	Target	**Actual**	**Short fall (*per cent*)**	**Target**	**Actual**	**Short fall (*per cent*)**	**Target**	**Actual**	**Short fall (*per cent*)**
1999-00 (in Nos)	22,500	16,335	27.40	22,500	15,488	31.16	-	-	
(Rs. in crore)	485.00	337.52	30.41	485.00	386.39	20.33	24.62	7.91	67.87
2000-01 (in Nos)	20,750	13,460	35.13	21,500	13,001	39.53	-	-	
(Rs. in crore)	436.06	293.40	32.72	474.76	341.63	28.04	21.95	5.28	75.95
2001-02 (in Nos)	18,000	9,800	45.56	19,000	10,467	44.91	-	-	
(Rs. in crore)	393.99	215.15	45.39	534.50	284.63	46.75	19.06	1.85	90.29
2002-03 (in Nos)	14,000	6,361	54.56	14,000	6,802	51.41	-	-	
(Rs. in crore)	308.20	139.78	54.65	603.81 440.00*	181.86	69.88 58.67	7.25	(-)43.71	702.90
2003-04 (in Nos)	14,000	5,601	59.99	14,000	5,563	60.26	-	-	
(Rs. in crore)	316.00	126.01	60.12	690.23 348.00*	154.22	77.66 55.68	27.09	(-)51.09	288.59
2004-05 in Nos)	10,000	7,007	29.93	10,000	7,032	29.68	-	-	
(Rs. in crore)	280.35	183.97	34.38	781.91 349.00*	201.13	74.28 42.37	(-) 8.40	(-)35.17	318.69

* Targets revised in February 2002.

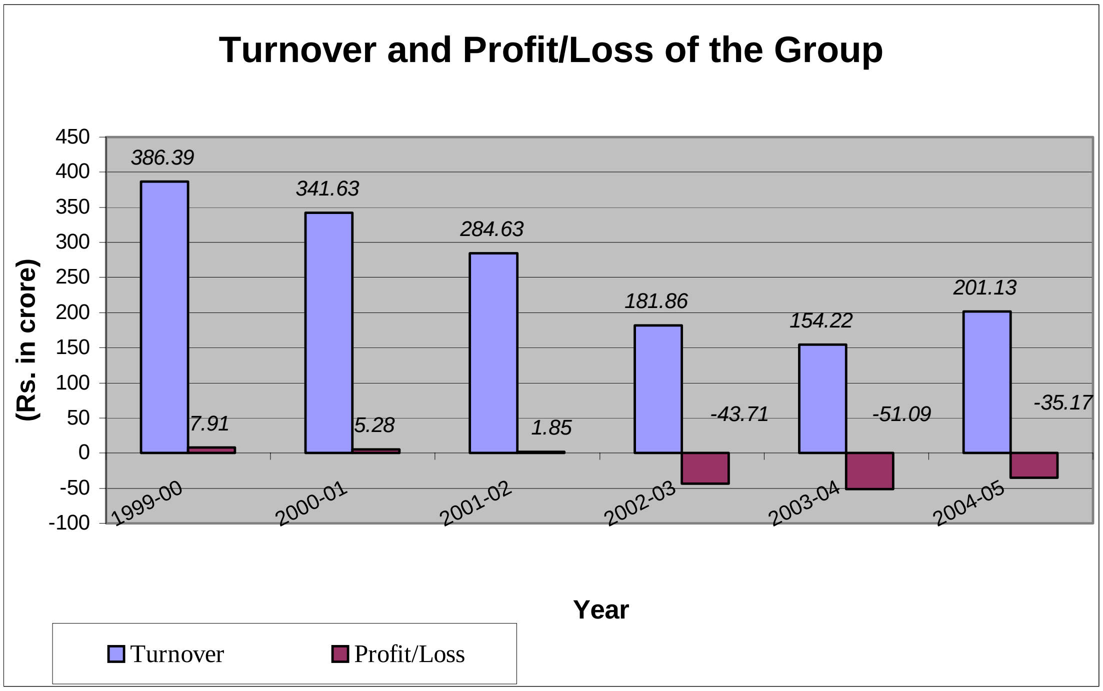
5.3.1.2 Though the Group was aware of the market trend and was not able to achieve the targets, yet it persisted with higher and unrealistic targets set in the TAP viz., Rs.475 crore in 2000-01 progressively to be increased to Rs.782 crore in the year 2004-05. However, during the MOU negotiation meeting with the Ministry for 2002-03, due to negative growth of the industry since 2000-01, the Company wanted (February 2002) mid course correction for the targets set. Consequently, targets were scaled down to Rs.440 crore, Rs.348 crore and Rs.349 crore for the Group, for the years 2002-03 to 2004-05 respectively. The year 2003-04 was planned to be the year of achieving the break even of the Company in view of the favourable market conditions of its products viz. tractors. Even the revised reduced targets were not achieved by the Group in the last three years.

5.3.1.3 With the increase in capacities and entry of new players in the market, the supply had far outstripped the demand, forcing the suppliers to resort to aggressive marketing practices such as dumping tractors to dealers and offering unlimited credit to the dealers who in turn advanced tractors to the customers, etc. Despite the above practices, the growth achieved by the Group was low.

5.3.1.4 The Management stated (October 2005) that advancing of tractors to dealers and then putting pressure on them to liquidate the same was a normal trade practice followed by all the tractor manufacturers all over in India. It further stated that the Company had to resort to high pressure selling to achieve set targets and its purpose was never to inflate sales figures.

5.3.1.5 However, adopting industrial practice to achieve set targets which were higher and unrealistic compared to the market trend, without effective dealer management and recovery mechanism in place, was not prudent and resulted in accumulation of debts and consequent working capital constraints.

5.3.1.6 The following graph depicts the turnover and profit/loss of the Group from 1999-00 to 2004-05.



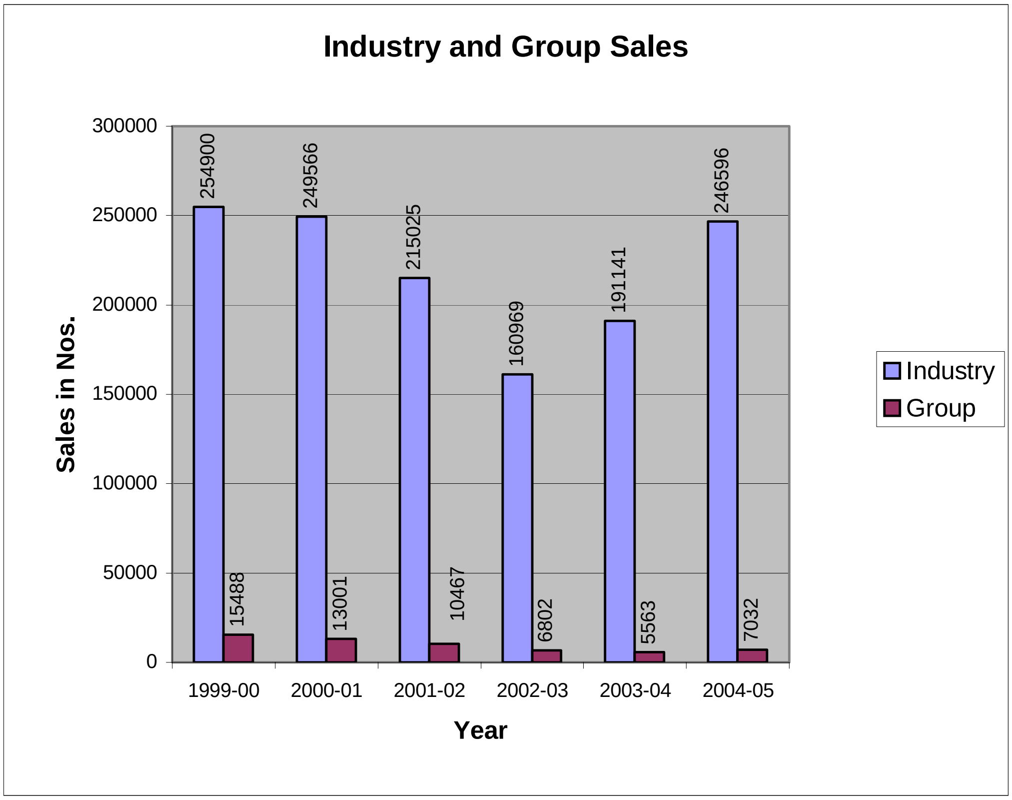
5.3.1.7 Moreover, the actual performance has to be viewed in the light of the practice followed by the Group till 2001-02 of advancing tractors to dealers over and above their requirement without considering the operational and financial risks (Paras 5.4.2.2 and 5.4.2.3 refer).

5.3.1.8 The Management stated (October 2005) that the increased sales during the year 2004-05 resulted in bringing down the loss and it was hopeful of wiping out the losses during the coming years in view of good monsoon and positive economic outlook, GDP♣ growth at seven *per cent* and impetus given by the Government to agricultural sector and availability of bank finance with relaxed norms and lower interest rates.

The fact, however, remains that though the year 2003-04 was planned to be the year of achieving break even, yet it incurred losses of Rs.51.09 crore and Rs.35.17 crore in 2003-04 and 2004-05 respectively mainly due to its failure to compete in the market.

5.3.1.9 The Group's market share declined from 6.1 *per cent* in 1999-00 to 2.9 per in 2004-05 as indicated in **Annexure-14.** Sales of the Group vis-a-vis Industry during the last six years ending 2004-05 is indicated in the graph below:

♣ ***Gross Domestic Product***



5.3.1.10 Though the industry showed signs of recovery from 2003-04 and there was substantial improvement in 2004-05, the Group's performance in 2003-04 was the lowest. Despite marginal improvement in sales in 2004-05, the market share of the Group has not increased significantly.

5.3.1.11 The Management stated (October 2005) that the production during 2003-04 was intentionally slowed down to avoid accumulation of stock. The reply contradicts the statement made in the Directors' Report (2003-04) which stated that the planned levels of operations could not be achieved due to severe working capital shortage on account of slow recovery of funds locked up in the market and quality problems. Moreover, the Directors' Report also pointed out perennial complaints of breakdown thereby implying that the Company's tractors were not maintaining high standards in quality.

5.4 Marketing set up

5.4.1 The marketing activities of the Group are managed by the Marketing Department established in 1979 at Chandigarh with 19 Area Offices which take care of 24 territories (March 2005). The Group has 279, 13, 61 and 17 operative dealers for 'tractors and their spare parts', engines, spare parts and agros respectively (March 2005).

Though HMT has been in competitive business since 1970s it has not prepared any Marketing Manual prescribing the systems and procedures to be adopted by the Marketing Department/Area Offices including procedures for marketing the tractors and realisation of the dues.

The Management stated (October 2005) that well laid down existing system for marketing of tractors/operation of marketing offices, would be compiled in the form of a marketing manual as per audit suggestion.

Recommendation

A Marketing Manual prescribing the systems and procedures to be adopted by the Marketing Division/ Area Offices needs to be prepared.

5.4.2 Performance of Area Offices

5.4.2.1 The Area Offices collect the requirement of dealers in their territory on annual/monthly basis and submit the same to the Marketing department for obtaining tractors for onward sales to their dealers. The Marketing department dispatches the tractors as per the requirement of Area Offices taking into account the availability of tractors.

5.4.2.2 As a part of aggressive marketing practice adopted by the Group of advancing tractors to dealers, the requirement projected by the Area offices was more than they could sell, resulting in accumulation of stock with dealers during 1999-00 to 2004-05 as indicated below:

(Figures in numbers)

Year	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**
Requirement	15,239	10,034	10,400	8,077	7,095	7,289
Dispatches*	15,488	13,001	10,467	6,802	5,563	7,032
Dispatches as percentage of requirement	102	130	101	84	78	96
Stock with dealers at the end of the year	7,452	7,290	7,560	5,572	3,280	2,513
Stock at the year end in terms of dispatches during the year (in months)	6	7	9	10	7	4

* Dispatches to Area offices who in turn sold to dealers

5.4.2.3 It would be seen from the above that:

i. Apart from unrealistic projections by the Area offices, dispatches to Area offices and consequent sales to dealers exceeded even the requirement indicated by the Area Offices (maximum being in the year 2000-01). Dealers in turn sold these tractors by advancing them to the customers, and

ii. stock with the dealers at the end of each of the above years ranged between 36 *per cent* (2004-05) and 82 *per cent* (2002-03) of the total sales.

5.4.2.4 The Management stated (October 2005) that stock of tractors for a minimum of four months' requirement was to be maintained to continue the business cycle.

The fact, however, remains that the year end stock with the dealers in terms of months' dispatches was ranging between 6 and 10 months during the years 1999-00 and 2003-04.

5.4.2.5 Out of 19 Area offices, Patna and Bangalore Area Offices contributed substantially to the sales during the years 1999-00 to 2004-05 even though there was reduction in absolute number of tractors sold in line with the trend. The contribution by other Area Offices was not substantial. Area Offices were responsible for monitoring the sales and realisation of sale proceeds from the dealers. The number of tractors sold by the Area Offices was not in line with the trend in the market and collection of debts were also unsatisfactory, leading to debts outstanding to the extent of Rs.31.43 crore relating to the period prior to April 2003. No documentary evidence was made available to Audit of the existence of any mechanism for assessing the performance of the Area Offices which were not viable in terms of either sales or collection of debts with a view to closing down non-performing Area Offices or re-locate the geographical areas to performing Area Offices.

The Management stated (October 2005) that the assessment system was getting revamped in view of recent changes observed in marketing style of competitors.

5.4.2.6 Targets for collection of dues from the dealers were fixed to Area Offices by the Marketing Department only from 2003-04 onwards. An analysis of the targets and the actual for the years 2003-04 and 2004-05 revealed that in these two years the achievement by all the Area Offices put together was only in the range of 60 to 65 *per cent*. The outstanding sundry debtors of Rs.126.01 crore as at end of March 2005 included Rs.31.43 crore relating to the period prior to April 2003 and Rs.19.33 crore relating to 2003-04.

Recommendations

- Area Offices need to be motivated with suitable schemes based on performance.
- Tractors need to be dispatched based on genuine requirement projected by dealers.

5.4.3 Performance of Dealers

5.4.3.1 On a review of cases relating to 56 out of total 364 dealers, the following was observed:

i. The financial soundness of the dealers was not ensured by verification of title/value of the property indicated in the application for dealerships, verification from the bankers of the dealers' financial status or survey reports from the Area Office. As a result, the Group could not execute decrees arising out of 15 arbitration awards for recovery of dues amounting to Rs.5.54 crore.

The Management stated (October 2005) that the financial soundness of all the dealers appointed since 2003-04 was ensured by verifications of their property titles, value of the property etc.

ii. The MOU with the dealers was renewed periodically in a routine manner by specifying the territory allotted or minimum off-take without incorporating the latest changes in the sales policy, credit policy, inclusion of targets allotted, increase in deposit etc. Though the MOU spelt out mode of payment as irrevocable revolving LC/demand draft covering the full value of minimum monthly off-take, yet hundies, bills of exchange etc., were accepted as mode of payment which in some cases were subsequently dishonoured.

The Management stated (March 2005) that MOU from 2004-05 incorporated hundi as one of the modes of payment and possibility of covering hundi with bank guarantee in future was being examined.

iii. Dealer appraisal system after appointment/renewal of dealership was not in vogue. The existing Management Information System (MIS) report on dealers evaluated the dealer performance only with regard to the off take of tractors against the target fixed. A dealer appraisal system to assess whether the performance was based on the market potential of the area, the effectiveness in realisation of dues from the customers, quality of after sales service provided in respect of tractors sold, customer relations, sales practices adopted and other related issues like businesses, property assessment, change in partnership constitution, etc., was considered essential to provide essential information about the performance of each of the dealers.

The Management stated (March 2005) that dealers' appraisal system would be made applicable from the year 2005-06.

5.4.3.2 On account of the inadequacies in the agreement with dealers as brought out in the preceding paragraph, the Group could not protect its financial interests and had to resort to legal recourse to recover the dues from the dealers. As at the end of March 2005, 41 dealers became inoperative, legal action had been initiated against 36 dealers and legal notices had been issued against 27 defaulted dealers for recovery of Rs.8.63 crore (Principal) and Rs.6.88 crore (Interest).

The Management stated (October 2005) that MOU signed with the dealers was primarily an agreement between the Company and the dealer to continue business for the financial year and to achieve the set targets. It also stated that bad debts created by the dealer were due to either dealer's financial loss or bad intention of the dealer for not making payments to the Company which could not be foreseen and hence could not be protected in the MOU.

The reply of the Management is not tenable as there were deficiencies in the dealers' appraisal system as mentioned in para 5.4.3.1.

5.4.3.3 The Group resorted to aggressive marketing techniques through advance of tractors to dealers through Area offices as discussed in paras 5.4.2.2 and 5.4.2.3. Dealers in turn advanced most of the tractors to customers to show higher sales. The unsold tractors with dealers were taken back irrespective of their physical condition and credit was given to the dealers accounting the same as sales return. The sales returns, thus, amounted to Rs.3.68 crore, Rs.17.25 crore, Rs.9.42 crore and Rs.1.18 crore representing 1.28 *per cent*, 6.66 *per cent*, 5.76 *per cent* and 0.58 *per cent* of sales in 2001-02, 2002-03, 2003-04 and 2004-05 respectively. Thus, the aggressive marketing practice of the Group ended up in huge sales returns.

5.4.3.4 Out of the tractors returned, 275 old tractors (value-Rs.7.15 crore) were not in 'sale worthy' condition and 80 tractors (value-Rs.2.08 crore) were of obsolete models. The total financial impact, to rectify the defects and sell these, was worked out by the Management as Rs.1.48 crore.

5.4.3.5 The Management admitted (October 2005) that their action of bringing high pressure on dealers resulted in certain bad deliveries. Some of the dealers pulled back the tractors advanced earlier to the customers from whom payments were not forthcoming and the Company had to help the dealers in liquidating these tractors.

Recommendations

- Dealer Appraisal System needs to be introduced to analyse the performance of each dealer with regard to sales and collection.
- As far as possible demand drafts and letters of credits be accepted as payment instruments. Security obtained be preferably in the form of bank guarantee and the same needs to be got renewed regularly.

5.5 Credit policy

5.5.1 A Committee headed by Professor S. Sundararajan appointed by the Company to report on credit policy recommended (June 1995):

- inclusion of the recovery dead line, action options and recovery responsibility in credit policy,
- evaluation of credit performance,
- payment pattern approach showing the pattern of collection of debt and
- strengthening the credit policy with regular marketing audit.

5.5.1.1 The modus operandi of the transactions with the dealers and the collections was laid down in the credit policy of the Group approved by the Board in the year 1995. However, the approved credit policy did not consider the above recommendations of Professor Sundararajan Committee. Even subsequent modifications to the credit policy during 2000-01 to 2003-04 amended only the period of credit and rate of interest and had not incorporated any modifications based on the above recommendations.

5.5.1.2 The Management stated (October 2005) that the credit policy of the Group approved by the Board of Directors in 1995 and subsequent changes/modifications were based on the then prevailing market conditions.

5.5.1.3 Thus, non implementation of the recommendations of Professor Sundararajan Committee led to ineffective monitoring and accumulation of debts of the Group resulting in severe financial constraints.

5.5.2.1 A new credit policy was introduced (October 2004) to be applicable on invoices raised with effect from 1 November 2004. According to the new policy:

i. dealers were categorised into A, B and C based on the off take and payment against bills in the previous three years.

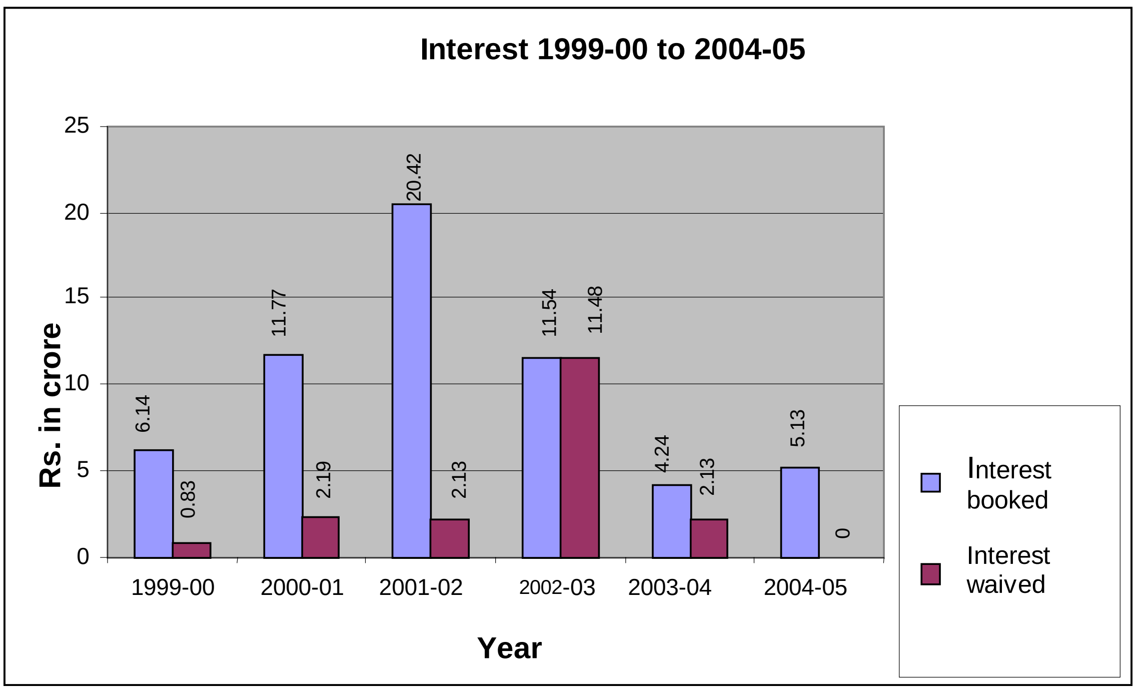
ii. the credit period was fixed as 90 days for category A, 60 days for category B and no credit for category C.

iii. the dues against the dealers were not to exceed the credit limits fixed.

5.5.2.2 The Management stated (October 2005) that under the new credit policy, before invoicing to any dealer, the availability of credit limit of the dealer and monthly account statement of each dealer was verified to stop further billing as well as recovery of any debt beyond limit. It also stated that, as suggested by Audit, new monthly MIS report of each Area Office for strict adherence to billing against credit to dealer was being explored.

5.5.2.3 The effectiveness of the new policy in regard to timely recovery of sales proceeds etc. would be applicable only to the operative dealers who continue to lift the tractors, get billed and pay as per the new credit policy. These changes would have no effect on the bad and inoperative dealers from whom recovery was not forthcoming leading to legal cases.

5.5.2.4 Based on the credit policy prevailing in each year, the Group charged interest (Rs.59.24 crore) during 1999-00 to 2004-05 on the outstanding amount in the dealers' accounts beyond the credit period. However, the dealers protested the charging of interest on the plea that the outstanding mainly related to tractors dumped on them. Considering the protests of the dealers, the Group waived interest of Rs.18.76 crore which amounted to 32 *per cent* of the interest charged on the dealers in all the six years up to 2004-05 as indicated in the graph below:



5.5.2.5 The Management stated (October 2005) that interest waiver was a part of various collection mobilisation schemes offered to dealers duly sanctioned by the competent authorities during these years.

The fact, however, remains that the interest of Rs.18.76 crore waived represents the interest on the locked up funds on tractors produced in excess of the demand.

Recommendation

Memorandum of Understanding entered into/renewed with dealers needs to spell out annual target for off take, credit period, credit limit, interest on delayed payment beyond applicable credit period, priority of adjustments of payment received etc. The compliance of the above conditions need to be watched irrespective of the status of the dealers.

5.6 Incentive/ Payment mobilisation Schemes

5.6.1 The Group introduced and implemented many incentive schemes for improving the sales performance, collection and realisation of old dues since 1998-99. Some of these schemes introduced and implemented are listed in **Annexure-15.** However, after completion of their duration, the schemes were not evaluated as to their effectiveness. Such evaluation would have provided valuable inputs to the Management either for continuation of the scheme or introduction of new/ similar schemes and to analyse whether the benefits derived by implementation of such schemes were commensurate with the expenditure/cost incurred on the scheme.

5.6.2 The Management accepted (October 2005) the audit observations and stated that in future such incentive scheme would have cost/benefit analysis also.

Recommendation

The Group needs to introduce a system of cost-benefit analysis of incentive schemes.

5.7 Debtors Management

5.7.1 Accumulation of Debtors

5.7.1.1 The details of turnover, sales returns and sundry debtors for the years from 1999-00 to 2004-05 were as indicated below:

(Rs. in crore)

Details	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Turnover (net of sales return)	386.39	341.63	284.63	181.86	154.22	201.13
Sales returns	0.44	1.41	3.68	17.25	9.42	1.18
Sundry debtors	168.28	174.98	202.14	162.93	123.73	126.01
Interest booked	6.14	11.77	20.42	11.54	4.24	5.13
Profit	7.91	5.28	1.85	(-) 43.71	(-) 51.09	(-) 35.17
Provision for bad and doubtful debts	0.99	1.87	3.77	4.61	23.69	26.76
Percentage of Sundry debtors to Turnover (net of sales return)	43.55	51.22	71.02	89.59	80.23	62.65
Sundry debtors expressed in days of turnover	159	187	259	327	293	229

5.7.1.2 Even though there was a continuous decline in the turnover of the Group during the years 1999-00 to 2002-03, there was a steady increase in the percentage of sundry debtors to turnover during those years. Sundry debtors expressed in terms of number of days of turnover ranged between 159 (1999-00) and 327 (2002-03) which was indicative of extension of credit beyond agreed credit period of 90 days. The provision towards doubtful debts increased from Rs.0.99 crore in 1999-00 to Rs.26.76 crore in 2004-05, which could be attributed to the injudicious practice of dumping tractors on dealers. Despite accounting for accrued interest of around Rs.11.77 crore and Rs.20.42 crore in 2000-01 and 2001-02 respectively, the Group could show a meager profit of Rs.5.28

crore and Rs.1.85 crore only in these years. Mounting dues resulted in cash crunch consequent to low volume of production / sales and loss of Rs.43.71 crore for the year 2002-03. Even with increased sales in 2004-05 the Group suffered loss of Rs.35.17 crore. Thus, the Group was caught up in a vicious circle of poor generation of funds leading to poor performance.

5.7.1.3 The Committee appointed (August 2000) by the Government of India to ascertain *inter alia* the reasons for the decline in performance of the Company observed (November 2000) that the sundry debtors position of the Tractor Business group was alarming leading to severe cash crunch and the Corporate Management was not giving sufficient attention to this group. Despite the above there was no improvement and sundry debtors ranged from 63 *per cent* to 90 *per cent* of the sales in the last three years ending 2004-05. The Company also admitted in the MOU negotiation meeting for the year 2003-04 that the sundry debtors accumulation was mainly due to advancing of tractors to dealers.

5.7.2 Recovery of debts

5.7.2.1 As per the agreements entered into with the dealers any dispute or difference arising out of or in relation to the agreement would be referred to a sole arbitrator to be appointed by the Group and would be subject to the exclusive jurisdiction of Panchkula Court in the State of Haryana. As the number of inoperative dealers increased and the dues from them also increased, the Group had to take legal recourse for recovering the outstanding. The position of legal and arbitration cases as on March 2005 was as under:

Sl. No	Details	No. of dealers	Amount due (Rs. in crore)
1.	Legal notices issued	27	10.40
2.	Arbitration award obtained between June 1997 and August 2004 but yet to be executed	15	5.54
3.	Arbitration proceedings in progress	8	5.19
4.	Cases filed for dishonour of cheques	12	4.26

Even in five cases where arbitration awards had been obtained, the Group had to file execution petition for execution of the award. The filing of execution petition in the concerned courts of the area where the dealers were operating was getting delayed in the absence of details of property of the dealers as these were not collected at the time of their appointment.

5.8 Conclusions

i. The Group did not have Marketing Manual prescribing the systems and procedures to be adopted by the Marketing Division/Area Offices.

ii. The Group was inflating sales by resorting to aggressive marketing techniques and advancing of tractors to dealers without considering the operational and financial risks.

iii. The Group did not have effective mechanism for assessing the performance of Area Offices.

iv. Tractors were supplied to a large number of dealers without taking into account the credit worthiness and without obtaining adequate security resulting in blocking up of funds and non-realisation of debts.

v. The impact of many incentive schemes implemented by the Group for improving sales performance and collection of debts had not been assessed after completion of their duration.

The review was issued to the Ministry in December 2005; its reply was awaited (February 2006).