SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

Report of the Comptroller and Auditor General of India for the period ended March 2025

Union Government (Commercial)

Report No. 22 of 2026

(Compliance Audit Observations)

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Comptroller and Auditor General of India

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PREFACE

1. This report deals with the results of audit of Government Companies, Government controlled other Companies and Statutory Corporations under the purview of 15 Ministries and 4 Departments **(Annexure I)** for the year ended March 2025.
2. The accounts of Government Companies and Government controlled other Companies, set up under the provisions of the Companies Act, are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 143 of the Companies Act, 2013. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to supplementary audit by officers of the CAG and the CAG gives his comments or supplements the reports of the Statutory Auditors under section 143(6) of the Act. In addition, these Companies are also subject to test audit by CAG under the provisions of Section 143(7) of the Act.
3. The statutes governing some Corporations and Authorities require their accounts to be audited by CAG. In respect of five such Corporations viz., Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India, Food Corporation of India and Damodar Valley Corporation, the relevant statutes designate CAG as their sole auditor. In respect of one Corporation viz., Central Warehousing Corporation, auditor is appointed by the Government, on the advice of the CAG, for audit of the accounts of the Central Warehousing Corporation. CAG has the right to conduct the audit as he may consider necessary.
4. Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG for laying before the Parliament under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.
5. The Audit Report for the year ended 31 March 2025 contains 10 individual audit observations and five compliance audit paragraphs relating to 15 CPSEs under control of eight Ministries/Departments. These Ministries/Departments have been further grouped in the Audit Report under three Clusters namely, Energy, Industry and Infrastructure. There are six audit observations under Energy Cluster, eight under Industry Cluster and one under Infrastructure Cluster. The instances mentioned in this Report are those which came to notice in the course of test audit for the period 2024-25 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports: Matters relating to the period subsequent to 2024-25 have also been included, wherever necessary.
6. All references to 'Companies/Corporations or CPSEs' in this Report may be construed to refer to 'Central Government Companies/Corporations' unless the context suggests otherwise.
7. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.
8. Audit wishes to acknowledge the cooperation received from the Managements of CPSEs and their respective Administrative Ministries/Departments at each stage of audit process.

EXECUTIVE SUMMARY

I Introduction

1. This Report includes important Audit findings noticed as a result of test check of accounts and records of Central Government Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations relating to Ministry and Departments.

2. The Report contains 10 individual audit observations and five Compliance Audit paragraphs relating to 15 Central Public Sector Enterprises (CPSEs) under eight Ministries/Departments. These Ministries/ Departments have been further grouped in the Audit Report under three clusters namely, Energy, Industry and Infrastructure. There are six audit observations under Energy Cluster, eight under Industry Cluster and one under Infrastructure Cluster. The draft observations were forwarded to the Secretaries of the concerned Ministries/ Departments under whose administrative control the CPSEs are working to give them an opportunity to furnish their replies/ comments in each case. Replies to four observations were not received even as this Report was being finalised as indicated in paragraph 3 below. Earlier, the draft observations were sent to the Managements of the CPSEs concerned, whose replies have been suitably incorporated in the report.

3. The paragraphs included in this Report relate to the CPSEs under the administrative control of the following Ministries/ Departments of the Government of India:

Sl. No.	Ministry/ Department (CPSEs involved)	Number of paragraphs	Number of paragraphs in respect of which Ministry/ Department's reply was awaited
Energy Cluster			
1.	Coal (Central Coalfields Limited, NLC India Limited and South Eastern Coalfields Limited)	3	1
2.	Petroleum and Natural Gas (Indian Oil Corporation Limited and Oil India Limited)	2	2
3	Power (Damodar Valley Corporation)	1	0
Industry Cluster			
5	Finance (ASREC (India) Limited, Oriental Insurance Company Limited, National Insurance Company Limited, United India Insurance Company Limited and New India Assurance Company Limited)	2	0

Sl. No.	Ministry/ Department (CPSEs involved)	Number of paragraphs	Number of paragraphs in respect of which Ministry/ Department's reply was awaited
6	Heavy Industry (Andrew Yule and Company Limited)	1	0
7	Steel (Steel Authority of India Limited)	4	0
8	Tourism (Indian Tourism Development Corporation)	1	1
Infrastructure Cluster			
9	Road Transport and Highways (National Highways Authority of India)	1	0
Total		**15**	**4**

4. Total financial implication of individual audit observations is ₹20,539.40 crore. Individual audit observations in this Report are broadly of the following nature:

- Non-compliance with rules, directives, procedure, terms and conditions of the contract etc., involving ₹350.21 crore in four paragraphs[1].
- Non-safeguarding of financial interest of organisations involving ₹609.70 crore in seven Audit paragraphs[2].
- Defective/deficient planning involving ₹13,678.68 crore in eight Audit paragraphs[3].
- Inadequate/deficient monitoring involving ₹5,900.81 crore in four Audit paragraphs[4].

It is pertinent to mention that the compliance audit paragraphs, contain observations of more than one category and accordingly, the amount under the observations have been classified.

5. The Report also contains a Chapter on "Recoveries & corrections/ rectifications" by CPSEs at the instance of Audit. The Chapter contains two paragraphs *viz.*, (a) Management of 11 CPSEs have recovered an amount of ₹60.02 crore at the instance of Audit, during 2024-25, and (b) corrections/ rectifications carried out by three CPSEs in five cases at the instance of Audit.

[1] ***Para no. 1.1, 1.3, 4.1 and 4.2***
[2] ***Para no. 1.2, 1.3, 2.2, 4.1, 4.2, 6.4, and 7.1***
[3] ***Para no. 1.3, 2.1, 4.1, 4.2, 5.1, 6.1, 6.2 and 7.1***
[4] ***Para no. 3.1, 6.1, 6.2 and 8.1***

II Highlights of the paragraphs included in the Report are given below:

Cluster: Energy

Violation of Forest Regulations resulting in avoidable expenditure by Central Coalfields Limited

Central Coalfields Limited (CCL) diverted forest land for non-forest purposes (for mining activities), without obtaining prior permission of competent authorities. The diversion, not only violated the provisions of the Forest (Conservation) Act 1980 but also led to the non-compliance to judgement of Supreme Court. Consequently, CCL had to incur an avoidable expenditure of ₹7.84 crore.

(Para 1.1)

Avoidable payment of interest on excess collected energy charges by NLC India Limited

NLC India Limited (NLCIL) did not exercise interim tariff adjustment on time and continued to charge excess energy charges to DISCOMs of Barsingsar Thermal Power Station, Rajasthan. Further, NLCIL did not suo moto reduce the energy charges and refund the excess billed and collected energy charges despite being aware of the higher Lignite Transfer Price. This resulted in avoidable interest expense of ₹14.51 crore on refund of excess collected energy charges.

(Para 1.2)

Mining Operations in South Eastern Coalfields Limited

South Eastern Coalfields Limited (SECL), subsidiary of Coal India Limited (CIL), was incorporated in November 1985, with its Headquarters office Bilaspur, Chhattisgarh. SECL started its mining operations with production of 28.21 million tonnes (MT) of coal (1985-86), which has grown to 187.38 MT as of 31 March 2024. Audit reviewed the mining operations and allied activities undertaken by SECL during 2018-19 to 2023-24. Review revealed that SECL did not align the target for coal production and over burden removal commensurate with the capacity assessed by Central Mine Planning & Design Institute Limited. It did not frame any manual/SOP defining the factors to be considered for fixation of targets.

Audit noticed that consideration of Heavy Earth Moving Machinery (HEMMs) which are under long breakdown and surveyed off HEMMs, without assessment of the productivity of such machines impacted the achievement of targets for production and overburden removal. Shortage of operators not only resulted in idling of HEMMs but also impacted the achievement of targets.

Audit also highlighted that due to non-adherence to the provisions of Contract Management Manual and monitoring lapses, company incurred loss of an amount of ₹8.62 crore. There were instances of non-adherence/violation of CIL guidelines for quality assurance. Instances of monitoring lapses were noticed in not generating additional revenue by not supplying (-) 100 mm size coal and an opportunity lost to earn additional revenue of ₹35.74 crore. Also, due to non-finalisation of fly ash dumping charges, SECL has to bear the expenditure from its own funds and was deprived from the recovery of the expenditure from the Thermal Power Plants, indicating ineffective planning. **In this regard, it is recommended that SECL should frame a Manual/SOP prescribing the methodology and factors/ parameters to be considered for fixation of targets.**

(Para 1.3)

Infructuous Expenditure on creation of infrastructure facility by Indian Oil Corporation Limited

Lack of comprehensive analysis and identification of required infrastructure for production of 100 *per cent* BS-VI compliant Motor Spirit, by 1 April 2020, at Paradip Refinery (Refinery) resulted in infructuous expenditure of ₹32.02 crore. Pending stabilisation of operations of Refinery, the infrastructural requirement were contemplated based on operational data of other refineries of Indian Oil Corporation Limited rather than that of Refinery itself without considering the fact that management analysis could fundamentally change once the operations of Refinery were stabilised. Also the design basis of existing infrastructure at the Refinery was overlooked before proposing the requirements of new infrastructure.

(Para 2.1)

Lack of due diligence leading to unfruitful investment by Oil India Limited

Oil India Limited, along with partners, acquired a 70% stake in Nigeria's OPL 205 in 2006, but the investment yielded negligible output, with no production until 2017 and only 0.57 million barrels produced by 2021. The acquisition/investment was based on inadequate due diligence, relying on unaudited, incomplete, and outdated data, despite the constraints highlighted by financial, legal, and technical advisors. Incorrect reserve estimates were also presented to the Board. Lack of due diligence led to an unfruitful investment of ₹353.43 crore.

(Para 2.2)

Physical verification of stores and internal control in Damodar Valley Corporation

Damodar Valley Corporation procured two transformers for a project, but the project was later curtailed, leaving them unused. Transformer oil was filled in 2017 for their preservation. In 2020, DVC discovered theft of about 1.40 lakh litres of transformer oil from both transformers and 45 tonnes of copper winding wire from one transformer. Audit observed that DVC had no SOP for preservation or inspection of high-value items until 2022. Mandatory physical verification of stores was also not conducted, allowing the theft to remain undetected. Insurance claim of ₹9.28 crore was rejected as staff/ guard infidelity was not covered. Thus, due to weak internal controls and lack of physical verification, management suffered loss of ₹9.28 crore.

(Para 3.1)

Cluster: Industry

Operations of ASREC (India) Limited

ASREC (India) Limited was incorporated as a public limited company in November 2003 and was registered with RBI in October 2004 to carry out the business of securitisation and reconstruction of assets under the provisions of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

The audit was conducted covering the core operational activities i.e., acquisition of NPA loan accounts from banks/financial institutional and resolution mechanisms adopted resulting in recovery from acquired loan accounts during the period from 2020-21 to 2022-23.

During the course of audit it was noticed that ASREC did not undertake valuation of the underlying securities, instead it relied on the valuations provided by the selling banks/financial institutions without verifying their adequacy/reliability. A uniform discounting factor of 20 *per cent* was applied for valuation, without recording any justification. In cases acquired on SR basis, a fixed multiplier of 150 *per cent* was applied on the cash-basis value without any recorded justification, leading to the risk of overvaluation. In loan accounts acquired on SR basis, the acquisition cost exceeded the realizable value of underlying securities, which exposed ASREC to enhanced investment risk.

It was also noticed that in four high-value NPA loan accounts, ASREC did not prepare/approve Resolution Plans within the stipulated six-month planning period. The Resolution Plans were prepared/approved with delays reflecting weak internal control and monitoring mechanisms.

ASREC uniformly approved a five-year resolution period irrespective of the nature, complexity, or litigation status of individual accounts. This lacked justification and contradicted the due diligence report, which had indicated shorter realization periods (three months to three years).

One Time Settlement (OTS) proposals received from borrowers were rejected without being placed before the competent authority as mandated. Such rejection, without due process and inadequate documentation, reflected weak oversight and transparency in decision-making.

With regard to Audit findings in the Para, Audit recommends that:

- ***ASREC needs to establish a robust mechanism to value underlying securities/assets before submitting the bids.***
- ***ASREC may consider developing a risk-based matrix for the application of discounting factors in the valuation of loan accounts, thereby ensuring that the acquisition price of the NPA loan accounts is based on asset-specific risk and recovery profile.***
- ***ASREC may ensure that adequate procedures pertaining to the acquisition of NPA loan accounts from other ARCs are incorporated in the Operational Manual.***
- ***ASREC needs to establish appropriate checks to ensure that the Resolution Plan for each loan account is prepared and approved within the stipulated six-month timeline, in compliance with its Operational Manual and the applicable regulatory guidelines.***
- ***ASREC may consider revising the provisions of the Operational Manual to ensure that the role of the Authorised Persons in dealing with OTS offers is clearly laid down. ASREC may also ensure that the evaluations/assessments conducted by such authorised persons are adequately documented and that all proposals, after such review, are submitted to the Competent Authority for decision and duly documented.***

(Para 4.1)

Reinsurance Operations of General Insurance Companies

All four[5] general insurance companies undertake Reinsurance (RI) operations to increase their underwriting capacity, to stabilise underwriting results and to protect their financials against catastrophes and natural calamities. RI programme is prepared as per IRDAI Regulations with the objectives to maximise retention within the country, risk diversification, increase technical capability and financial capacity.

All four general insurance companies did not completely adhere to IRDAI's RI Regulations in formulation and implementation of RI programmes (2018-24). Non-compliance to RI Regulations were observed on retention policy, fronting and placement of RI business with ineligible cross border reinsurers. Further, deviations in risk retention and cession as per the approved Reinsurance programme impacted insurance companies resulting in excess retention of risk and consequential loss of ₹254.98 crore.

5 Oriental Insurance Company Limited (OIC), National Insurance Company Limited (NIC), United India Insurance Company Limited (UIIC) and New India Assurance Company Limited (NIA)

Review of IT and internal control system also revealed deficiencies in database and gaps in internal control mechanism resulting in avoidable/incorrect premium cession, errors in computation of premium estimates, non-compliance to treaty conditions amounting to ₹5.31 crore. Receivable management was deficient as lacuna in existing mechanism was observed in submission of accounts to reinsurers, timely tagging of receipts, tracking and recovery of dues, and reconciliation of balances.

With regard to Audit findings in the Para, Audit recommends that:

- ***UIIC and NIC are required to take necessary action to devise and get approval of Retention policy for determination of net retentions and formulation of RI programme.***
- ***PSGICs may strengthen IT systems and internal controls to avoid deviations to approved RI programme.***
- ***PSGICs may update and utilise the IT systems and Management Information Systems to generate transaction statements to detect deviations at an early stage.***
- ***PSGICs should improve collection of details for receivable and payables balances on timely and regular basis to update the accounts of brokers/ reinsurers on receipts and payments of dues.***

(Para 4.2)

Operational Performance of Tea Division of Andrew Yule and Company Limited

The Tea Division of Andrew Yule and Company Limited (Company) contributing more than 50 *per cent* of the Company's revenue during 2017-18 to 2024-25, experienced deterioration in its performance during 2022-23 to 2024-25 thereby affecting the overall financial health of the Company. The Company had no documented, comprehensive and time bound strategy to check the declining trend in productivity and financial performance of its Tea Division. Despite declining yield per hectare of its tea gardens during 2017-2024 neither any uprooting and replantation activity was undertaken by Company after 2019-20 nor was required irrigation facilities established in its tea gardens.

Decline in availability of green leaf from its own tea gardens coupled with reduction in procurement of bought leaf from the other tea growers resulted in the tea production from its tea factories showing declining trend, against installed capacity, from 2018-19 onwards. The Tea Division observed short target sales realisation of ₹ 692.30 crore during 2018-19 to 2024-25, however, still there was no objective, scientific & verifiable target fixations, dynamic marketing strategy and documented framework specifying performance benchmarks, review criteria & graduated consequences for brokers.

With regard to Audit findings in the Para, Audit recommends that:

- ***Company should take up planned and concerted efforts for uprooting of old tea bushes & replanting new ones and establishing requisite irrigation infrastructure in its tea gardens, in a time bound manner so as to increase the yield.***
- ***With better market exploration efforts, the procurement of quality tea leaf from other tea growers should be increased to utilise the idle capacity of tea factories.***
- ***Company should strive for fixing pragmatic sales target for tea considering its quantity, quality and demand, adopt dynamic marketing strategy and penalise the defaulting brokers while incentivise the performing brokers.***

(Para 5.1)

Performance of Rolling Mills of Steel Authority of India Limited

In an integrated Steel Plant, the rolling mills roll the crude steel in the form of billets, blooms and slabs into rolled out products like plate, sheet, strip, coil, structures, rails, bars and rods. Thus, these mills play a crucial role in ensuring the availability of finished steel products in the market. There were 32 rolling/finishing mills in SAIL of which 30 were operational as of March 2024.

The rolling mills at various Steel plants faced operational and mechanical constraints besides non-availability of required quantity of inputs, which adversely impacted the production of finished steel as per the Annual Business Perspective. The percentage of achievement of production vis-à-vis the Annual Business Plan ranged between 58.10 *per cent* and 111.99 *per cent* during the period 2018-19 to 2023-24 in all the operational rolling mills. Less production of rails at Universal Rail Mill than the Annual Business Plan has resulted in potential loss of contribution of ₹1,461.30 crore during the period 2019-20 to 2023-24. Consequently, SAIL could supply on an average only 75.86 *per cent* of the total indent of rails to the Indian Railways during 2016-2024. Modernisation projects like setting up new mills, installation of new furnaces, facilities like normalizing facilities etc. were at different stages of implementation and the timely completion of these could improve the performance of rolling mills of SAIL.

Premature failure of rolls due to various operational reasons led to loss of ₹137.23 crore during 2018-24. Moreover, the rolling mills had also consumed excess power and heat than the stipulated norms. Deficiencies were noted with respect to the safety issues at the rolling mills relating to adequacy of fire extinguishers, fire detection and alarm systems, etc. SAIL needs to address the various constraints adversely affecting operations of the rolling mills to achieve maximum production of finished steel products and avoid potential loss of contribution margin due to sale of semis.

With regard to Audit findings in the Para, Audit recommends that:

- ***The Company may put in efforts to address the operational issues hampering the production of Hot Strip Mill which also starves the other mills dependent on the Hot Strip Mill for input, to optimise its revenue from the sale of finished steel products like Hot Rolled Coils/Plates/Sheets and Cold Rolled products.***
- ***Management may take efforts to reduce semis to earn higher contributions from selling of finished steel. The plant may expedite installation of Bar Mill, stabilisation of Medium Structural Mill and take up projects to maximize production from Wheel & Axle Plant and Medium Structural Mill.***
- ***The Company may ensure adherence to the norms for consumption of power and heat in the Rolling mills to maximize the profitable operations of the mills.***

(Para 6.1)

Installation and working of Steel Melting Shop-III at Bhilai Steel Plant

Steel Authority of India Limited (SAIL) Board accorded (April 2007) in-principle approval for installation of SMS-III with production capacity of four million tonne per annum under Modernisation and Expansion Plan to achieve total production capacity of seven million tonne per annum crude steel in Bhilai Steel Plant.

Audit observed that SMS-III started commercial operation in March 2018 after delay of more than six years resulting in potential loss of production of four million tonne per annum of crude steel during 2011 to 2018. The delay was attributable to delays in handing over of front to the contractors, in finalisation of contracts, in completion of civil and structural package, deferment of Universal Beam Mill, delays in commissioning of allied packages etc. Besides potential loss of production, Bhilai Steel Plant also incurred additional supervision charges (₹24 crore), reimbursement of insurance premium to the contractor (₹19.15 crore) for delayed period, replacement of damaged items (₹4.89 crore) and theft of material (₹5.53 crore) and additional expenditure on alternative interim arrangements for components in SMS-III. The installation and working of SMS-III highlights several operational lapses on various fronts throughout the planning as well as the implementation stages of the Project. ***In this regard, it is recommended that Management may focus on the issues that affected the timely implementation of the SMS-III project to prevent the recurrence of such lapses in future. It may also take steps to curtail the recurring expenditure being incurred on alternative arrangements in SMS-III. Strict compliance to Safety guidelines needs to be prioritised in all future projects to ensure safe operations in the Plants.***

(Para 6.2)

Performance of Distributor Scheme of Steel Authority of India Limited

Steel Authority of India Limited (SAIL) introduced a Two-tier Distributor Scheme (November 2016) to strengthen its retail presence through a structured distributor-dealer network. The scheme aimed at improving market reach, enhancing customer value, and increasing market share and net sales realisation. Audit reviewed the records related to retail sales through two tier distributors for the period 2019-20 to 2023-24.

During the course of audit, it was noticed that the distributor scheme was not fully implemented by the Company even after a lapse of seven years since its adoption. The Company could not achieve Annual Business Plan targets for retail sales, with achievement ranging between 55 *per cent* and 95 *per cent* despite adequate stock availability. Actual sales remained below the target of one million tonne, resulting in loss of market share and lower sales realisation. Out of 71 identified clusters, only 48 were covered, leaving 23 clusters unserved and limiting market penetration. Moreover, the major share of sales was concentrated to limited numbers of dealers (4.91 *per cent*) of total dealers.

The inability of the Company to effectively manage the contracts with the distributors and closely monitor the implementation of the scheme through the distributors and the attached dealers thereto etc. restricted the market growth of SAIL in the retail segment.

With regard to Audit findings in the Para, Audit recommends that:

- ***The Company may take proactive steps to appoint distributors in all the identified clusters and review the performance of the identified clusters periodically.***
- ***A Standard Operating Procedure may be adopted to ensure close monitoring of the scheme and its implementation through the distributors and dealers to increase the visibility of SAIL products in retail sector.***

(Para 6.3)

Delay in Installation of New Oxygen Plant at Durgapur Steel Plant

The delay in installation of new oxygen plant (1250 TPD) at Durgapur Steel Plant on account of delay in finalising the terms and conditions of land lease resulted in extension of existing contract for oxygen supply and additional financial burden of ₹172.33 crore on SAIL. Despite SAIL Board's directive (November 2020) to secure land clearances in advance, Durgapur Steel Plant submitted an incomplete proposal (September 2021), leading to its rejection and delays, followed by a 10-month lag due to expired land valuation. Although price bids were available since 2021, the contract was awarded only in August 2023, necessitating continuation of the costly arrangement until October 2028.

(Para 6.4)

Management of Estates by Indian Tourism Development Corporation

Audit of the Management of Estates by ITDC Limited revealed deficiencies in the availability and maintenance of critical property-related documents for the Company's hotels and landholdings leading to encroachment of properties and associated legal issues. Audit observed that ITDC was liable to pay ₹94.07 crore towards ground rent and breaches in respect of Ashok Hotel and Samrat Hotel to Land and Development Office (L&DO). ITDC neither responded promptly to L&DO regarding the removal of the breaches, nor paid the outstanding dues.

Further, there was lack of planning and effective decision-making on part of ITDC in the management of its estates. ITDC did not make any concerted efforts to reopen the old block of Hotel Kalinga Ashok which had been closed since February 2000, which resulted in non-utilisation of almost half of the property for the last 24 years and consequential potential loss of revenue amounting to ₹20.25 crore to ITDC. Further, a substantial tract of land at Gwalior was held by ITDC for the past 54 years without any productive use, development or revenue generation.

ITDC's property at Kosi Kalan had remained closed for the last five and half years. ITDC did not make efforts since October 2021 to explore the possibilities for making the property at Kosi operational. Further, ITDC implemented a project at Anandpur Sahib, Punjab without conducting feasibility study and ensuring availability of funds. Due to deficient planning, the incomplete project has been lying idle for the past 24 years. Also, ITDC did not take timely decision to make Hotel Nilachal Ashok, Puri operational, nor explored any alternative use due to which the hotel has been closed for nearly two decades. The indecision on part of ITDC led to the deterioration of the building and its associated assets and was likely to result in a decrease in its potential value.

(Para 7.1)

<u>Cluster: Infrastructure</u>

Loss of revenue due to non-collection and delay in collection of user fee by National Highways Authority of India

The National Highways Fee (Determination of Rates and Collection) Rules, 2008, stipulated that collection of user fee should commence within 45 days from the date of completion of the section of the Highway in case of a public funded project. However, due to the procedural delays and subsequently bad road condition of National Highway stretches contributed to the non-collection of user fee at Perali toll plaza and delay in collection of user fee at Keezhkuppam toll plaza and U. Ponnalagaram toll plaza in Tamil Nadu. Consequently, NHAI could not earn toll revenue of ₹68.72 crore.

(Para 8.1)

CHAPTER I: MINISTRY OF COAL

Central Coalfields Limited

1.1 Violation of Forest Regulations resulting in avoidable expenditure

North Urimari Open Cast Mine of Central Coalfields Limited violated provisions of Forest (Conservation) Act, 1980 and diverted 11.11 hectare of forest land to construct the railway siding without prior approval incurring avoidable expenditure of ₹7.84 crore to regularize the forest clearance for the said diverted land.

Central Coalfields Limited (CCL) is engaged in coal mining activities, which are to be carried out in conformity with stipulated forest regulations as prescribed under the relevant Acts and Statutes. The Ministry of Environment, Forest and Climate Change (MoEF&CC) is the nodal agency for granting the Forest Clearance (FC), in compliance with the Forest (Conservation) Act 1980.

The Hon'ble Supreme Court directed (December 1996) that prior approval of Central Government is required for any non-forest activity within the area of any "Forest" and all on-going activity within any forest in any State throughout the country, without the prior approval of the Central Government, must cease forthwith. MoEF&CC clarified (December 2007) that Jungle Jhari land is a type of forest land on which the provision of Forest (Conservation) Act, 1980 is applicable. Thus, prior approval from MoEF&CC for diversion of forest land for non-forest purposes was mandatorily required in compliance to the judgement of Supreme Court for Jungle Jhari land. Section 2 (ii) of the Act also stipulates that all the proposal for diversion of forest land, for any non-forest purpose, irrespective of its ownership, requires prior approval of the Central Government and non-compliance of the same is considered as violation of the said Act. There is also a provision for *ex-post facto* approval, with payment of penalty to regularise such violation.

CCL decided (April 2017) to construct North Urimari Railway Siding to facilitate coal evacuation from North Urimari siding and Urimari mines of Barka-Sayal Area. CCL awarded (May 2017) the work to RITES for establishing 10.80 km rail link between North Urimari siding and Patratu patch. As per the work assigned, RITES was also to restore defunct/unused line and to align the same with present construction work for establishing railway evacuation arrangement of North Urimari. The defunct line was duly restored by RITES.

Review of records revealed that:

- CCL noticed (2018) that railway alignment was on 2.84 Ha of Jungle Jhari (JJ) forest land, which required prior Forest Clearance under the FC Act. However, CCL awarded the construction of railway siding without requisite prior permission. During, further review of the land by the Management, it was noticed that a total of 11.11 ha forest land was utilized without prior approval.

- CCL applied (July 2018) for diversion of 11.11 ha forest land. During site inspection (March/June 2021) by State Forest Authorities it was concluded that as the land was already being utilized for railway construction work, it was considered as violation of provisions. CCL in response (April 2023) to the observations of Forest Authorities admitted the violation.

- MoEF&CC granted Stage-I approval (July 2023) subject to payment of penalties and raised a demand of ₹7.84 crore for regularisation of such diversion. CCL accepted and made the payment of ₹7.84 crore (July 2023).

In reply, management accepted the fact and stated that (October 2025)

- 2.84 ha JJ forest land on which violation was reported, was part of the old existing Patratu-Sayal siding. Thus, it can be said that the said forest land was already in use for non-forestry purpose, way before enactment of FC Act 1980.

- It was never a willful violation on the part of the company while utilizing the deemed forest land in question as the said parcel of land was already in use way before 1970, i.e. before the commencement of the FC Act.

- The Forest land of 11.11 Ha comprised of 2.84 Ha JJ Forest land falling under Ramgarh Division and 8.27 Ha of Forest land falling under Hazaribagh West Forest Division.

- In Site Inspection Report of DFO Hazaribagh West, no violation existed on 8.27 Ha Forest land. The violation that was reported by DFO Ramagrh on 2.84 Ha Forest land, was actually the renovation and restoration of already existing Patratu-Sayal siding which was constructed in the early 1970s. In view of this, Executing Agency continued the work on the already existing siding/forest land broken before 1980.

- Although CCL had a defensible legal position regarding the status of the land vested under Coal Bearing Areas (Acquisition and Development) Act, Stage-1 Forest Clearance imposed a condition of payment equivalent to 5 times NPV and 10 times Compensatory Afforestation over the entire 11.11 Ha area. Management, as a matter of prudence, decided not to contest the penal demand of ₹7.84 crore to avoid protracted litigation and bring finality to the issue, ensuring smooth project execution.

- Thus, it is evident that the Project has taken all needful steps with respect to obtaining Forest Clearance, and as such there were no monitoring and operational lapses.

The reply of the Management may be viewed in light of the following facts:

- Supreme Court in its decision (December 1996) stated that prior approval of Central Government is required for any non-forest activity within the area of Forest. Also, as per Forest (Conservation) Act, 1980, all the proposals for diversion of forest land, for any non-forest purpose, irrespective of its ownership, requires prior approval of the Central Government.

- CCL awarded the work in May 2017 and commenced construction activities without ascertaining the forest status of the land involved. The application was submitted in July 2018. Forest Authorities clarified that penalty was imposed as CCL commenced work on JJ land while its diversion application was still under consideration. The same has been admitted by CCL (April 2023).

- Management's decision to pay penalty "as a matter of prudence" does not negate the fact that forest land was diverted without statutory clearance, leading to avoidable financial outgo.

Thus, diversion of 11.11 ha of forest land for non-forest purposes without obtaining prior permission violated the provisions of the Forest (Conservation) Act 1980, for which CCL had to bear avoidable expenditure of ₹7.84 crore.

The para was issued to the Ministry in February 2026; their reply was awaited (April 2026).

NLC India Limited

1.2 Avoidable payment of interest on excess collected energy charges

NLC India did not exercise interim tariff adjustment and continued to charge excess energy charges to DISCOMs of Barsingsar Thermal Power Station, Rajasthan. Further, NLC India Limited suo moto neither reduced energy charges nor made interim refund of the excess billed and collected energy charges despite being aware of the higher Lignite Transfer Price. This resulted in avoidable interest expense of ₹14.51 crore on refund of excess collected energy charges.

NLC India Limited (NLCIL) is engaged in lignite mining and power generation from lignite. NLCIL operates four Thermal Power Stations (TPS) at Neyveli in the state of Tamil Nadu and one Thermal Power Station at Barsingsar in Rajasthan alongwith integrated mines.

At the commencement of each five-year tariff period, power generating companies estimate the costs involved in power generation based on Central Electricity Regulatory Commission (CERC) (Terms and Conditions of Tariff) Regulations and file a provisional tariff petition, based on which CERC issues provisional tariff orders. These companies may also request CERC for an interim tariff adjustment (interim truing-up) in the third year, based on expenses incurred during the first two years. At the end of the tariff period, the initially set provisional tariff is reviewed and adjusted (final truing-up) based on actual expenses and final tariff orders are passed by CERC (truing-up order). Any under-recovery or over-recovery in energy or capacity charges is either recovered from or refunded to customers (DISCOMs), along with interest.

For integrated power projects having both mines and TPS, separate tariff petitions are filed viz. mines tariff petitions for mining operations and power tariff petitions for power generation activities. Energy Charges in the power tariff petitions mainly comprise the cost of primary fuel (Lignite) and secondary fuel (High Speed Diesel and Furnace Oil), Lignite Transfer Price (LTP) forms the major component of energy charges. The LTP approved by CERC in the mines tariff/truing-up orders is adopted for computation of energy charges of TPS.

NLCIL submitted (October 2015) its provisional tariff petition to CERC for Barsingsar mines in Rajasthan for the tariff period 2014-19, which was approved (May 2017) by CERC. Based on the order, NLCIL billed energy charges to DISCOMs till the end of the tariff period. After completion of the tariff period 2014-19, NLCIL filed (December 2019) the truing-up petition with CERC based on actual expenditure. However, Lignite Transfer Price (LTP)[1] arrived at in the truing-up petition was lower than the LTP[2] as per the CERC provisional tariff orders (May 2017) for each year of the tariff period 2014-19. Thus, NLCIL billed excess energy charges to DISCOMs for the entire period. Subsequently, based on the truing-up orders received from CERC (June 2022), NLCIL calculated the excess billing of energy charges during the 2014-19 period and refunded the excess billed amount of ₹70.67 crore, along with interest of ₹42.63 crore (for April 2014 to June 2022), in six instalments starting from September 2022.

Additionally, NLCIL continued to bill energy charges during 2019-20 to 2023-24 based on LTP of ₹888 per MT for the year 2018-19 (as considered in provisional tariff petition 2014-19) while LTP[3] was lower than ₹888 per MT in four out of five years in provisional tariff petition (December 2022) for 2019-24 filed by NLCIL. Consequently, NLCIL refunded the excess collected amount of ₹67.41 crore along with interest of ₹24.72 crore (April 2019 to May 2024) in six instalments from May 2024 after receipt (March 2024) of CERC's provisional tariff order for 2019-24.

Audit observed following deficiencies on the part of NLCIL which resulted in avoidable interest payment on excess collected energy charges:

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[1] ***2014-15: ₹746/MT; 2015-16: ₹581/MT; 2016-17: ₹667/MT; 2017-18: ₹723/MT and 2018-19: ₹704/MT***

[2] ***2014-15: ₹768/MT; 2015-16: ₹714/MT; 2016-17: ₹766/MT; 2017-18: ₹825/MT and 2018-19: ₹888/MT***

[3] ***2019-20: ₹842/MT; 2020-21: ₹931/MT; 2021-22: ₹806/MT; 2022-23: ₹812/MT and 2023-24: ₹829/MT***

- NLCIL did not exercise the option to apply for interim truing-up of tariff in the third year (i.e. 2016-17) of the tariff period 2014-19 based on actual expenditure in the first two years to reduce the energy charges due to lower LTP from that year onwards.

- Although NLCIL *suo moto* decreased (May 2016) the LTP from 2016-17 onwards for Neyveli mines in Tamil Nadu for the 2014-19 period based on actual expenditure, it did not similarly reduce the LTP for Barsingsar mines, resulting in excess billing to DISCOMS of Barsingsar Thermal Power Station, Rajasthan.

- NLCIL continued to bill higher energy charge to DISCOMs from April 2019 for 2019-24 tariff period though it filed (December 2019 and December 2022) the truing-up petition and provisional petition with lower LTP for 2014-19 and 2019-24 tariff periods respectively.

- NLCIL was aware of the excess billing but it did not make *suo moto* interim refund before receipt of CERC orders. Audit noted that interest rates for working capital loans[4] of NLCIL were lower than the rates of interest on refund[5] of excess collected charges. Thus, by not making *suo moto* interim refunds for excess billed energy charges, an avoidable interest expense[6] of ₹14.51 crore was borne by NLCIL.

Management replied (October 2023) that it filed the tariff petition with projections based on actual O&M expenditure for the prior period. However, the actual O&M expenditure at the time of truing up was reduced due to competitive bidding process adopted for overburden removal and lignite excavation outsourcing. Management also stated that CERC delayed the issue of truing up orders due to pandemic situation and due to which interest cost increased. Ministry while endorsing the views of Management stated (February 2024) that refund of excess collection was made in compliance with CERC tariff regulation. Further, interest receipts/payments were cyclical in nature.

Reply of Ministry and Management is silent on non-exercising of the interim truing-up option and continuing to charge higher energy rates. NLCIL was aware of excess billing while filing truing-up petition in December 2019 (for 2014-19 tariff Period) and provisional tariff petition December 2022 (for 2019-24 Tariff Period). However, NLCIL *suo moto* neither revised energy charges nor initiated interim refunds before final CERC orders (June 2022) for tariff period 2014-19 and CERC's provisional tariff order for 2019-24 (March 2024) were received.

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4 ***Working capital borrowing rates were seven per cent and 5.34 per cent for the period 1.01.2020 to 31.07.2020 and 1.08.2020 to 18.03.2024 respectively.***

5 ***Rates of interest paid on refunds varied from 10.50 per cent to 13.50 per cent.***

6 ***Avoidable interest of ₹14.51 crore was computed by Audit based on tariff impact data furnished by NLCIL i.e. (i) ₹9.03 crore: Avoidable interest paid to DISCOMs in excess of interest rates of working capital loans for tariff period 2014-19 for the period from 1.01.2020 to 10.06.2022; (ii) ₹4.64 crore: Avoidable interest paid to DISCOMs in excess of interest rates of working capital loans for tariff period 2019-24 on refund amount (₹60,13,59,256) for 1.01.2023 to 18.03.2024 and (iii) ₹0.84 crore: Avoidable interest for the excess energy charges collected on refund amount (₹7,27,77,997) for the period from 1.01.2023 to 18.03.2024.***

Thus, excess collection of energy charges resulted in avoidable interest payment of ₹14.51 crore to DISCOMs of Barsingsar Thermal Power Station.

South Eastern Coalfields Limited

1.3 Mining operations in South Eastern Coalfields Limited

1.3.1 Introduction

Coal plays a key role in power generation in India because of its abundant thermal coal reserves and affordability. India ranks second after China in coal production amongst all countries in the world. Total coal reserves[7] in India as on March 2024 are 389.42 Billion Tonne (BT), of which reserves in Chhattisgarh and Madhya Pradesh are estimated to be 92.24 Billion Tonne (BT), which is around 23.68 *per cent* of total coal reserves of the country. South Eastern Coalfields Limited (SECL), a subsidiary of Coal India Limited (CIL), has four coalfields viz. Central India Coalfield (23.28 BT), Korba Coalfield (13.03 BT), Mand-Raigarh Coalfield (50.66 BT), and Ramkola & Tatapani Coalfields (5.28 BT), located in state of Chhattisgarh and Madhya Pradesh.

Ministry of Coal (MoC) is the administrative Ministry for the Coal Sector, has the overall responsibility of determining policies and strategies in respect of allocation/ allotment of coal blocks exploration, development and exploitation of coal reserves. Coal India Limited (CIL), a Maharatna Company, under MoC, has seven wholly owned coal producing subsidiaries including SECL and one mine planning and consultancy company viz. Central Mine Planning & Design Institute Limited (CMPDIL). CMPDIL has been assigned with the task to extend technical support in the area of geological exploration and drilling, project planning and designing, engineering services, research and development, environmental services *etc.* CMPDIL, also assesses the capacity of the mines for coal production and over-burden removal for the subsidiaries of CIL after considering the resources available with subsidiaries/ mines. Production of Coal in India is carried out through Open Cast (OC) and Underground (UG) mining methods.

Open Cast Mine

Underground Mine

[7] *Total coal reserve includes measured/proved reserve (212.21 BT), indicated reserve (148.72 BT) and inferred reserve (28.49 BT) Coal reserve in the country are classified by Geological Survey of India as Inferred reserves, indicated reserves and proved/measured reserves, depending on the level of confidence of occurrence of the reserves.*

In OC mining, coal is extracted after removing upper layers of the surface available in the form of soil, stone and other materials etc, known as Overburden (OB). In UG mining coal, the coal is extracted without removing the upper layer of the surface of soil.

CIL produces coal and removes OB through departmental as well as outsourcing mode. Considering the constraints in the departmental resources, outsourcing is being opted in the areas like OB removal, coal production, coal transportation *etc.*

1.3.2 Profile of South Eastern Coalfields Limited

South Eastern Coalfields Limited was incorporated in November 1985, with its Headquarters office at Bilaspur, Chhattisgarh. SECL is the second largest coal producing subsidiary of CIL after Mahanadi Coalfields Limited. SECL started its operations (1985-86) with production of 28.21 million tonnes (MT) of coal, which has grown to 187.38 MT as of 31 March 2024. Share of SECL in the total coal production of the country, ranged from 18.31 per *cent* to 21.59 *per cent* during 2018-19 to 2023-24 as tabulated below.

Table 1.1: Year-wise coal production of India, CIL and SECL

(Figures in MT)

Year	Overall Coal production in India	Total Production by CIL	Production of Coal in SECL	Share of SECL in coal production of country (in percentage)
2018-19	728.72	606.89	157.35	21.59
2019-20	730.87	602.13	150.55	20.60
2020-21	716.08	596.22	150.61	21.03
2021-22	778.21	622.63	142.52	18.31
2022-23	893.19	703.20	167.01	18.70
2023-24	997.23	773.64	187.38	18.79

1.3.3 Profile of Dispatch of Coal

The coal produced by SECL was mainly supplied to power sector (74.89 *per cent* to 87.31 *per cent*) while steel, cement, fertiliser, and sponge iron sector consumers also take coal from SECL. Year-wise production and sector-wise dispatch of coal during 2018-19 to 2023-24 is detailed below:

Table 1.2: Year-wise production and dispatch of coal by SECL

Year	Total coal production by SECL	Total dispatch	Sector-wise Dispatch							
			Power		Cement		Fertilizers		Others[8]	
	(MT)	(MT)	(MT)	Percent	(MT)	Percent	(MT)	Percent	(MT)	Percent
2018-19	157.35	156.02	128.14	82.13	2.82	1.81	0.73	0.47	24.33	15.59
2019-20	150.55	141.93	114.69	80.81	3.21	2.26	0.63	0.44	23.40	16.49
2020-21	150.61	138.77	103.92	74.89	2.08	1.50	0.46	0.33	32.31	23.28
2021-22	142.52	155.77	129.70	83.27	1.53	0.98	0.36	0.23	24.18	15.52

[8] ***Includes dispatch to Sponge Iron sector.***

Year	Total coal production by SECL	Total dispatch	Sector-wise Dispatch							
			Power		Cement		Fertilizers		Others[8]	
	(MT)	(MT)	(MT)	Percent	(MT)	Percent	(MT)	Percent	(MT)	Percent
2022-23	167.01	160.04	139.73	87.31	1.35	0.85	0.15	0.09	18.81	11.75
2023-24	187.38	180.59	147.97	81.94	1.73	0.96	0.19	0.11	30.70	16.99

(Source: SECL Annual report)

It can be seen from the above that production of coal at SECL has increased from 157.35 MT in 2018-19 to 187.38 MT in 2023-24. The dispatch has also increased over the years from 156.02 MT in 2018-19 to 180.59 MT in 2023-24.

1.3.4 Scope of Audit and coverage

Audit reviewed the mining operations and allied activities undertaken by SECL during 2018-19 to 2023-24. Entry conference was held on 21 March 2024 wherein Management was appraised of the objective, criteria and scope of Audit. During the audit, records were examined at Headquarters and Area/ Project Offices of SECL. The Exit conference was held on 25 September 2025. Draft Report has been prepared based on the audit observations raised, after incorporating Management/Ministry replies, wherever received.

1.3.5 Audit Observations

1.3.5.1 Capacity assessment and fixation of targets:

(A) Coal Production:

SECL carried out production of coal from opencast (OC) mines as well as underground (UG) mines spread across coal bearing areas in the State of Madhya Pradesh and Chhattisgarh. Every year, Central Mine Planning and Design Institute Limited (CMPDIL) assesses the capacity of all the mines of SECL both in terms of production of coal and Overburden (OB)[9] removal on yearly basis. The setting up of targets for production of coal and overburden removal are based on the various factors such as capacity/ availability of machines and their working conditions, availability of transportation facility etc.

Ministry of Coal (MoC) decides the quantum of production of coal, to be achieved during the year by Coal India Limited (CIL). Considering the targets determined by MoC, CIL, in turn provides the Annual Production Targets/ Annual Action Plan (AAP) targets for coal production as well as for overburden removal to all its subsidiaries.

SECL carries out its mining activities for production of coal including overburden removal through departmental as well as outsourcing mode. In departmental mode, the production of coal and removal of OB is carried out by using departmental resources whereas in outsourcing mode, these activities are carried through engaging outsourced contractors.

[9] ***In open cast mines, coal can be extracted only after removing layers of soil, stone etc. This soil and stone etc. is known as overburden***

The year-wise capacity for coal extraction *vis-à-vis* targets during the period from 2018-19 to 2023-24 is given below:

Table 1.3: Capacity assessment and target of coal extraction

(Figures in MT)

Year	Capacity assessed by CMPDIL			Annual Action Plan Target	Shortfall Percentage
	SECL	Departmental	Outsource	SECL	SECL
2018-19	166.60	34.06	132.54	167.00	(0.24)
2019-20	174.22	25.45	148.77	170.50	2.14
2020-21	181.69	46.54	135.15	172.00	5.33
2021-22	188.49	40.34	148.15	172.00	8.75
2022-23	206.90	63.70	143.20	182.00	12.03
2023-24	227.90	66.39	161.51	197.00	13.56

(Source: Data furnished by SECL)

Coal production targets set ranged between 167 million tonne (MT) and 197 MT against the assessed capacity which ranged between 166.60 MT to 227.90 MT during 2018-19 to 2023-24. The annual targets for coal production were always on the lower side in comparison to its mine capacity as assessed by CMPDIL except in 2018-19.

The year wise targets for coal production vis-à-vis achievements during the period from 2018-19 to 2023-24 is given below.

Table 1.4: Target and achievement of coal production of SECL

(Figures in MT)

Year	Annual Action Plan Target	Achievement	Shortfall Percentage
2018-19	167.00	157.35	5.78
2019-20	170.50	150.55	11.70
2020-21	172.00	150.61	12.44
2021-22	172.00	142.51	17.15
2022-23	182.00	167.01	8.24
2023-24	197.00	187.38	4.88

(Source: Data furnished by SECL)

From the above it is evident that, SECL never achieved its targets of coal production in any of the last six years under review. The shortfall ranged between 4.88 *per cent* and 17.15 *per cent*.

The year wise targets for coal production vis-à-vis achievement and contribution of departmental and contractual modes during the period from 2018-19 to 2023-24 is given below:

Table 1.5: Target, Achievement and Contribution of Departmental and Contractual modes of coal production of SECL

(Figures in MT)

Year	Target	Achievement			Contribution as percentage to total achievement	
	SECL	Total	Departmental	Contractual	Departmental	Contractual
2018-19	167.00	157.36	35.36	122.00	22.47	77.53
2019-20	170.50	150.55	37.90	112.65	25.18	74.82
2020-21	172.00	150.60	47.20	103.40	31.34	68.66
2021-22	172.00	142.51	41.82	100.69	29.34	70.66
2022-23	182.00	167.01	47.19	119.82	28.25	71.75
2023-24	197.00	187.38	57.72	129.66	30.80	69.20
Total	1060.50	955.41	267.19	688.22	27.97	72.03

(Source: Data furnished by SECL

Audit revealed that as against the total extraction of coal, contribution through departmental mode of production ranged from 22.47 *per cent* to 31.34 *per cent* whereas the contribution of the contractual mode in the total production ranged from 68.66 *per cent* to 77.53 *per cent* during the year 2018-24. Audit also noticed that among all coal producing subsidiaries only SECL did not fix its annual production target for departmental and outsourcing mode separately. Despite SECL, being the second largest coal producing subsidiary, absence of any benchmarks, to analyse its performance through departmental mode need to be reviewed. Also, the company did not review the departmental capacity for increasing the coal extraction. No initiatives for establishing any review mechanism in SECL for improving its departmental performance were found on record.

Review revealed that capacity of the mines for coal production is assessed for each subsidiary of CIL by CMPDIL, however, SECL did not define its annual targets of coal production for departmental and outsource modes separately. In absence of any benchmarks, the performance of SECL, through departmental or outsourced mode, could not be analysed.

(B) Overburden Removal

The year-wise capacity for OB removal *vis-à-vis* targets during the period from 2018-19 to 2023-24 is given below:

Table 1.6: Capacity assessment and target of OB removal

(Figures in mcum)

Year	Capacity assessed by CMPDIL			Annual Action Plan Target			Shortfall Percentage		
	SECL	Depart-mental	Out-source	SECL	Depart-mental	Out-source	SECL	Depart-mental	Out-source
2018-19	288.02	117.52	170.50	266.00	86.50	179.50	7.65	26.40	(5.28)
2019-20	309.92	129.81	180.11	268.00	97.07	170.93	13.53	25.22	5.10
2020-21	317.34	119.02	198.32	306.00	107.16	198.84	3.57	9.96	(0.26)

Year	Capacity assessed by CMPDIL			Annual Action Plan Target			Shortfall Percentage		
	SECL	Depart-mental	Out-source	SECL	Depart-mental	Out-source	SECL	Depart-mental	Out-source
2021-22	363.82	138.62	225.20	250.00	100.00	150.00	31.28	27.86	33.39
2022-23	309.61	134.61	175.00	280.00	105.00	175.00	9.56	22.00	0.00
2023-24	337.36	123.86	213.50	310.00	96.50	213.50	8.11	22.09	0.00

(Source: Data furnished by SECL)

Audit also noticed that though no targets for coal production for departmental and outsourced mode was defined, SECL has laid down the targets for OB removal for both the modes. Target for overburden removal ranged between 250 mcum and 310 mcum during 2018-19 to 2023-24. The Annual target for OB removal was always on the lower side in comparison to its mines capacity assessed by CMPDIL. Further, shortfall in target fixation was observed in case of departmental mode during 2018-19 to 2023-24 and outsourcing mode during 2019-20 and 2021-22.

The year wise targets for OB removal vis-à-vis achievements during the period from 2018-19 to 2023-24 is given below:

Table 1.7: Target and achievement of OB removal

(Figures in mcum)

Year	Annual Action Plan Target			Achievement			Shortfall Percentage		
	SECL	**Depart mental**	**Out-source**	**SECL**	**Depart mental**	**Out-source**	**SECL**	**Depart mental**	**Out-source**
2018-19	266.00	86.50	179.50	183.45	72.43	111.02	31.03	16.27	38.15
2019-20	268.00	97.07	170.93	164.74	67.72	97.02	38.53	30.24	43.24
2020-21	306.00	107.16	198.84	196.37	73.37	123.00	35.83	31.53	38.14
2021-22	250.00	100.00	150.00	195.22	68.43	126.79	21.91	31.57	15.47
2022-23	280.00	105.00	175.00	263.39	63.50	199.89	5.93	39.52	(14.22)
2023-24	310.00	96.50	213.50	321.19	50.13	271.06	-3.61	48.05	(26.96)

(Source: Data furnished by SECL)

Review of above table revealed that:

- SECL never achieved its target during the last six years from 2018-19 to 2023-24 except during 2023-24. The shortfall ranged between 5.93 *per cent* and 38.53 *per cent*.

- Targets for OB removal through departmental mode were not achieved in any of the years under review and the shortfall ranged between 16.27 *per cent* and 48.05 *per cent*.

- In case of outsourcing mode, SECL achieved its target during 2022-23 and 2023-24. There was, however, shortfall ranging between 15.47 *per cent* and 43.24 *per cent* during the years 2018-19 to 2021-22.

- As seen from the table, the performance / achievement of OB removal by outsourced mode was better than the departmental performance.

(C) Analysis of gaps between targets and achievements

Review of records related to assessment of capacity/fixation of targets *vis-à-vis* achievement revealed the following:

a) Manual for setting up of targets: None of the coal producing subsidiaries including SECL has laid down any Manual/Standard Operating Procedure (SOP) prescribing the methodology to be adopted for setting up of target. Also, factors/ parameters to be considered during fixation of the targets have not been defined.

There was no defined factors/parameters/methodology for segregation of target between departmental and outsourcing mode. Consequently, in absence of manual/SOP, the optimum utilisation of resources could not be ensured.

b) Heavy Earth Moving Machinery (HEMMs)

HEMMs are big machines used in opencast mines to excavate, move, and transport large quantity of coal and overburden every year viz. Dragline, Shovel, Dumper, Dozer, Drill and Surface Miner. Dragline used in large open cast mining has a bucket suspended by ropes to "drag" and remove massive amounts of overburden and dump it directly into a void without using trucks.

Figure: Shovel – Dumper combination

Shovel is an excavating machine designed to dig and load fragmented rock and minerals into transport vehicles like dumpers. Dumper is a heavy-duty vehicle specifically designed to transport massive quantities of overburden or coal from the mining face to a disposal point or a processing plant.

Dozers are used to push, level, clear the ground and maintain haul roads. Drills are responsible for creating deep, vertical holes in the ground so that explosives can be loaded. Since massive machines like Shovels cannot dig through solid rock, the rock must first be "fragmented" using explosives.

Figure: Surface Miners

A surface miner is an excavation machine that uses a rotating cutting drum to continuously mill, crush, and load coal in a single pass, eliminating the need for drilling and blasting.

HEMMs under breakdown are those whose spare parts were not available, and the repairing of such machines was not economically viable. Such HEMMs are surveyed off by SECL. Examination revealed that 80 HEMMs out of 193 HEMMs were under breakdown, for period of one year to 11 years. However, these break down HEMMs were considered, at their 100 *per cent* capacity, while assessment of the capacity by CMPDIL. The age-wise breakdown tenure till 2023-24 is as under:

Table 1.8: Aging analysis of HEMMs under breakdown

Sr. No	Period of breakdown	HEMMs (in nos.)
1	One to two years	32
2	Two to three years	21
3	Three to four years	15
4	Four to five years	3
5	Five years to 11 years	9

It was also noticed that despite HEMMs being under breakdown for long periods, technical department of SECL did not carry out any review for such break-down machines to assess their availability for the upcoming years and never intimated to CMPDIL, for non-inclusion of these machines for capacity assessment.

As such, consideration of such breakdown HEMMs for capacity assessment without technical analysis of their availability, led to inaccurate capacity assessment.

c) Non synchronisation/Mismatch in departmental excavation and transportation capacity of mines

SECL uses Surface Miner for mining activities/extraction of coal which contributes around 64.08 *per cent* of its coal production, and uses tippers for transportation of the extracted coal. Balance coal is extracted with the combination of shovel-dumper, wherein the extraction is done with shovel and dumper is used for transportation of coal. Accordingly, in case of usage of shovel-dumper, synchronisation of extraction and transportation capacity is pre-requisite for smooth operations.

Review revealed that there is always a mismatch in the excavation and transportation capacity in mines in case of shovel-dumper. Resultantly, where excavation capacity was more than the transportation capacity, shovel remains idle. Similarly, where transportation capacity was more than the excavation capacity, dumpers remain idle.

Audit examined the reasons of mismatch of excavation and transportation capacities of HEMMs in Gevra mine and noticed cases of procurement of 42 cum shovels without corresponding adequate 240Tonnes dumpers, induction of 150 Tonnes dumpers from February 2019 to December 2021 without matching 15/16 cum shovels and inadequacy of shovels for 100T dumper which contributed to such mismatch.

Thus, excavation and transportation capacity of the mine are required to be in synchronisation, for smooth mining operations. Mismatch of the two capacities led to idling of capacities and inaccurate setting up of target. Hence, SECL should have synchronised the excavation and transportation capacity of a mine for optimal utilisation of resources

d) Shortage of operators:-HEMMs need trained operators for smooth operations in mining activities. Analysis of sanctioned strength *vis-à-vis* men-in-position of departmental operators of Surface miners, Shovels and Dumpers, deployed during 2018-19 to 2023-24 in SECL is detailed below:

Table 1.9: Sanctioned strength and men-in-position of operators

Year	Surface Miner			Shovel/Excavator			Dumper		
	Sanctioned Strength (Nos.)	Men-in-position (Nos.)	Shortfall *(per cent)*	Sanctioned Strength (Nos.)	Men-in-position (Nos.)	Shortfall *(per cent)*	Sanctioned Strength (Nos.)	Men-in-position (Nos.)	Shortfall *(per cent)*
2018-19	0	0	0	268	287	(7.09)	1246	1071	14.04
2019-20	8	0	100	295	260	11.86	1474	1057	28.29
2020-21	15	0	100	330	236	28.48	1549	1069	30.99
2021-22	38	0	100	273	298	(9.16)	1812	1268	30.02
2022-23	38	20	47.37	227	291	(28.19)	1905	1415	25.72
2023-24	38	24	36.84	279	263	5.73	1728	1438	16.78

(Source: Data furnished by SECL)

The mining activities/extraction of coal in SECL was carried predominantly through Surface miners, which is more than 64.08 *per cent*. However, there is acute shortfall in operators of Surface Miner as seen in the table. Further, shortfall is also for the operators of shovel and for dumpers. During 2019-20 and 2020-21, shortage of operators led to idling of departmental HEMMs.

In reply, Management/Ministry stated (June 2025) the following:

- With regard to capacity assessment and target fixation, it was stated that the target of Memorandum of Understanding is set at CIL level and AAP target of SECL is set by CIL in consultation and deliberation with SECL considering capacity assessment of different mines of SECL which is commensurate with MoU target. Production of coal and removal of OB depends upon several issues like constraints of land, rehabilitation and resettlement (R&R) issues, villagers' resistance, delay in finalisation of overburden contract, major geological disturbance, Environment Clearence /Forest Clearance issues etc. Ministry also added that SECL should develop robust mechanism for land/R&R resolution, fast-tracking clearances, proactive community outreach, and contractor performance monitoring. Strategic planning and inter-agency coordination must be institutionalized to align SECL's annual production with MoU targets consistently.

- For non-synchronisation of excavation and transportation capacity, while accepting the facts, it was stated that mismatch between excavation and transportation capacity was due to changes in the lead of dumpers which has been reduced during 2021-22 by commissioning of six numbers of 240 tonne dumpers. However, due to land constraints the mismatch problem would not yield any result. At present there was no mismatch capacity against 10 cum[10] shovel and 100 tonne dumpers.

- For shortage of operators, while accepting the facts, it was stated that there was shortage of operators, however the same has been resolved by selection from eligible departmental employees.

Reply of the Management/Ministry may be viewed in the light of the following facts:

- While fixation of the targets for coal production for SECL by CIL, due analysis should have been carried out for various constraints and potentiality of mine viz. geo-mining conditions of the mine, delay in finalisation of overburden contract, R&R issues, *etc.,* as highlighted by the Management in its responses. These factors were very-much known to the Management. Despite that, annual targets for OB removal and coal extraction were fixed on the lower side in comparison to its mines capacity assessed by CMPDIL.

- With regard to non-synchronisation of excavation and transportation capacity, response of the Management may be viewed in the light of the fact that the mismatch in excavation and transportation capacity arose due to non-procurement and improper deployment of HEMMs against Project Report provisions, including induction of high-capacity shovels without adequate dumpers and vice-versa. The reasons mentioned such as reduced dumper lead or a land constraint does not justify these planning gaps or the resultant idling of equipment.

[10] ***Cubic Meters***

- For shortage of operators, it is a fact that there was shortfall of operators which adversely impacted the departmental coal production and idling of HEMMs was persistent during the period under review. Also, Management acknowledged idling of HEMMs, which declined since 2021-22. This indicated inadequate and lack of timely corrective action. Further, poor manpower planning is evident from the fact that some of the mines are having excess operators whereas in others there is shortfall of operators, which could have been effectively utilised by deploying the excess operators to the mines having the shortage

Recommendation 1: SECL should frame a Manual/SOP prescribing the methodology and factors/parameters to be considered for fixation of targets.

1.3.5.2 Contract Management:

Coal production in SECL is predominantly carried out through OC mining in which coal is extracted after removal of OB. SECL produces coal through three means *viz.,*

a) completely departmental mode;

b) partly departmental and partly outsourcing mode;

c) Completely outsourced mode like MDO[11].

Mining contracts were awarded for hiring of HEMM services wherein the contractors who removed OB and extracted coal were paid based on the quantity of OB removed and coal extracted. During the audit period from 2018-19 to 2022-23, SECL awarded 2788 contracts valuing ₹ 94,476.66 crore (both mining and non-mining contracts).

Audit examined the records related to 52 mining contracts out of 183 mining contracts awarded including all four MDO contracts and the following deficiencies was noticed:

(A) Undue benefit to contractor violating provision of CMM

SECL awarded (June 2019) the work of hiring of surface miner for cutting 90.73 MT coal and loading of 70.65 MT coal into tippers to M/s S.S Mining JV Company (M/s SSM) at Kusmunda Area for a period of 2 years. As per the work order, schedule date of completion the work was June 2021.

Director General of Resettlement (DGR) is an inter-service organisation that facilitates the resettlement of ex-servicemen through skill training, job placement, and self-employment opportunities. As per (Clause-12) of Memorandum of Understanding (MoU) between Coal India Limited (CIL) & DGR, the company would support (Ex-service Men) ESM contractor for award of work like (a) Loading & transport (b) wagon loading and (c) any additional type of work which is viable and is available. The award of work to ESM

[11] ***Mine Developer and Operator (MDO) contracts in coal sector are contracts for long period (25-year or life-of-mine) under public-private partnerships where private entities handle excavation, transportation, and rehabilitation.***

contractors will be considered only after mutual consent between DGR and concerned coal subsidiary. Accordingly, balance cut coal of 20.08 MT at Kusmunda Area was to be loaded by existing Ex-service Men (ESM) contractors.

During the contract period, as of June 2021, M/s SSM carried out the cutting work for 49.23 MT (54.26 *per cent*) of coal against scheduled quantity of 90.73 MT and loading of 21.40 MT (30.29 *per cent*) against contracted quantity of 70.65 MT. Since the work was pending for execution, SECL allowed (May 2021) the extension of contract for six months (up to December 2021) citing the reasons that the new tender for the said work had not yet been finalised and there was no option other than to extend the existing work for additional time. However, ESM Contractor duly completed (November 2020) their stipulated quantity.

At the end of extension period (December 2021), the contractor made cutting of 54.68 MT (60.27 *per cent*) and loaded 23.96 MT (33.91 *per* cent) of coal. Thereafter, another extension was allowed to contractor for both works till June 2022. Two more extension were given for cutting of coal till March 2023. However, only 68.83 MT quantity (75.86 per cent) of total coal was cut and loading was 23.96 MT.

Review of records revealed the following:

- Clause 6.2 of CIL's Contract Management Manual (2014) states that if the average daily progress of work during the calendar months is less than the stipulated rate as per work order, penalty would be levied on the contractor.

- Due to non-completion of the contract by M/s SSM, SECL had to get loading of coal 18.55 MT to be done by ESM contractors at a higher price (₹9.45 to ₹10.79) for which SECL has to incur an extra expenditure of ₹18.95 crore.

- After the issue being raised by Audit, the Functional Directors also confirmed (March 2025) that there was a financial impact of ₹19.13 crore in contract period due to engagement of ESM contractor at higher rate to meet up the shortfall quantity of M/s SSM. Committee of Functional Director recommended (March 2025) for fixing responsibility on erring officials for engagement of ESM contractors without approval of competent authority and instructed to take appropriate disciplinary action against the concerned Area General Manager and the Area Finance Manager involved during the deviation period from the awarded work without obtaining prior approval of competent authority.

- After being pointed out by Audit, as of May 2025, SECL recovered an amount of ₹10.51 crore from M/s SSM contractor. Remaining amount of ₹8.62 crore[12] is yet to be recovered.

[12] ***₹19.13 crore-₹10.51 crore= ₹8.62 crore***

The Management stated (July 2025) that the contractor M/s SSM loaded the cut coal of 23.96 MT during January 2020 to December 2021. Due to non-availability of civilian (non ESM) transportation contractors, ESM contractors were allowed to load and transport the cut coal of M/s SSM at a higher rate so that production would continue. Further, hindrance in cutting coal was due to land constraint issues and for loading of coal due to non-availability of transportation contractors. Had ESM agencies been not allowed to execute the additional 18.60 MT of loading, there could have been production loss of approximately 18.60 MT during the contract tenure. As compared to production loss, the excess payment towards loading through ESM contractors was negligible. The Ministry has endorsed (September 2025) the views of the management.

The reply of the Management/Ministry may be viewed in light of the fact that SECL should have either pursued the entire loading work by M/s SSM to meet up with the shortfall quantity or imposed penalty as per agreement. Instead, SECL suffered an additional financial impact of ₹19.13 crore due to engagement of ESM contractors at higher rate for loading of shortfall quantity, which indicates monitoring lapses on part of the management, as CIL CMM Clause 13 of April 2022 also stipulates that any loss due to contractor shall be assessed and recovered by the Company. Functional Directors of SECL also opined (March 2025) that in the instant case, SECL not only suffered an additional financial impact of ₹19.13 crore by appointing ESM contractors at higher rate but also violated the provision of CMM for not obtaining prior approval of the Board for engagement of ESM contractors. Thus, due to non-adherence to the provisions of CMM and monitoring lapses, company may incur loss of an amount of ₹8.62 crore.

(B) Non-recovery from contractor

Clause 16 of Special terms and conditions of the contract (STC) in CIL's CMM (2014) stipulates that in case of difference in weighment between the loading and unloading point, it shall be reconciled every month and in case of difference at unloading point, the value of coal found short, would be deducted at double the then prevailing rate including all royalty, cess from the security deposit of the transporting contractor concerned.

SECL awarded (January 2020) the work for transportation of crushed coal from loading point to Chirimiri Railway siding to M/s Anand Carbo Private Limited (ACPL) in respect of Chirimiri mine. The work was commenced on 1 January 2020 and was valid till 9 January 2023.

Review of records revealed that during contract period, M/s ACPL transported 20.11 lakh tonne of coal from loading point to the designated Railway siding. However, at Railway siding, only 20.05 lakh tonne was received based on weighment, resulting in shortage of 6549.93 tonne (0.06 lakh tonne). Due to short supply of coal, an amount of ₹3.21 crore was recoverable from the contractor as per the terms of the contract. However, Management did not initiate any action for recovery of ₹3.21 crore for shortage of coal due to weighment as per clause 16 of CIL's CMM, which indicates monitoring lapses on part of the management.

It was also noticed that SECL had ₹1.96 crore in form of security deposit of the contractor, which could have been adjusted against these dues. Thus, SECL unable to recover an amount of ₹1.25 crore from the contractor as the contract has been completed (January 2023).

The Management stated (June 2025) that file is in process, and the contractor has been instructed to deposit the balance recoverable amount as per the terms general terms and conditions (GTC) of contract. The Ministry (July 2025) has endorsed the views of the management.

The reply of the Management/ Ministry may be viewed in light of the fact that as per the terms of contract, management can withhold amount of security deposit, to recover the pending dues. However, even after adjusting the security, amount of ₹1.25 crore is recoverable from the Contractor.

1.3.5.3 Deviation from CMM Manual in respect of Performance Security Deposit

Contract clause 4.2 of the Contract Management Manual (CMM) (April 2022) stipulates that the performance security deposit should be 5 *per cent* of the annualised value of the contract value.

Audit noticed that in a contract for supply of Continuous Miner, at Rajgamar mine, tender was floated (June 2022) and the work was awarded (December 2022) to M/s Gainwell Commosales Private Limited, considering performance security deposit at the rate of 3 *per cent* instead of 5 *per cent* of annualised value of the contract. The consideration of the rate of performance security deposit at lower than the stipulated rate, is in contravention of the provision of CMM.

Thus, due to non-adherence of CMM Manual, there was not only less deposit of performance security available with the company but also pointed to the monitoring lapses on the part of the management.

The Management stated (June 2025) that the Performance security deposit in the instant case was inadvertently maintained at 3 *per cent* instead of enhancing it to 5 *per cent*. The Ministry stated (June 2025) that the company acted in good faith in challenging and unclear circumstances followed government directions during pandemic and continued to protect its financial interest through retention deductions.

While accepting the fact Management/Ministry admitted that it was an omission during COVID pandemic which would be taken care of through deduction of retention money.

1.3.5.4 Quality Assessment of Coal: Coal Quality Degradation without corresponding Grade Review

CIL formulated (August 2020) a guideline on Coal Quality Assurance Policy for sampling process. The above guideline stipulates that in case of slippage of three or more grades in respect of more than 50 *per cent* of sample results analysed by third party agencies for three

(3) consecutive months, the declared grade of these sidings/feeding mines should be reviewed. SECL declared the coal grade of Kusmunda mine as G-11 as per Colliery Control Rules, 2004 and Coal Mines (Conservation and Development) Amendment Rules, 2011.

Review revealed that of the sampled coal, more than 50 *per cent* of samples were downgraded by three or more grades in the months of May 2021 to August 2022. However, no review of the downgrading was carried out which is not in line with Coal Quality Assurance policy.

Management/Ministry stated (June 2025) that slippage/upgradation was not significant to meet review thresholds and declaration of grade change as per CIL guidelines. The reply of Management/Ministry may be viewed in the light of the fact that from the data available, there is significant down gradation in the grades which led to violation of CIL guidelines.

1.3.5.5 Underground Mines

Underground (UG) mining in SECL is carried out either through semi-mechanised method with Side Discharge Loader (SDL)/Load Haul Dumper (LHD) or through fully mechanised method with Continuous Miner (CM). As of March 2024, SECL has 41 operating UG mines. During 2018- 2024, the production of coal from UG mines was 76.17 MT.

Non-adherence of action plan for viability of UG mines

A review meeting (August 2016) under chairmanship of Secretary (Coal) was held and a committee was established (September 2016) to assess the economic viability of UG mines, focusing on their performance, production potential, and manpower rationalisation. The Committee submitted its report in November 2016.

Audit scrutiny revealed the following:

- Committee identified 10 mines, wherein scheme for enhancing the production was already in existence for six mines and suggested for viability study/ scheme for the remaining four mines schemes. It was noticed that scheme/PR for two mines[13] was prepared in October 2023 and December 2023 with the delay of seven years. Also, no study/ scheme was carried out for the two mines[14] even after lapse of nine years.

- Further, in respect of six mines, committee recommended that owing to financial concerns an attempt may be made for complete/ partial outsourcing of the production activity and the outsourcing cost may be evaluated. If not viable, the mines may be phased out by March 2020. Review revealed that no attempt has been made for outsourcing of these six mines and one mine has been phased out

[13] ***Rajendra UG and Bartarai UG mine***
[14] ***Nawapara UG and Ramnagar UG mine***

in 2019. Further, no decision has been taken for rest of the five mines for outsourcing/ phasing out.

Despite a 2016 plan to revive/ close struggling mines, SECL did not formulate any plan of action regarding whether to outsource the work or shut them down entirely.

1.3.5.6 Sale of crushed coal to power sector

(i) Forgoing of additional revenue due to non-supply of (-) 100 mm crushed coal

Ministry of Coal (December 2014) decided that coal companies should ensure 100 *per cent* supply of (-) 100 mm size to the power sector. Necessary instructions were also issued from time to time by CIL to its subsidiaries in line with the above.

SECL awarded (July 2020) the work of crushing and transporting of coal to M/s R.K Transport and Constructions Limited (RKTC) which *inter-alia* included crushing of coal into (-)100 mm size at Jagannathpur OC mine under Bhatgaon Area for the period of 1260 days.

Clause 13 of the special terms and conditions of the contract stipulated that any loss due to contractor should be assessed by the Company and recovered from the contractor.

Audit noticed that:

1. The notified prices for (-)100 mm coal was ₹87 per tonne as against ₹56 per tonne for (-) 250 mm size coal. Thus, by following the directions of MoC/ CIL, SECL could fetch an additional revenue of 87 per tonne by supply (-) 100 mm as against supply of (-) 250 mm coal. The cost of crushing was ₹ 8.24 per tonne for (-)100 mm coal.

2. The contractor installed the crusher only on 14 January 2022 against the due date of 11 August 2021, with delay of 156 days. During the delayed period the mines supplied 4.98 lakh tonne of (-) 250 mm size coal to the Power sector.

3. By not adhering to the direction of MoC and CIL, SECL lost an opportunity to fetch an additional revenue at the rate of ₹22.76[15] per tonne amounting to ₹1.14 crore[16] by supplying (-) 250 mm size of coal during that period due to contractor.

4. As per the terms of the contract, being the opportunity lost, the amount should have been recovered from the contractor. However, SECL has not taken any initiative for the recovery of the same from the contractor.

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[15] ***₹87-₹56-₹ 8.24= ₹ 22.76***

[16] ***498390.73 tonne (quantity supplied during delayed Period) * Rate @ ₹22.76= ₹11353340.80= ₹1.14 crore***

Thus, by not adhering to the directions and the terms of the contract, SECL lost an opportunity to recover an amount of ₹1.14 from the contractor.

Management stated (June 2025) that the targeted quantity of 32.88 lakh tonne was reduced to 18.83 lakh tonne due to re-appropriation and allowing hinderance attributable to management and there was no shortfall on the account of contractor. It was further stated that an amount of ₹55.72 lakh has been retained by the company towards the sizing charges.

The reply may be viewed in the light of the fact that the company regularised the default period of installation of crusher by appropriating the quantity. Further, the amount recovered is towards penalty as per Clause-6.2 towards shortfall in desired quantity and not as per Clause-13. The foregoing of additional revenue by the Company due to selling of -250 mm coal is ₹ 1.14 crore for the default period of installation of crusher.

(ii) Non- utilisation of idle capacity for crushing of coal

Ministry of Coal (December 2014) highlighted that coal companies should ensure 100 *per cent* supply of (-) 100 mm size to the power sector. Necessary instructions were also issued from time to time by CIL to its subsidiaries in line with the above.

As per price notification (August 2017), notified crushing charges recoverable from the consumers for (-) 200 mm to (-) 250 mm size coal and (-) 100 mm size coal were ₹56 per tonne and ₹87 per tonne respectively. The cost of crushing the coal to (-) 100 mm was ₹10.16 per tonne.

Examination of records revealed that in Kusmunda and Gevra, despite having the crushing facility, SECL supplied uncrushed coal of size (-) 200 mm to (-) 250 mm to power plants during 2021 to 2024. During the said period, the crushing capacity of Kusmunda mine ranged between 4.38 MT to 19.53 MT whereas that of Gevra mine ranged between 7.92 MT to 14.49 MT. It was also noticed that the capacity of Kusmunda mine remained idle that ranged between 1.57 MT to 10.71 MT. The idling of crushing capacity for Gevra mine ranged between 6.30 MT to 11.29 MT. By complying with the laid down instructions, an extra revenue of ₹20.84 per tonne (net of crushing cost) could have been fetched by the Management. Thus, by not complying with the laid down instructions, company lost an opportunity to earn additional revenue of ₹35.74 crore **(Annexure II)**.

The Management/Ministry stated (June 2025) that reasons like lack of crushing infrastructure, demand fluctuations, rake availability, sudden production rush and quick evacuation of old stock etc. were attributable to supplying (-) 250 mm size coal to power plants.

The reply of the management may be viewed in light of the fact that in both the mines there was underutilisation of capacity of crusher (-100 mm size) in Kusmunda, ranging from 35.88 *per cent* to 54.83 *per cent* and in Gevra ranging from 77.73 *per cent* to 79.55 *per cent* during 2021–24. Further, hiring of mobile crushers could have ensured compliance and earn additional revenue.

(iii) Non- recovery of capital expenditure

SECL leased out 6.15 hectare land of Gevra mine to M/s Gujarat State Electricity Corporation Limited (M/s GSECL) in October 2005 for 20 years for construction of Railway siding. The agreement was signed in July 2008. The lease agreement was revised in April 2017.

SECL Board directed (April 2006) that any expenditure incurred by SECL for development of railway track should be recovered from the user agency i.e. (M/s GSECL). SECL incurred capital expenditure of ₹4.08 crore between 2006 and 2017 on upgradation of railway track which interlinked with the above siding.

Audit noticed that:

- SECL has provided the right of usage to M/s GSECL in October 2005, without signing any agreement. The agreement was signed only in July 2008 with delay of around three years. The reasons for the delay were not found on record.
- Despite specific instruction of the Board (April 2006) for the recovery of any expenditure incurred by SECL for development of railway track, no clause was incorporated for the recovery of capital expenditure of ₹4.08 crore incurred for the development of railway track neither in original nor in the revised agreement.
- In April 2019/December 2022, SECL served notices to M/s GSECL for payment of ₹ 4.08 crore and in response, M/s GSECL declined (April 2020/ June 2020) to accept such liability citing that sharing of expenditure on up-gradation of railway track by SECL was beyond the terms of agreement.
- SECL did not follow the Board's directions given in 2017 to revise lease rent every year based on actual data. However, SECL continued increasing rent by only 10 *per cent* without any reassessment from 2017. Also contrary to the direction of the Board, as per revised lease agreement with M/s GSECL, the annual lease rent was to be reassessed in every three years on actual inputs. However, the same was also yet to be carried out.

Management stated (June and October 2025) that revision of lease rent for 2019–24 was awaiting approval.

The Ministry, while accepting the audit observation, stated (June 2025) that SECL did not follow the Board's directions given in 2017 to revise lease rent every year based on actual data. Instead, they continued increasing rent by only 10 *per cent* without reassessment from 2017 to 2024, which caused financial loss. Also, SECL did not include a clause in the lease agreements to recover over ₹4.08 crore spent on shared infrastructure.

Thus, SECL did not carry due diligence, and did not adhered to the directions of its Board, which resulted in non-recovery of capital expenditure of ₹4.08 crore.

(iv) Extra expenditure due to non-finalisation of fly ash dumping charges

Filling of mine voids with fly ash has been considered as one of the viable options to the coal companies. Fly ash in bulk quantity can be utilised in stowing of underground mines in lieu of sand and filling up abandoned open cast mine voids. This results in higher percentage of utilisation of fly ash generated which is otherwise a major pollutant.

In line with the above, a Memorandum of Understanding (MoU) was executed (October 2018) between South Eastern Coalfields Limited (SECL) and Thermal Power Plants (TPPs) in respect of Korba Area for ensuring efficient and safe dumping of pond ash. As per the MoU clause 6 SECL was to supervise, manage and control all related activities of ash utilisation within the mining lease area of Manikpur mine, and the expenditure incurred was to be shared by the TPPs on a pro-rata basis.

Examination of records revealed that as per MoU, SECL was to supervise, manage and control all related activities and to execute a contract for dumping of ash. However, instead of entering into the contract, SECL itself commenced the dumping of fly ash in mine voids from November 2018 by deploying its own departmental equipment and manpower for execution of the work instead of hiring any contractor. The activity continued till March 2023.

It was also noticed that though SECL constituted (May 2021) a committee to derive the rate to be charged to TPPs and to determine the final amount to be claimed, the rate for fly ash dumping was not finalised till August 2024. Manikpur mine assessed (May 2024) ₹20.74 crore as recoverable from TPPs up to March 2023.

Thus, even after a lapse of nearly six years in absence of any contract and non-finalisation of the rate, SECL was to bear the expenditure from its own funds and deprived from the recovery of the expenditure from the TPPs which indicate ineffective planning and inadequate monitoring on part of SECL Management.

Management stated (June 2025) that initially, the claim pertaining to period from November 2018 to March 2021 was prepared but the claim period was revised from November 2018 to March 2023 and submitted for obtaining approval. The same would be recovered at the earliest after obtaining approval of competent authority.

The Ministry, while accepting the audit observation, stated (June 2025) that the procedural delay and lack of timely action in raising claims for charges for dumping of fly ash as per the MOU condition without any written concurrence from TPPs led to avoidable blockage of funds and potential loss of interest.

1.3.6 Good Practices

SECL awarded a contract for construction of Coal Handling Plant including in-motion weighbridge at Gevra mine in August 2012. The construction work was completed and the mine was in operation since October 2018. In the instant case, due to high under loading charges, Management after due deliberation, decided to install a better weighing mechanism “pre weigh bin”, which has considerably reduced the under loading. This indicates active monitoring on part of the Management in the financial interest of the company.

1.3.7 Conclusion

South Eastern Coalfields Limited (SECL) did not align the target for coal production and over burden removal commensurate with the capacity assessed by CMPDIL. SECL did not define its annual targets of coal production for departmental and outsource modes separately. In absence of any benchmarks, the performance of SECL, through departmental or outsourced mode, could not be analysed. SECL did not frame any manual/SOP defining the factors to be considered for fixation of targets. Further, HEMMs under break down were considered for mine capacity assessment, without any periodic technical assessment of such machines. Mismatch in excavation and transportation capacity of HEMMs also existed. Shortage of operators resulted in idling of HEMMs. Due to non-adherence to the provisions of Contract Management Manual (CMM) and monitoring lapses, company incurred loss of an amount of ₹8.62 crore.

There were instances of non-adherence/violation of CIL guidelines for quality assurance. Instances of monitoring lapses were noticed in non-generation of additional revenue by not supplying (-) 100 mm size coal and lost an opportunity to earn additional revenue of ₹35.74 crore. Also, due to non-finalisation of fly ash dumping charges SECL was to bear the expenditure from its own funds and deprived from the recovery of the expenditure from the Thermal Power Plants which indicate ineffective planning.

CHAPTER II: MINISTRY OF PETROLEUM AND NATURAL GAS

Indian Oil Corporation Limited

2.1 Infructuous Expenditure on creation of infrastructure facility

Lack of comprehensive analysis and identification of requirement of infrastructure for production of 100 per cent BS-VI compliant Motor Spirit by 1 April 2020, resulted in infructuous expenditure of ₹32.02 crore at Paradip refinery.

Government of India vide Gazette notification dated 16 September 2016 made implementation of 100 *per cent* BS-VI grade fuels in the entire country mandatory by 1 April 2020. Paradip Refinery (Refinery) of Indian Oil Corporation Limited (Company), which commenced its operation in 2016 with design crude processing capacity of 15 million metric tons per annum (MMTPA), could produce (31 January 2017) 100 *per cent* BS-IV Motor Spirit (MS) and High Speed Diesel (HSD) but BS-VI[1] grade MS and HSD could be partly produced by it, as per then Refinery configurations. Board of Directors (BoD) of the Company, in its meeting dated 31 January 2017, approved the proposal for Stage-I {feasibility report (FR)}for production of 100 *per cent* BS-VI compliant MS and HSD (15 MMTPA crude throughput level) at the Refinery, by the targeted date of 1 April 2020, at an estimated cost of ₹4,049 crore. For this purpose, the Board approved incurrence of expenditure of ₹533 crore for pre-project activities including selection of licensor, process package preparation, detailed feasibility report (DFR) preparation, environment impact assessment, etc. In furtherance to decision in BoD meeting dated 31 January 2017, isomerisation (ISOM) unit and INDMAX-Gasoline Hydro Desulphurisation (IGHDS) unit earlier not installed at Refinery, were required[2] to be set up for producing 100 *per cent* BS-VI grade MS for which work orders were placed on the licensors (April 2018 to September 2018) for preparation of Basic Design Engineering Package (BDEP) for ISOM units and IGHDS units at the Refinery and ₹ 32.02 crore was released for the same.

BoD in its meeting dated 17 May 2019, while reviewing revised DFR[3] dated 9 March 2019, was apprised that Refinery could produce 100 *per cent* BS-VI compliant MS without ISOM unit and IGHDS unit with existing facilities only. It was also apprised, that to avoid getting infructuous, the expenditure on preparation of BDEPs of ISOM unit and IGHDS unit possibilities would be explored to utilise these BDEPs not only for expansion project at the Refinery but also for expansion projects at other Refineries of the Company. In consideration of it, BoD approved (17 May 2019) the final investment approval of an

[1] ***It inter alia required reduction of sulphur in fuels from 50 parts per million (ppm) in BS-IV to 10 ppm.***
[2] ***For reducing sulphur content in fuel to 10 ppm.***
[3] ***Original DFR submitted in November 2018, however post submission (21 January 2019) of Report by Company's internal committee formed in December 2018 for review of MS producing facilities provided in Stage - I, revised DFR was submitted.***

estimated cost of ₹3,361 crore for production of 100 *per cent* BS-VI compliant MS and HSD at the Refinery, by August 2021, through *inter alia* deferring the requirement of ISOM unit till capacity expansion of Refinery and altogether dropping the requirement of IGHDS unit. However, pending utilisation of the facility created, the amount of ₹ 32.02 crore was provisioned by Company in October 2021.

In regard to above Audit observed that:

- The requirement of ISOM unit and IGHDS unit for production of 100 *per cent* BS-VI compliant MS was envisaged in January 2017, not based on Refinery' own operational data but based on data available with existing units in Company's other Refineries. While doing so and inspite being in the business for so long, Management did not consider the fact that once the Refinery operation would stabilise and its own operational data would be available, the Management analysis in regard to requirement of ISOM unit and IGHDS unit could fundamentally change as happened during BoD appraisal of May 2019.

- As per design basis of Vacuum Gas Oil (VGO) Hydrotreater[4], submitted by licensor in November 2007, the Refinery could produce BS-VI compliant MS without ISOM unit and IGHDS unit. However, this fact was overlooked by Management before proposing requirements of these units in BoD meeting dated 31 January 2017. Licensor corroborated (January 2019) the fact regarding design of VGO Hydrotreater being competent to produce BS-VI compliant MS without ISOM unit and IGHDS unit.

- In contrast to clarification given to BoD (May 2019), no alternate usage of BDEPs for ISOM unit and IGHDS unit could be found by Company till date (December 2025) i.e. even after lapse of approx. seven years from the date of Board decision regarding deferring of ISOM unit and dropping of IGHDS unit. Instead, company has already provisioned ₹ 32.02 crore spent on BDEPs of these units within three years of BoD decision stated above. Further, BDEPs prepared more than seven years ago, still being relevant for any other Refinery of the Company, despite every Refinery having its own specification as observed in first bullet above, was susceptible.

Thus, better and more comprehensive analysis of requirement of ISOM unit and IGHDS unit at the Refinery would have resulted in avoiding this infructuous expenditure of ₹ 32.02 crore.

Management in its reply (6 August 2024) justified its decision regarding selection of licensor for preparation of BDEPs on the following grounds:

[4] ***It reduces sulfur, nitrogen and metal contaminants in heavy feeds during refining process.***

- The licensor confirmed (March 2016) that sulphur content in feed from VGO Hydrotreater was higher and could not be brought down to the level of 10 ppm as per then configurations of Refinery.

- Preparation of BDEPs was essential for forward project actions such as preparation of DFR and investment proposals.

Management reply may be viewed in light of the following facts:

- Design of existing VGO Hydrotreater being such that BS-VI compliant MS could be produced without ISOM unit and IGHDS unit was not considered by management.

- Refinery started its operations in 2016, in phased manner, because of which no reliable operating data could be produced by it for decision making on infrastructure requirements for BS-VI compliant fuels. This could have contributed for change in licensors stand in January 2019 when it changed its confirmation of March 2016 regarding requirement of ISOM unit and IGHDS unit for producing BS-VI compliant MS in the Refinery.

- The revised DFR and resultant investment proposals were prepared aligned with Refinery's own operating data and on the basis of the same it was decided that ISOM unit and IGHDS unit were not required for producing BS-VI compliant MS.

- In BoD meeting of 17 May 2019, the expenditure on BDEPs was considered infructuous if their alternate usage was not explored. Pending any alternate utilisation of theses BDEPs, ₹32.02 crore spent on them was provisioned (October 2021) which highlighted the fact that the expenditure could not serve any purpose.

The para was issued to Ministry in September 2024, however, it did not furnish any reply inspite of multiple reminders (12 in number) issued over the period.

Thus, lack of comprehensive analysis and identification of requirement of ISOM unit and IGHDS unit for production of 100 *per cent* BS-VI compliant MS by 1 April 2020, resulted in infructuous expenditure of ₹32.02 crore at the Refinery.

Oil India Limited

2.2 Lack of due diligence leading to unfruitful investment

Lack of detailed study, reliance on incomplete/outdated data and lack of due diligence, at the time of acquisition of the block in Nigeria, resulted in unfruitful investment of ₹353.43 crore.

Oil India Limited (OIL) and Indian Oil Corporation Limited (IOCL) along with M/s Suntera Resource Limited (SRL)[5] acquired (August 2006) 70 *per cent* interest of Oil Prospecting License (OPL) 205 in Nigeria from M/s Summit Petroleum. OIL along with other partners applied (November 2008) for oil mining licence (OML) for 20 years. There was no production during the period 2009-2016, and only 0.57 million barrels oil was produced during 2018 to 2021.

Review of records revealed that:

i. OIL considered the technical, legal and Financial due diligence carried out by Sun Group (February/March 2006) on behalf of its subsidiary Suntera Resource Limited and did not carry out any separate due diligence on its own at the time of acquisition. Financial Advisor (M/s Erix) reported (February 2006) that due diligence was conducted on the basis of unaudited financial statements of M/s Summit for the year ended 31 December 2005. It disclaimed to take any responsibility for accuracy and completeness of data/information as they had not been provided access to books of accounts, supporting documents etc. Legal advisor also informed (February 2006) that M/s Summit had not provided sufficient information regarding outstanding work obligation at OPL 205. Technical advisor (M/s RPS Energy) stated (March 2006) that the available seismic data was very old which pertain to period 1971 to 1990. The above indicated that investment decision was not reliable as the same was based on unaudited, incomplete and outdated data ignoring the reports of Financial, Legal and Technical Advisors.

ii. Technical advisor M/s RPS Energy (February 2006) in its Report stated that total recoverable reserve of condensate oil was 18 million barrels only. However, contrary to the Report of Technical Advisor, OIL while appraising to the Board (May 2006), highlighted that total recoverable reserve of condensate oil from three tested zones of Otien field was 28 million barrels. Hence, the details/ figures for recoverable resources, based on which acquisition proposal was approved were not correct.

iii. DPE guidelines (January 2000) relating to investment in assets abroad stipulated that investment proposal should be put up to the Board of Directors and decision of the Board should be based on techno-economic parameters. The licence for the block was due for expiry in January 2009. However, without establishing prospect of the block for discovery of hydrocarbon, the operator (OIL) applied (November 2008) for conversion of block from Oil Prospective License (OPL) to Oil Mining License (OML). It took post facto approval of the Board which was in contravention of DPE guidelines for overseas investment.

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[5] ***Being an operator***

iv. With no production during the period 2009-2016, and only 0.57 million barrels oil was produced during 2018 to 2021, OIL discontinued its oil production activities from 2022. Also, OIL, in its Financial Statement has provided for the total investment in the project amounting to ₹353.43 crore (USD 40.97 million) in March 2025.

Thus, due to lack of due diligence and entering in the project by ignoring the Reports of Financial, Legal and Technical Advisors, resulted in unfruitful expenditure of ₹353.43 crore.

Management in its responses (May 2024)/ (November 2025) stated that:

i. Total recoverable reserve of condensate of 28 MMbls from three tested zones was mentioned inadvertently to the Board. At the time of acquisition, technical, legal, and financial due diligence through reputed external consultants and in-house teams was carried out. Hydrocarbons were established in the very first well (Otien-1), with RPS Energy estimating 28 MMbbl condensate, along with additional upside prospects. The block was considered technically viable and strategically attractive offering entry into Nigeria's petroleum sector and potential energy security benefits for India. The due diligence process followed standard global exploration practices, including reliance on 2D seismic data and subsequent appraisal drilling.

ii. Conversion of the licence from OPL to OML was necessitated by Nigerian law to retain rights and did not constitute a fresh investment decision. Thus, OIL maintains that acquisition was based on a cautious evaluation, validated by initial discoveries, and undertaken in compliance with prevailing laws and regulations.

The responses of the Management may be viewed considering the following facts:

- Financial, legal and technical due diligence was conducted on unaudited, incomplete and outdated information with explicit disclaimer by external advisors regarding reliability of data.

- While report of RPS Energy (February 2006) on Otien-1 confirmed only 18 MMbbl of recoverable condensate from three tested zones (6, 7, and 8), final presentation to the Board classified the entire zones as tested and reported 28 MMbbl. OIL included 10 MMbbl of untested condensate from Zone 5. Thus the Board's investment decision was not based on proved and tested recoverable condensate.

- OIL has neither derived any tangible benefits nor have any new projects materialized in Nigeria. The claim of paucity of time for bypassing DPE guidelines is not tenable. Licence validity was known well in advance, yet investment commitments were made before Board approval. Post-facto sanction cannot substitute the requirement of mandatory prior approval.

Thus, lack of due diligence, non-factoring of risks highlighted by the advisors into the decision making process, subsequent performance of the block, marked by negligible production of oil and eventual cessation of operations, resulting in an unfruitful investment of ₹353.43 crore.

The para was issued to the Ministry in February 2026; their reply was awaited (April 2026).

CHAPTER III: MINISTRY OF POWER

Damodar Valley Corporation

3.1 Physical verification of stores and internal control thereon

The Board of Damodar Valley Corporation (DVC), in its 606th meeting held on 13 October 2012, approved the adoption of the 12th Plan Master Plan for Transmission & Distribution (T&D) infrastructure and Renovation & Augmentation (R&A) projects with tentative estimated cost of ₹3,238.60 crore. The objective was to ensure supply of power, to the beneficiaries, from the expansion programme of DVC for a total installed capacity of 9,000 Megawatts and to support the infrastructure for internal consumption of generated power within the valley area. For one of such T&D augmentation project, DVC placed (September 2013) order for supply of two transformers and allied inventory at a cost of ₹18.28 crore. These transformer were received at Mejia Thermal Power Station (MTPS) of DVC during March-June 2015. In the meanwhile, citing financial and time constraints in completing the T&D and R&A projects, DVC Board while revising (626th meeting dated 10 March 2016) the Project costs to ₹1,105.86 crore curtailed such projects. Due to T&D project, for which two transformers were purchased, not being in the revised list, they could not be put to use then. For preservation, transformer oil was filled (April 2017) in them.

Later on, load flow study highlighted the necessity of connectivity between Phase-II 400 KV system and Phase I 220 KV system at MTPS in the event of retirement of old units. Thus, work order for construction of two bays at MTPS and placement of the two transformers was placed (February 2019) at cost of ₹12.32 crore. Post construction of bays, the oil filled in the transformers had to be drained for dragging the transformers upto the site. However, no oil came out (16 September 2020 and 18 September 2020) during such exercise. Thereafter, during inspection (19 September 2020) of one of the transformer, it was observed that there was almost no oil in it, though approx. 70,000 litres of transformer oil was initially filled in it and its copper winding wire weighing approx. 45 tons was also missing. An FIR was filed (21 September 2020) with the local police station and on re-inspection (21 September 2020), in presence of police, oil was not found in the second transformer also, though approx. 70,000 litres was initially filled in it, while its copper winding wire was intact.

DVC constituted two committees (1 October 2020 and 8 March 2021) for investigation into the incident which in their report dated 30 October 2020 and 22 March 2021 respectively could not point out direct involvement of any one including DVC employees. However, both the reports did indicate negligence of certain Officers/Officials of DVC towards their duty, who were later exonerated (April 2024) except one who died in between. Police investigation could not lead to conclusion of prosecution and the case was still *sub judice* (December 2025) against an individual. Insurance claim filed by DVC for a loss of

₹ 9.28 crore (including oil lost from both the transformers but without adjusting the salvage value of approx. ₹50 lakh for one of the transformer) was rejected (July 2022) by the insurer and appeal against it was still (November 2025) pending with the insurer. In the meanwhile, one of the transformer whose copper winding wire was intact has been placed at the designated plinth area and commissioned on 27 May 2022 while the other salvaged transformer could not be disposed of due to the case being *sub judice*.

In regard to above, Audit observed that:

- Inspite of DVC being incorporated in 1948 and it dealing with such high value items like transformers, cables etc. for such long, SOP for preservation of high value items could be framed in March 2022 only, after one of the committee constituted for investigation of the incident recommended for the same. Negative impact of not having any such SOP has been analysed (July 2024) by management itself when it stated that in absence of specific SOP/Guidelines for carrying out periodic inspection of high value items, proper periodicity & record of such inspection were not being maintained.

- Stores Manual of DVC stated that there should be continuous verification of stock, throughout the year, as per pre-determined programme so that each item was physically verified at least once in the course of the year or more frequently, if required. However, there was lack of physical verification of stores and gaps in internal control of the same as pointed out by the two committees constituted for investigation. It resulted in removal of approx. 1,40,000 litres of transformer oil and approx. 45 tons of copper from the transformers going unnoticed/undetected by Management inspite such removal requiring, as stated in report submitted[1] to insurance company, months of time, heavy machinery including 10 tonne trucks and a lot of people.

- As per report submitted to insurance company, MTPS's premises was guarded by CISF, material removed was too bulky and there was no evidence of forcible entry or exit which proved involvement of store staff/guard, a fact highlighted by CISF also. Insurance claim of DVC was rejected on ground of loss caused due to infidelity of insured store staff/guard not being covered in the policy. Thus, despite DVC suffering huge loss due to theft of oil and copper winding wire, neither could anybody be found guilty till date (December 2025) nor could any stolen material be recovered. The lone individual against whom prosecution was going on in the Court has already been once acquitted (August 2023) by Court though an appeal was pending disposal against court order.

1 ***Report was submitted by Insurance Surveyor and Loss Assessor appointed by Insurance Company.***

- Against the work order (February 2019) of ₹12.32 crore for construction of bays for placing two transformers, an amount of ₹21.25 crore has been incurred. However, only one transformer could be placed w.e.f 27 May 2022, leaving the balance infrastructure unutilised till date (December 2025).

Management vide its reply (July 2024) acknowledged the Audit observation, incident of theft from transformers, loss of ₹ 9.28 crore and fact of periodicity & record of inspection of transformer not being provable. Ministry in its reply (26 June 2025) claimed the matter to be still *sub judice*.

Reply of the Ministry/Management may be viewed in light of the fact that theft of bulky transformer oil and copper winding wire got undetected by the management due to lack of physical verification of stores and gaps in internal control thereon. Post incident of theft only, SOP for preservation of high value items could be framed for conducting, recording and reporting upon the physical verification of such high value items.

Thus, due to lack of physical verification of stores and gaps in internal control of the same resulted in theft of oil and copper winding wire from transformers, leading to loss of ₹ 9.28 crore.

CHAPTER IV: MINISTRY OF FINANCE

ASREC (India) Limited

4.1 Operations of ASREC (India) Limited

4.1.1 Origin of Asset Reconstruction in India

A sound banking system is essential for maintaining financial stability in a country and one of the key parameters of the soundness is the level of Non-Performing Assets (NPAs). In view of its importance for the health of the banking system, effective management of NPAs has become crucial in the current paradigm.

The Committee on Banking Sector Reforms of 1991 (Narasimham Committee-I) envisaged an asset management company like structure, namely an Asset Reconstruction Fund to address the NPA crisis of that time. The objective of the fund was to take over bad and doubtful assets off the Balance Sheets of banks and Financial Institutions which would allow the lenders to recycle their funds and direct the same into generating new productive assets. However, the recommendation was not implemented.

Later, the Committee on Banking Sector Reforms of 1998 (Narasimham Committee-II) emphasised the need to address the problem of the huge backlog of NPAs. The Committee held that financial restructuring in the form of hiving off the NPA portfolio from the books of the banks would play a major role in strengthening of the banks. The Committee therefore suggested that all loan assets in the doubtful and loss categories should be transferred to an Asset Reconstruction Company (ARC).

Subsequently, the Expert Committee for Recommending Changes in the Legal Framework concerning Banking System (Andhyarujina Committee) (1999-2000), inter alia, recommended a legal framework for securitisation. Accordingly, based on the Committee's draft Securitisation Bill, the Government of India enacted the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act in 2002 and paved the way for setting up Asset Reconstruction Companies in India. The Act envisaged that ARCs would be registered and regulated by Reserve Bank of India (RBI). As on 30 September 2023, there were 27 ARCs registered with the RBI in the country.

4.1.2 Legal and Regulatory Framework for Asset Reconstruction Companies in India

On the legal front, Asset Reconstruction Companies are registered and regulated under the SARFAESI Act, 2002. They acquire financial assets from banks and financial institutions either in their own books or in the books of a Trust set up for the purpose of securitisation[1] and/or reconstruction.

On the regulatory front, RBI, in exercise of the powers conferred by SARFAESI Act issued (April 2003) '*Securitisation Companies and Reconstruction Companies (Reserve Bank) Guidelines and Directions, 2003*'. These guidelines covered the whole gamut of Asset Reconstruction Companies' functioning such as registration, measures of asset reconstruction, functions of the company, prudential norms, acquisition of financial assets and related matters. The guidelines were further consolidated (April 2022) by RBI in the form of '*Master Circular for Asset Reconstruction Companies*' which contained the guidelines and directions for ARCs together with Guidance Notes updated up to 31 March 2022.

4.1.3 ASREC (India) Ltd.

ASREC (India) Limited (ASREC) was incorporated as a public limited company in November 2003 under the erstwhile Companies Act, 1956 (now Companies Act, 2013). ASREC registered with RBI in October 2004 to carry out the business of securitisation and reconstruction of assets under the provisions of SARFAESI Act, 2002.

4.1.3.1 Organisation Setup

The overall Management of the ASREC is vested with the Board of Directors. As per the Annual Report for the year 2023-24, the Board of Directors of the ASREC comprised of seven Directors, which *inter alia* included four Independent Directors, one Nominee Director each from Bank of India & Indian Bank and the Managing Director & Chief Executive Officer (MD & CEO).

4.1.3.2 Overview of Operations

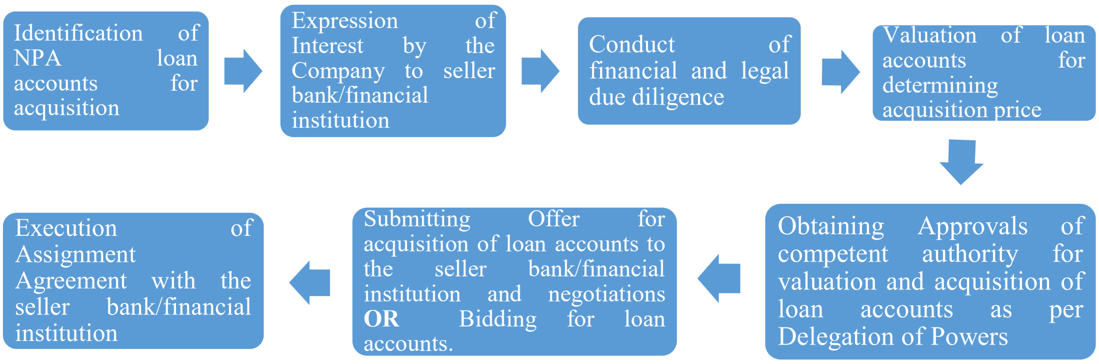
The business operation of ARCs comprises of acquisition of NPA loan accounts and recovery from loan accounts as below:

i. **Acquisition of NPA loan accounts**: The NPA loan accounts are identified through various sources such as Annual Report of Reserve Bank of India, Indian Banks' Association, respective Banks'/ Financial Institutions' Annual Reports, Press Releases, Banks' websites, CIBIL, etc. The ARCs acquire loan accounts from banks or financial institutions either through bilateral deals or auctions after conducting due diligence for these accounts either in the Trusts set up for the purpose or in the books of the Company. In trust set up, after acquisition of the asset, the ARCs invite

[1] ***Securitisation means acquisition of financial assets, by any securitisation company or reconstruction company, from any originator, whether by raising of funds by such company or from Qualified Buyers by issue of Security Receipts representing undivided interest in such financial assets or otherwise.***

subscription to Security Receipts[2] (SRs) by Qualified Buyers[3] (QBs) through one or more Trusts.

Chart 4.1: Acquisition Process



ii. **Resolution/Recovery of NPA loan accounts:** After acquisition, ARCs initiate the process of planning for resolution/recovery. The resolution can take different forms, including change and takeover of the management of the business of the borrower, sale or lease of a part or whole of the business of the borrower, rescheduling of payment of debts payable by the borrower, enforcement of security interest, etc. Following the resolution, ARCs start recovery of debt and work on the redemption of Security Receipts. ARCs are allowed a period of five years to recover the dues. However, the period can be extended to eight years, subject to the approval of their Boards.

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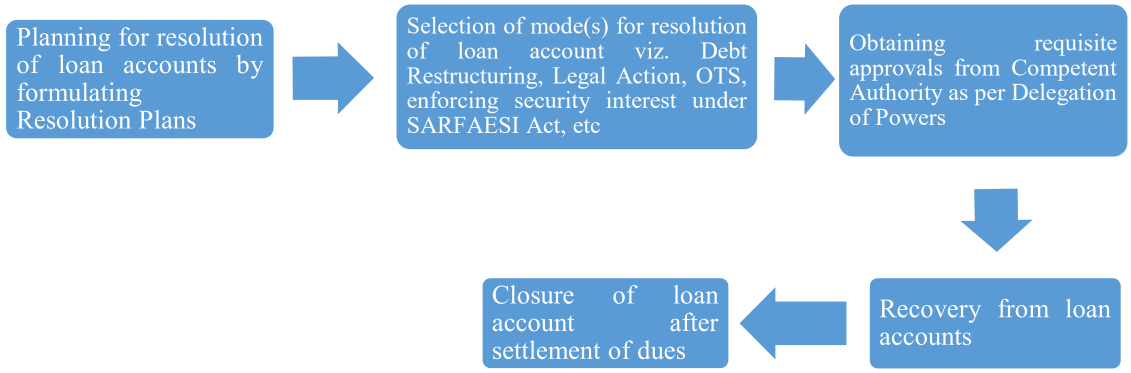
2 ***As per SARFAESI Act, Security Receipt means a receipt or other security issued by an Asset Reconstruction Company to a Qualified Buyer evidencing the purchase or acquisition by the holder thereof, of an undivided right, title or interest in the financial asset involved in securitisation.***

3 ***Qualified Buyer means a financial institution, insurance company, bank, state financial corporation, state industrial development corporation, Trustee or asset reconstruction company which has been granted a certificate of registration under section 3(4) or any asset management company making investment on behalf of mutual fund or a foreign institutional investor registered under the SEBI Act, 1992 or regulations made thereunder, any category of non-institutional investors as may be specified by the Reserve Bank under section 7 (1) or any other body corporate as may be specified by the Board.***

Chart 4.2: Resolution Process



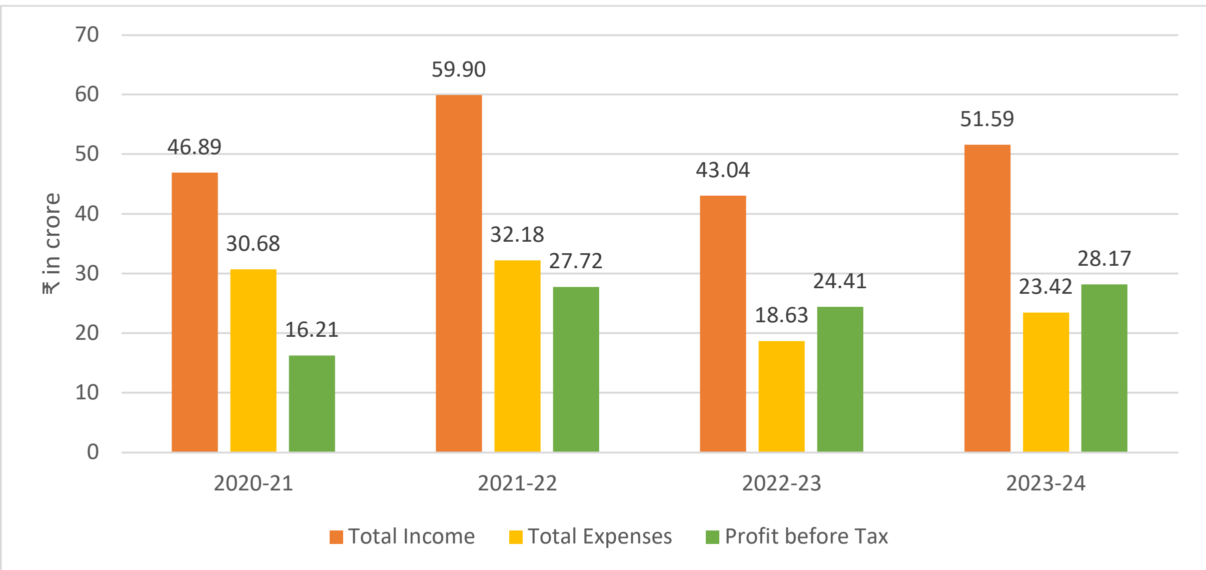
4.1.3.3 Financial position

The financial position of ASREC during the period from 2020-21 to 2023-24 may be seen in **Annexure-III**. As on 31 March 2024, the highest shareholder in ASREC was Indian Bank (38.27 *per cent*) followed by Bank of India (26.02 *per cent*), Union Bank of India (26.02 *per cent*) and Life Insurance Corporation of India (9.18 *per cent*). Out of the total investments of ₹227.49 crore, as on 31 March 2024, 88.01 *per cent* (₹200.23 crore) of the investment pertained to the investment in Trusts which are created for the purpose of securitisation and asset reconstruction.

4.1.3.4 Financial performance

The financial performance of ASREC during the period from 2020-21 to 2023-24 was as follows:

Chart 4.3: Financial Performance



ASREC has been profitable during the period from 2020-21 to 2023-24. The major source of revenue during the aforesaid period was management fees from the Trusts, income from investment in Security Receipts (SRs) and income from investment in financial assets, as shown below:

Table 4.1: Major sources of Revenue from Operations

(₹ in crore)

Particulars	2020-21	2021-22	2022-23	2023-24	Total
Income from Management Fees[4]	36.39	44.11	27.19	34.59	**142.28**
Income from investment in financial assets	3.42	6.82	11.24	11.82	**33.30**
Income from investment in Security Receipts	5.49	8.30	3.29	4.64	**21.72**
Total revenue from major sources	**45.30**	**59.23**	**41.72**	**51.05**	**197.30**

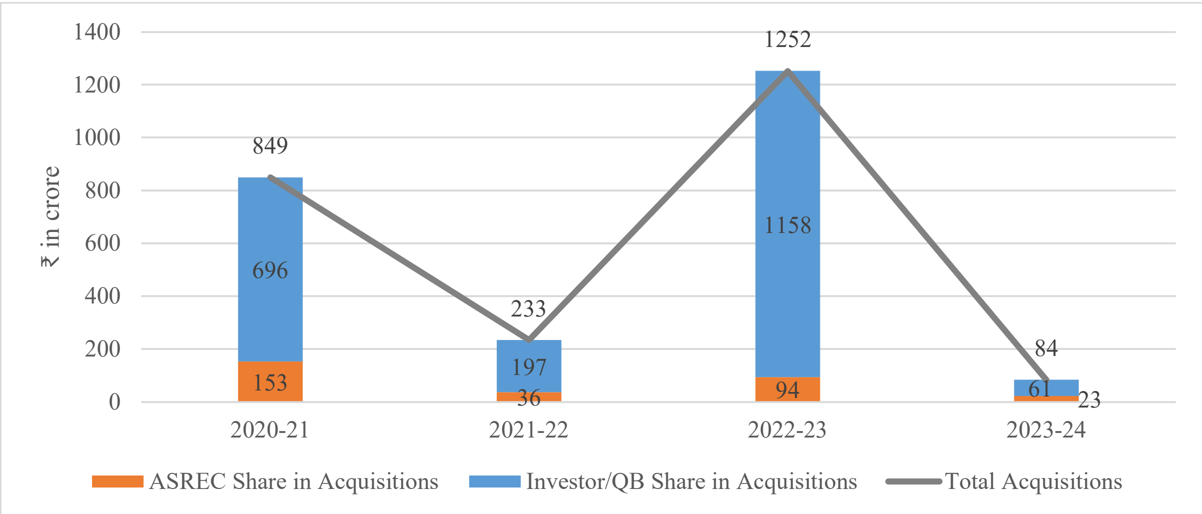
4.1.3.5 Operational Performance

The operational performance of ASREC pertaining to core operational aspects *viz.* acquisition and resolution during the period from 2020-21 to 2023-24 is discussed below:

a) Acquisition of NPA loan accounts

ASREC acquired total NPA at a cost of ₹2418 crore during the period of four years from 2020-21 to 2023-24 as detailed in chart below:

Chart 4.4: Acquisitions of NPAs during the year



Out of the total acquisition of ₹2418 crore, loan accounts amounting to ₹10.79 crore were acquired[5] directly in the books of ASREC and the remaining loan accounts with acquisition cost of ₹2407.21 crore were acquired in Trusts, wherein ASREC contributed ₹295 crore as its share. Thus, the total share of ASREC in the acquisition cost incurred in the Trusts and its own books was ₹305.79 crore.

4 *Revenue from contracts with customers*

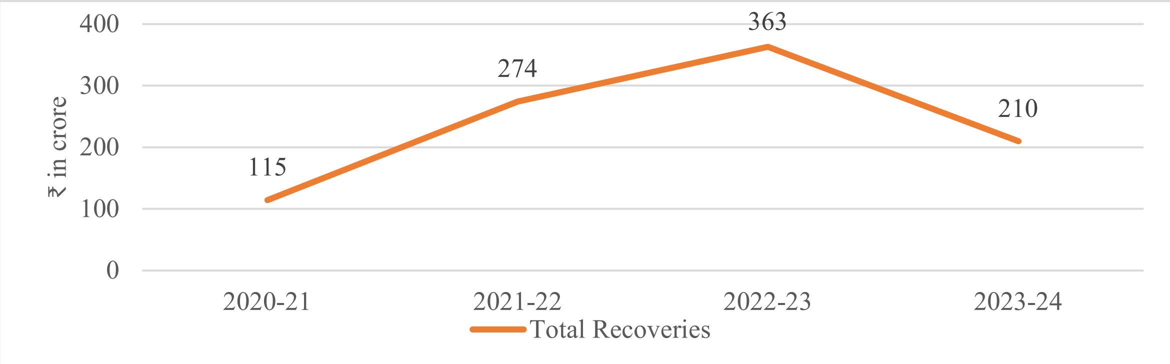
5 *Acquired during financial year 2022-23 (₹3.09 crore) and 2023-24 (₹7.70 crore). No loan account was acquired in the books of the Company during the years 2020-21 and 2021-22.*

During the four-year period from 2020-21 to 2023-24, the acquisitions made during the year 2023-24 were the lowest, whereas the quantum of annual acquisitions was the highest (₹1252 crore) in the year 2022-23. The peaked level of acquisitions during 2022-23 was due to three highest acquisitions which aggregated to ₹1097 crore. The acquisitions during the two years, 2021-22 and 2023-24, were comparatively on the lower side.

b) Recovery from NPA loan accounts

ASREC recovered ₹962 crore during the period from 2020-21 to 2023-24 from loan accounts acquired prior to and during this period, as shown in the chart below:

Chart 4.5: Recoveries of NPAs during 2020-24



The recoveries made by ASREC from the loan accounts increased from ₹115 crore to ₹363 crore during the period 2020-21 to 2022-23. However, the recoveries declined by 42 *per cent* to ₹210 crore in the year 2023-24.

4.1.3.6 Sources of acquisition for NPA Loan Accounts

Over the period of four years, i.e., from 2020-21 to 2023-24, ASREC acquired loan accounts from various types of banks and financial institutions. The details of loan accounts acquired by ASREC from each type of seller in terms of acquisition cost incurred by ASREC are as given below:

Table 4.2: Acquisition of loan accounts from various sellers in terms of acquisition cost

(₹ in crore)

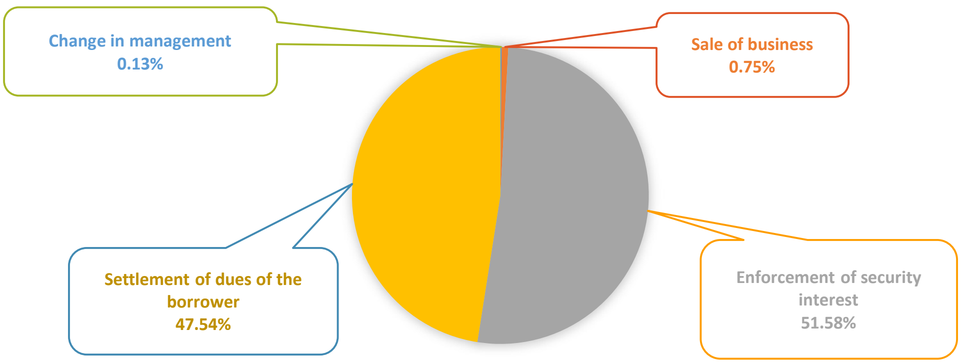
Type of Banks/FIs	2020-21	2021-22	2022-23	2023-24	Total
ARCs	38.90	1.70	16.00	0.00	56.60
Co-operative Banks	513.02	182.49	55.76	0.00	751.27
Non-Banking Finance Company	0.00	23.00	37.69	34.20	94.89
Public Sector Banks	297.53	26.25	1019.79	2.50	1346.07
Private Sector Banks	0.00	0.00	122.66	46.50	169.16
Grand Total	**849.45**	**233.44**	**1251.90**	**83.20**	**2417.99**

It may be seen from the above that highest acquired NPA loan account was from Public Sector Banks consisting of 56 *per cent* (₹1346 crore) followed by Co-operative Banks with 31 *per cent* (₹751 crore), Private Sector banks with seven *per cent* (₹169 core) during the period from 2020-21 to 2023-24. There were no acquisitions of NPA loan accounts from banking institutions such as Foreign Banks and Small Finance Banks, during the period.

4.1.3.7 Mode of Resolution adopted for effecting recovery

An NPA loan account may be resolved through different methods/modes, which *inter-alia* includes change-in/takeover of the Management of the business of the borrower, rescheduling of debts, enforcement of security interest, settlement of dues payable by the borrower and conversion of any portion of debt into shares of the borrower etc. The resolution strategy is based upon the nature of the asset, share in aggregate debt of the borrower, operating status, nature of industry, promoter attitudes etc. ASREC decides the mode of resolution for an NPA loan account, in the Resolution Plan. Status of the recoveries made by ASREC from deploying various measures available for resolution of loan accounts, since inception of operations by ASREC up to 31 March 2024, are as given below:

Chart 4.6: Recovery made from deploying various resolution modes



It may be seen from above, that majority of the recoveries made by ASREC were through enforcement of security interest (51.58 *per cent*) followed by settlement of dues of the borrower[6] (47.54 *per cent*). The combined recoveries made from adopting other resolution measures/strategies *viz.* change in management of the borrower and sale of business of the borrower were less than one *per cent* as of March 2024.

4.1.3.8 Market Share

The total book value of NPA loan accounts acquired by all the Asset Reconstruction Companies in India was ₹10,25,429 crore as on 31 March 2024 in which the share of ASREC (India) Limited was ₹18,600 crore (i.e., 1.81 *per cent*). The market share of ASREC in terms of acquisition of loan accounts was on the lower side even though ASREC has been in the asset reconstruction business for almost two decades since registering with RBI in October 2004.

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[6] ***Also referred to as One Time Settlement (OTS).***

4.1.4 Scope of Audit

The Audit was conducted from October 2023 to April 2024 covering core operational activities i.e., acquisition of NPA loan accounts from banks/financial institutional and resolution mechanisms adopted resulting in recovery from acquired loan accounts during the period from 2020-21 to 2022-23.

- **Acquisition of NPA loan accounts**: A total of 434 acquisitions amounting to ₹ 2335 crore (against principal outstanding of ₹ 5287 crore) were done by ASREC during the period of three years from 2020-21 to 2022-23. Audit has selected 100 *per cent* of acquisitions of loan accounts with acquisition price more than ₹10 crore and 2 per cent of acquisitions of financial assets with acquisition price up to ₹10 crore for each financial year under review based on random sampling. A total of 38 acquisitions amounting to ₹1782 crore (76 *per cent* in terms of acquisition value) were scrutinised.

- **Recovery from NPA loan accounts**: ASREC recovered an amount of ₹752 crore during the period from 2020-21 to 2022-23 from 1,169 recovery instances in the aforesaid period. Audit has selected 100 *per cent* of the recoveries wherein the amount recovered is above ₹5 crore, 10 *per cent* of the recoveries wherein the amount recovered is more than ₹50 lakh and up to ₹ 5 crore based on simple random sampling method subject to selection of one transaction each year for asset held by ASREC and 2 *per cent* of the recoveries wherein the amount recovered was less than ₹50 lakh based on simple random sampling method subject to selection of one transaction each year for asset held by ASREC. A total of 65 recovery instances amounting to ₹497 crore (66 *per cent* in terms of value) were scrutinised during the Audit.

In view of the sensitivity involved, the names of the banks, companies, ARCs and individuals have been masked using masking codes such as Bank-1 to 17 for banks, Company-1 to 40 for companies, ARC-1 to 3 for Assets Reconstruction Companies and Entity-1 to 4 for individuals.

Audit acknowledges the cooperation extended by the Management of ASREC in facilitating the conduct of this Audit.

4.1.5 Audit Findings

4.1.5.1 Acquisition of NPA Loan Accounts

ASREC's principal activity is acquiring NPA from the banks and financial institutions and resolving them through appropriate resolution strategies enunciated in the SARFAESI Act.

Reserve Bank of India has mandated formulation of a Financial Assets Acquisition Policy for every Asset Reconstruction Company. As per RBI, the Financial Assets Acquisition Policy shall clearly lay down the policy and guidelines covering the (a) norms/procedure for acquisition, (b) types and the desirable profile of the assets, and (c) the valuation procedure ensuring that the assets acquired have realisable value which is capable of being reasonably estimated and independently valued. In view of this, the Board of ASREC has approved the Operational Manual which also includes the Financial Assets Acquisition Policy and the Delegation of Powers.

The acquisition of NPA loan account from the seller banks/financial institutions is done on two bases *viz.*, Cash basis and Security Receipt (SR) basis. In cash basis acquisition, the full acquisition cost is paid upfront directly to the seller, whereas in SR basis acquisition, the acquisition cost is paid to the seller's bank/financial institutions through the issuance of Security Receipts.

The findings/deficiencies pertaining to acquisition operations of ASREC have been highlighted in the following paragraphs:

A Valuation methodology and determination of acquisition cost for NPA loan accounts

As per the procedure for acquisition of financial assets prescribed in the Operational Manual, ASREC is required to conduct financial and legal due diligence and valuation of loan assets based on valuation policy in force, in scientific and objective manner, either by itself or through outsourcing.

As per the Valuation Policy mentioned in the Operational Manual, the basis for valuation of financial assets/loan accounts would be largely dependent on cash flows that could be derived from the underlying assets of the borrower and the security created in favour of the lenders. The valuer would be required to estimate the expected quantum and time frame of realisation. Furthermore, the prevailing market outlook/situations need to be considered and a suitable discounting factor, which correctly reflects the risk of the business, may be adopted during valuation for the purpose of acquisition. Additionally, the discounting factor adopted for cash transactions shall invariably be higher than the discounting factor for transactions on a Security Receipts (SR) basis.

ASREC prepares a Due Diligence Report (DDR) for each loan account under consideration for acquisition comprising of three segments *viz*. General Information, Legal Report and Valuation Report. Thereafter, the Management Level Valuation Committee or the Board Level Valuation Committee decides, approves and assigns the bid price for the acquisition of the loan account, subject to the delegated powers to each Committee.

Audit reviewed all the sampled acquisition cases, and the following were observed:

A.1 Valuation of securities underlying the NPA loan accounts

ASREC did not conduct valuation of the securities underlying the loan accounts, in all the 38 sampled cases, during the due diligence process to arrive at the fair acquisition value of the loan accounts. Audit observed that ASREC relied on the valuation provided by the seller banks/financial institutions for the securities underlying the loan accounts. Further, no mechanism has been put in place by ASREC to ensure that the valuations provided by seller banks/financial institutions, during acquisition, are adequate/reliable and are not detrimental to its financial interest.

The Management replied (May 2024) that the time of 10-15 days permitted for due diligence is less and is insufficient to obtain valuation, conduct inspection and due diligence in all respects. In its further reply (December 2024/March 2026), the Management reiterated the aforesaid reply and added that independent valuation is not feasible in the majority of cases either due to the underlying security/property not being in possession of seller or non-facilitation of site inspection by the seller bank/financial institution. The value of underlying security/property is ascertained based on external inspection, local market enquiries and benchmarking through online portals. The Management, in a reply (October 2025) forwarded through the Ministry of Finance, stated that it engages independent valuers at the resolution stage to determine reserve prices. Further, recognizing the importance of realistic valuations at the acquisition stage, a revised Standard Operating Procedure (SOP) on the acquisition of financial assets has been rolled out with effect from 31 March 2025.

The reply may be viewed in light of the extant RBI Regulatory Framework for ARCs (August 2014) wherein it has directed the Asset Reconstruction Companies to seek adequate time from the auctioning banks, not less than 2 weeks, to conduct a meaningful due diligence of the accounts by verifying the underlying assets. On review of sample loan accounts, it was also noticed that, in some cases ASREC took a longer time, ranging from one to six months from the date of offer for sale of the NPA, to submit bids for purchasing the NPA loan accounts. The reply regarding non-possession of property with seller or non-facilitation of site inspection by the seller may be viewed in light of the fact that fair valuation of the property is a pre-requisite for acquisition of NPA loan account to mitigate investment risk. However, in this case, ASREC has not reviewed the valuation details of the underlying asset provided by the seller. Absence of valuation/verification process by ASREC at the acquisition stage increases the risk of overvaluation, especially where it has limited or no access to the underlying assets.

Recommendation 2: ASREC needs to establish a robust mechanism to value underlying securities/assets before submitting the bids.

A.2 Valuation of NPA loan accounts

In the Due Diligence Report, ASREC assesses and recommends an acquisition value to the NPA loan accounts which are proposed to be acquired. The recommended acquisition value of NPA loan account on a cash basis, in the DDR, is the net present value of the security/asset underlying the NPA loan account which is determined based on the three factors *viz.*, valuation of the underlying asset, the discounting factor and expected time for realisation. These factors are critical as they affect the acquisition value assigned to NPA loan accounts by ASREC, for instance, a higher discounting factor will reduce the acquisition value of NPA loan accounts and *vice versa*. Similarly, a longer expected time for realisation will also reduce the acquisition value of the NPA loan account. On review of NPA loan account valuation process the following were observed: -

(i) As per the Operational Manual, the prevailing market outlook/situations need to be considered and a suitable discounting factor, which correctly reflects the risk of the business, may be adopted. However, it was observed that out of 38 sample cases in 34 cases, the discounting factor adopted for valuation of loan accounts was considered at 20 *per cent* without any justification **(Annexure IV)**. Applying a fixed discounting factor without assessing market conditions in valuation of NPA accounts carries significant risks of mispricing and potentially weakening competitiveness and profitability. Instead, using dynamic, case-specific discount rates aligned with asset-specific risk and recovery profile would enable ASREC to derive more accurate risk sensitive and market driven valuations.

(ii) As per the Operational Manual, the discounting factor adopted for cash basis transactions shall be invariably higher than the discounting factor for transactions on SR basis. It was further observed that out of the 38 sample cases, in 23 NPA loan accounts acquisitions were made on SR basis. Out of these, in 21 acquisitions **(Annexure-V)**, it was observed that the value recommended on SR basis was further computed by using a fixed percentage of 150 on the recommended value of acquisition for cash basis without any recorded justification. In view of the above, ASREC runs the risk of overvaluing NPA loan accounts, thereby increasing the associated investment risk.

The Management in its reply (May 2024/March 2026) has stated that while discounting factors were applied based on risk perception, the documentation of rationale was not uniformity recorded in the DDRs. It was further replied that the multiplier of 150 *per cent* was based on the recovery rating scale used for valuation of assets acquired on SR basis by the rating agencies. The Management, in a reply (October 2025) forwarded through the Ministry of Finance, further stated that a revised SOP on the acquisition of financial assets has been rolled out with effect from 31 March 2025, keeping in view the importance of realistic valuations at the acquisition stage.

The reply confirms the fact that ASREC applied a fixed discounting factor at the time of acquisition of loan accounts without recording any supporting justification/basis, which may lead to a lack of transparency in its operations. Further, as per the RBI Guidelines, the grading/rating of SRs must be obtained within a period of six months from the date of acquisition of assets (i.e. after the acquisition of assets), therefore, adoption of recovery rating scale for valuation purposes prior to NPA loan account acquisition and with a fixed rate (150 *per cent*) across all the acquisitions is not justifiable. Further, the Management has since revised the SOP to strengthen procedures and address the identified gaps.

Recommendation 3: ASREC may consider developing a risk-based matrix for the application of discounting factors in the valuation of loan accounts, thereby ensuring that the acquisition price of the NPA loan accounts is based on asset-specific risk and recovery profile.

A.3 Estimation of Acquisition Cost

ASREC acquired (September 2021) an NPA loan account of Company 1, with principal outstanding of ₹22.51 crore, from Company 2, through formation of a Trust. The Management Level Valuation Committee of ASREC has approved (September 2021) the acquisition for ₹23.00 crore in which the share of ASREC was ₹3.45 crore.

It was noted that, in the DDR, ASREC had stated the discounting factor as 20 *per cent* and expected time for realisation as one year and calculated NPV of final realisable value of securities at ₹22.55 crore and based on this the value for acquisition was recommended as ₹23 crore which was approved by the Management Valuation Committee (MVC).

It was, however, observed that considering the discounting factor of 20 *per cent* and expected time as one year for realisation, the NPV of final realisable value comes to ₹20.05 crore. However, the value of acquisition was approved as ₹23 crore considering NPV of final realisable value of securities as ₹22.55 crore instead of ₹20.05 crore. Thus, due to overestimation of NPV of final realisable value, the NPA loan account was acquired at an excess cost of ₹2.56 crore[7].

The Management replied (May 2024/December 2024/March 2026) that discounting factor of 10 *per cent* was applied in DDR while arriving at the value for acquisition, however, there was a typographical error in DDR whereby discounting factor was mentioned as 20 *per cent*. The Management noted the correction in the relevant DDR.

The reply may be viewed in light of the fact that the DDR neither specified the rationale nor specified the magnitude of the risk, based on which the claimed discounting factor of 10 *per cent* was adopted. Thus, the Management's claim of typographical error cannot be verified by Audit.

A.4 Valuation of NPA loan accounts on Security Receipt basis

As per the Operational Manual, the discounting factor adopted for cash basis transactions shall be invariably higher than the discounting factor for transactions on SR basis.

As observed in para 4.1.5.1 (A.2) above, in case of 21 NPA loan accounts, value on SR basis was computed by using a fixed percentage of 150 on the recommended value of acquisition of cash basis. It was further observed that out of the 21 NPA loan accounts, in

[7] ***Considering proportionate valuation of loan account as recommended in DDR, the recommended value of acquisition has been calculated as ₹20.44 crore. Thus, the excess acquisition cost was ₹2.56 crore (₹23 crore (-) ₹20.44 crore)***.

11 accounts, the acquisition cost was more than the realisable value of underlying securities specified in the DDR, as detailed below:

Table 4.2: Excess of Acquisition cost over realisable value of underlying securities

(₹ in crore)

Sr. No	NPA Loan Account	Acquisition year	Realisable value of the underlying securities	Recommended value for acquisition on cash basis	Recommended value for acquisition on SR basis	Approved Acquisition Cost on SR basis	Excess of Acquisition cost over realisable value of securities
(i)	**(ii)**	**(iii)**	**(iv)**	**(v)**	**(vi)**	**(vii)**	**(viii) (vii -iv)**
1	Company 3	2020-21	8.45	6.63	9.94	10.50	2.05
2	Company 5	2020-21	10.11	8.00	12.01	11.50	1.39
3	Company 6	2020-21	9.29	7.35	11.02	11.00	1.71
4	Company 7	2020-21	12.70	9.95	14.90	14.50	1.80
5	Company 8	2020-21	9.47	7.40	11.10	10.75	1.28
6	Company 9	2020-21	15.18	10.71	16.06	16.00	0.82
7	Company 10	2020-21	10.83	8.49	12.73	11.50	0.67
8	Company 11	2021-22	28.54	22.38	33.56	33.00	4.46
9	Company 12	2020-21	1.57	1.23	1.84	1.60	0.03
10	Company13	2020-21	6.90	5.40	8.10	7.50	0.60
11	Company 14	2020-21	5.89	4.67	7.01	7.00	1.11
	Total		**118.93**			**134.85**	**15.92**

It may be seen from the table above that as against the realisable value of underlying security of ₹118.93 crore, ASREC acquired the 11 NPA loan accounts for ₹134.85 crore. In this regard, it is pertinent to mention that the fundamental principle of ARC operation is to acquire the NPA loan accounts at lower rates to ensure a high margin of safety for the investment made and enhance the probability of returns. However, it was observed that ASREC acquired these NPA loan accounts, at 13 *per cent* above (₹15.92 crore) the value of the underlying assets.

The Management stated (May 2024) that ₹134.85 crore was paid to match the reserve price of selling banks for acquisition. Further, an important consideration for arriving at the value of the secured assets is marketability of the assets and the realisable value of the assets is not relevant. The Management further replied (December 2024) that the value arrived at the due diligence stage may or may not be equal to actual reserve price fixed by the seller bank. Further, the Board/Management Level Valuation Committee decides whether the reserve price set by the seller banks/financial institutions are to be matched, after taking into consideration value of securities, terms of acquisition such as management fee, incentives on recovery, etc. The Management further stated (March 2026) that the acquisitions were part of portfolio-based transaction on SR basis, wherein account-wise evaluation in isolation may not be appropriate, as pricing is determined on an overall portfolio basis. The management in a reply (October 2025) forwarded through the Ministry of Finance, further stated that a revised SOP on the acquisition of financial assets has been rolled out with effect from 31 March 2025, keeping in view the importance of realistic valuations at the acquisition stage.

The reply may be viewed in light of the fact that ASREC undermined its prescribed loan account valuation process by merely adopting the reserve price set by the seller, rather than rationally determining acquisition cost for the loan accounts. Further, the reserve price fixed by the seller institutions was neither mentioned in the DDR nor deliberated upon in any of the minutes of the Board/Management Level Valuation Committee. Moreover, unlike as claimed by the Management, the realisable value of underlying assets/securities is relevant as it forms the basis for NPA loan account valuation process. Even in portfolio-based approach, individual loan account valuation remains critical, as it forms the basis for overall portfolio pricing. The fact that in 11 out of 21 accounts, the approved acquisition cost exceeded the realisable value of underlying securities indicates that the valuation process was deficient. Further, the management has taken corrective action subsequently by updating the SOP for acquisition processes.

A.5 Application of discounting period during valuation process without justification

As per the Operational Manual, the estimation of time frame involved under various resolution strategies, whether explored in parallel or in succession, shall be factored in the valuation. The estimation of the expected time frame for realisation is crucial considering that it forms a decisive element in determining the acquisition value of loan accounts.

It was observed that in four sampled NPA loan accounts out of 38 sampled loan accounts, acquired by ASREC, the expected time frame for realisation mentioned in the DDR at two places were different i.e. in Part-I (General Information) and Part-III (Valuation Report). In the DDR of the NPA loan account, while calculating the acquisition valuation of NPA loan account, the time frame considered was shorter (Part-III of the DDR) than what was mentioned in Part-I. It was also observed that neither the justification/rational for adoption of the two different time frames in the same DDR was given nor any justification was given for considering a shorter time frame. Thus, considering the shorter time frame in the valuation process, the acquisition cost would be escalated, which not only diminishes the potential future returns but also adversely impacts the safety margin of the investment.

In the absence of any justification for considering different time frames in same DDR, a comparison of the difference in acquisition value of the four NPA loan accounts with two different time frames is shown in the table below:

Table 4.3: Application of different discounting period without justification

(₹ in crore)

Account Name	Actual Acquisition cost as per discounting period in Part III of DDR	Derived Acquisition Cost as per discounting period in Part I of DDR (i.e. longer time frame)	Difference of acquisition cost due considering different time frame
(i)	**(ii)**	**(iii)**	**(iv) = (ii-iii)**
Company 3	10.50	8.40	2.10
Company 5	11.75	9.40	2.35
Company 11	33.00	29.70	3.30
Company 15 (Bank 5)	14.15	10.06	4.09
Total	**69.40**	**57.56**	**11.84**

The Management in its reply (May 2024) has stated that the realisation periods referred to in Part I of the DDRs have been corrected and there was no change in acquisition cost. The Management in its further reply (March 2026) has stated that the pricing was approved by competent authority considering overall commercial viability *vis-à-vis* reserved price fixed by the seller bank. It has acknowledged that the methodology for documentation of different realisation timelines was not established and the guidance/policy regarding adoption of recovery timelines in loan accounts was not sufficiently detailed. The Management, in a reply (October 2025) forwarded through the Ministry of Finance, also stated that a revised SOP on the acquisition of financial assets has been rolled out with effect from 31 March 2025, keeping in view the importance of realistic valuations at the acquisition stage.

The reply confirms the fact that there was no recorded justification based on which ASREC had applied the expected time for realisation in these loan accounts. In the absence of any recorded justification/basis, the veracity/rationality of the corrections made by the Management cannot be adjudged.

A.6 Acquisition of unsecured NPA loan account with higher valuation

As per the Operational Manual, the acquisition price for acquiring any unsecured asset should not exceed five *per cent* of its principal outstanding. It was noted that one sampled unsecure NPA loan account out of the 38 sampled loan accounts was acquired (March 2021) for ₹11.50 lakh.

The principal outstanding of the NPA loan account was ₹76.37 lakh and considering the ceiling, as mentioned in the Manual, the maximum price permissible for acquisition, at 5 *per cent,* was ₹3.82 lakh. However, the account was acquired at a higher price than the threshold permitted in the Manual. This resulted in excess valuation and payment of ₹7.68 lakh towards the acquisition of loan account.

The Management replied (May 2024/December 2024/March 2026) that the acquisition cost was paid to match the reserve price of the selling bank which was approved by the Board Level Valuation Committee in accordance with the Board approved acquisition policy.

The reply may be viewed in light of the fact that the Operational Manual, which encompasses the approved acquisition policy, prescribed the threshold limit of 5 *per cent* of the principal outstanding for acquiring unsecured NPA loan account. Further, acquiring unsecured loan accounts for prices beyond the stipulated threshold increases the recovery risk as there is no underlying asset/security for effecting recovery from the borrower. The acquisition policy also stipulates that any deviation in the policy is to be approved by the Board of Directors. However, in this case, the approval for acquiring unsecured loan account for prices beyond the stipulated threshold was approved by the Board level Committee and not by the Board of Directors.

B Procedures and approval for acquiring loan accounts

The deficiencies observed are discussed below:

B.1 Company-16

The loan account of Company-16 was acquired (September 2010) by ARC-1 from Bank-6 for ₹18.01 crore on SR basis, through formation of a Trust wherein ASREC and one Asset Reconstruction Company participated as investors[8]. Due to non-recovery in the loan account, the SR holders, in a meeting held (August 2018) under Section 7(3) of the SARFAESI Act[9], resolved that ASREC would take a lead role in resolution of the loan account. Despite auction attempts by ASREC in April and May 2019, the loan account remained unresolved as no bids were received. Subsequently, in September 2020, SR holders approved the proposal for assignment of the loan account to ASREC from ARC-1. Accordingly, ASREC acquired the account for ₹17.90 crore through a new Trust, subscribing to SRs worth ₹11.22 crore, while the remaining SRs worth ₹6.68 crore were subscribed by other Asset Reconstruction Company. ASREC attempted (January 2021) to auction the underlying property, which was unsuccessful due to want of bids. Thereafter, the underlying property was sold (August 2021) through Private Treaty[10] for ₹22.35 crore, with approval from Board Level Resolution Committee of ASREC.

In this regard, the following were observed:

(i) The Operational Manual does not prescribe procedures for appraisal or approval of proposals where ASREC acts as an SR holder in Trusts formed by other ARCs. Further, the Delegation of Powers does not specify the Competent Authority for

[8] ***SR holders - ASREC subscribed SRs of ₹9.01 crore (50 per cent) & other Asset Reconstruction Company subscribed SRs of ₹7 crore (38.87 per cent). Since ASREC received ₹0.41 crore as its share from the rent of the mortgage property of the borrower, its outstanding SR reduced to ₹8.60 crore.***

[9] ***As per Section 7(3) of the SARFAESI Act, in the event of non-realisation of financial assets, the Qualified Buyers of ARC, holding SRs of not less than seventy-five per cent of the total value of the SRs issued under a scheme by such company, shall be entitled to call a meeting of all the Qualified Buyers and every resolution passed in such meeting shall be binding on the company.***

[10] ***Private Treaty Method is a method to sell the secured assets where the ARC directly negotiates with prospective buyers and permissible under SARFAESI Act, 2002***

approving such proposals. In the instant case, during the SR holders' meeting in January 2020, ASREC representatives proposed acquisition of outstanding SRs of ARC-1. However, Audit found neither records of prior approval from the Competent Authority, nor any internal noting justifying such a proposal.

The Management replied (May 2024) that there have been no such transactions since September 2010. The proposals are approved by the respective committee according to its delegation of powers and the Board is authorised to approve the deviations. Further, the approval of the Management Level Valuation Committee pertaining to proposals being put forth in the meetings of SR Holders is held on record. It further replied (December 2024) that the aspects highlighted by Audit are covered under the revised Acquisition Policy approved (August 2024) by the Board.

The reply may be viewed in the light of the fact that neither the Operational Manual nor the Delegation of Powers outline the procedures relating to acquisition of loan accounts from other ARCs. In the absence of such laid down procedures, the Competent Authority cannot be clearly identified and approval cannot be validated. While ASREC submitted additional records in June 2024, prior approvals from the Management Level Valuation Committee were not furnished. Further, the revised acquisition policy only permits acquisition from other ARCs but does not specify the procedure to be followed.

(ii) As per ASREC's Delegation of Powers, the Management Level Valuation Committee is authorised to approve acquisitions involving ASREC's net investment up to ₹5 crore, while acquisitions exceeding ₹5 crore require approval from the Board Level Valuation Committee. In the instant case, ASREC acquired the NPA loan account from ARC-1 through a new Trust at a cost of ₹17.90 crore (ASREC's share: ₹11.22 crore), without obtaining approval from the Board Level Valuation Committee despite ASREC's investment exceeding ₹5 crore.

The Management replied (May 2024/December 2024) that the net exposure was only ₹2.62 crore and the delegation for approval vested with the Management Level Valuation Committee, which was held on record. Further, the Management acknowledged (March 2026) the need for formal procedures in this regard. The Management, in a reply forwarded (October 2025) through the Ministry of Finance, also stated that the Delegation of Powers is under review and will be appropriately amended before 31 March 2026, wherever required, to preclude ambiguities.

The reply may be viewed in light of the fact that ASREC acquired the NPA loan account through a new Trust, with its share amounting to ₹11.22 crore. The approval obtained in 2010 related to an independent investment decision for subscribing to SRs of a trust formed by ARC-1 at that time and cannot be construed as de-facto approval for the loan account acquisition in 2020. Accordingly, as per the Delegation of Powers, approval should have been obtained from the Board Level Valuation Committee based on ASREC's share of ₹11.22 crore, and not merely on the amount of ₹2.62 crore. While the Management has proposed to revise its Delegation of Powers to remove ambiguities, such revision cannot retrospectively ratify the deficient approval processes already followed.

Recommendation 4: ASREC may ensure that adequate procedures pertaining to the acquisition of NPA loan accounts from other ARCs are incorporated in the Operational Manual.

B.2 Company-17 & Company-18

Bank-7 invited bids (November 2019) for six NPA accounts, including Company-17 and Company-18, with bid submission deadline of 29 November 2019. However, the details of submission of bids by ASREC at that time were not on record. Later, in October 2020, ASREC submitted a binding bid of ₹10.62 crore for these two accounts; however, the outcome of the binding bid submitted by ASREC was also not on records. Subsequently, Bank-7 published (February 2021) the auction notice for these loan accounts. ASREC conducted due diligence for these loan accounts, and its Management Level Valuation Committee approved bids of ₹3.08 crore (Company-17) and ₹7.54 crore (Company-18) on 24 February 2021. The auction was conducted on 25 February 2021 and Bank-7 confirmed acceptance (26 February 2021) of ASREC's bid of ₹10.62 crore.

Audit noted that prior to bid acceptance, ASREC received ₹5 crore from the borrowers which was held in a 'No Lien' Account, as given below:

Table 4.4: Receipts from Borrowers of NPA loan accounts

Company-17		Company-18	
Date of Receipt	**Amount (₹ in crore)**	**Date of Receipt**	**Amount (₹ in crore)**
19 October 2020	1.00	15 October 2020	2.50
19 December 2020	0.40	4 December 2020	0.50
29 December 2020	0.50	-	-
11 February 2021	0.10	-	-
Total	**2.00**	**Total**	**3.00**

In this regard, the following was noticed: -

(i) As per the Delegation of Powers, the Board/Management Level Valuation Committee is required to approve the valuation and acquisition of NPA loan accounts. However, the Audit observed that no such approval was on record for the binding bid submitted in October 2020, which was not in compliance with the prescribed delegation framework. Thus, the binding bid submitted by ASREC was devoid of any validity.

(ii) The Operational Manual provides that there may be some occasions during acquisition of accounts wherein borrowers offer to make advance payment in the account before finalisation of the transaction to indicate their commitment, with the proviso that the said amount may be appropriated on the finalisation of transaction at mutually acceptable terms. Further, pending finalisation of the transaction the amount so received should be kept in a separate account open for the said purpose. Audit observed that ASREC received

₹5.00 crore from the borrower against these two NPA loan accounts without any prior correspondence or mutually agreed terms. It is pertinent to note that accepting funds from borrowers prior to the acquisition of loan accounts, and without being the rightful owner of the underlying assets, may give rise to moral hazard, undermine the due diligence process and affect the transparency as well as the integrity of the acquisition operations.

(iii) According to the Delegation of Powers, acquisitions with a net investment exceeding ₹5 crore require approval from the Board Level Valuation Committee. However, the NPA loan account of Company-18 was acquired for ₹7.54 crore based on approval from the Management Level Valuation Committee, instead of the Board Level Valuation Committee.

The Management in its reply (May 2024) stated that the transaction relates to acquisition under the 'negotiated financial asset for restructuring' policy, the borrower had approached ASREC for debt restructuring/One Time Settlement (OTS) funding but refused to assign the entire debt and underlying assets. The borrower had also informed ASREC that OTS proposals were made to Bank-7 since 2018, however, no offer had fructified. The correspondence of borrower towards their deposit in no lien account is also held on records viz. letters of borrower dated 1 March 2021. An amount of ₹3 crore was remitted by the borrower under this policy, and since net investment after adjustment was below ₹5 crore, approval from the Management Level Valuation Committee was obtained. It further replied (December 2024/March 2026) that acquisitions under this policy have been discontinued based on the recent guidelines of the RBI. The Management, in a reply forwarded (October 2025) through the Ministry of Finance, also stated that the Delegation of Powers is under review and will be appropriately amended before 31 March 2026, wherever required, to preclude ambiguities.

The reply of the Management needs to be viewed in light of the fact that the aforesaid policy was applicable only where an OTS/compromise settlement was agreed between the borrower and bank, which was not the case here as no OTS was agreed with Bank-7. The borrower had been remitting funds since October 2020, while the cited correspondence is dated March 2021, i.e., after the acquisition in February 2021. Given the inherent uncertainty involved in the auction process, ASREC's treatment of ₹3 crore received from the borrower of Company-18 as settlement proceeds, and its subsequent adjustment against the acquisition cost for approval purposes, was not justified. Further, no response was provided by ASREC regarding the approval for submission of binding bids in October 2020.

Recommendation 5: ASREC should refrain from accepting advance payments from the borrowers prior to the formal acquisition of the loan account.

4.1.5.2 Resolution of Acquired NPA Loan Accounts

After the acquisition of an NPA loan account, the fundamental step towards recovery from the loan account is the preparation of a plan for resolution of the acquired asset with the objective to lay down a broad strategy and estimate the time for recovery from the loan. As per the Master Circular (April 2022) issued by RBI, the measures available for reconstruction of the acquired loan account *inter-alia* included change-in or takeover of the Management of the business of the borrower, rescheduling of debts, enforcement of security interest, settlement of dues payable by the borrower and conversion of any portion of debt into shares of the borrower.

ASREC has formulated a Resolution Policy under its Operational Manual which governs the internal procedures to be followed for the proposed mode of resolution of any loan account. Further, the Delegation of Powers of the Company prescribes Competent Authority viz., Management Level Resolution Committee, Board Level Resolution Committee and the Board of Directors of the Company, for approval/rejection of the proposed resolution of each loan account.

Audit reviewed the commencement of resolution process of 38 sampled cases of loan account acquired and 65 sampled cases of recoveries and the findings/shortcomings are discussed in the following paragraphs:

A Planning for resolution of the acquired NPA loan accounts

As per the Master Circular for Asset Reconstruction Companies (April 2022) issued by Reserve Bank of India, an Asset Reconstruction Company may formulate a plan for realisation of assets within the planning period i.e. within six months from the date of acquisition of Financial Assets.

As per the Operational Manual of ASREC, the Management Resolution Committee has been constituted for formulating the Resolution Plan during the planning period for realisation of acquired financial assets and for taking decision on appropriate resolution strategies. The Resolution Plan contains basic brief history of the acquired loan accounts, details of securities held, actions initiated by seller bank/FI, legal matters, action under SARFAESI Act and strategy/plan for resolving the acquired loan account along with the period for resolving the loan account.

The deficiencies observed in the preparation of the Resolution Plans for the acquired loan accounts are discussed below:

A.1 Resolution Plan for acquired loan account

ASREC acquired an NPA loan account of Company-19 (November 2022) for ₹16 crore from ARC-2. In compliance with the operational manual, ASREC had to prepare a Resolution Plan within six months from the date of acquisition i.e., by May 2023. During the course of audit (April 2024) no Resolution Plan for the NPA loan account was found on record.

In response to the audit observation, ASREC submitted (May 2024) a Resolution Plan with approval date of 6 December 2022. However, it was observed that the Resolution Plan submitted to Audit referred to a valuation report of the underlying securities dated 21 January 2023, which was subsequent to the date of the approved Resolution Plan. On further being pointed out by Audit, ASREC subsequently submitted (December 2024), a revised Resolution Plan dated 06 February 2023, stating that the earlier plan had now been corrected and approved by the Management Level Resolution Committee.

In view of the above, since ASREC submitted two versions of the Resolution Plans to Audit and while submitting the second plan, stated to have been approved on 6 February 2023, mentioned that the Committee had corrected the plan now, Audit is unable to verify the authenticity of the Resolution Plans, i.e., whether the plans were approved earlier or only after the audit observations. This indicates lack of transparency in the operational procedures in the preparation/approval of Resolution Plans by ASREC.

The Management replied (March 2026) that multiple versions of the Resolution Plan were submitted during Audit due to documentation alignment issues and reflect documentation standardization gaps, which are being addressed through implementation of digital record management system.

The reply may be viewed in light of the fact that the discrepancies observed are indicative of systematic deficiencies in the approval process rather than merely documentation issues, as contended by the Management. The existence of multiple versions of the Resolution Plan with inconsistent approval dates, along with reference to post-dated valuation inputs, undermines the credibility, authenticity and timing of the approval.

A.2 Delay in preparation of the Resolution Plan for NPA loan accounts

Out of the 38 sampled cases for acquisition, Audit noticed that the Resolution Plans in the four NPA Loan Accounts[11], acquired in February/March 2023, were not prepared/approved within the planning period of six months from the date of acquisition as stipulated in the Operation Manual.

It was noticed that the delay in preparing Resolution Plans for the loan accounts (with total Acquisition value of ₹1,134.44 crore) ranged from 41 days to 113 days. This indicates deficient internal control practices, especially considering the fact that all these cases were high value acquisitions.

The Management responded (May 2024) that the Resolution Plans were prepared and approved within the stipulated period of six months and held on record. It further replied

[11] ***Company 15 (₹38.10 crore), Company-4 – Bank-3 (₹828.00 crore), Company-4 – Bank-4 (₹122.66 crore) and Company-4 – Bank-1 (₹145.68 crore)***

(December 2024) that the dates were inadvertently mentioned as November instead of September which have since been corrected and submitted the copies of the same.

The responses of the Management are contradictory, which has reduced the degree of reliability associated with the Resolution Plans and their approvals. Initially, Management stated that the plans were approved within the prescribed six-month period. However, it later acknowledged errors in the approval dates and submitted revised plans indicating approvals in May/June 2023. This contradiction, along with the fact that the revisions were made only after the issues were emphasised by Audit, highlights deficiencies in ASREC's internal controls and documentation processes. Consequently, Audit is unable to verify the accuracy of the approval dates.

The Management replied (March 2026) that the Resolution Plans were generally prepared within timelines, however, discrepancies occurred due to clerical/documentation errors. Further, in high-value cases, additional time was required due to multiple lenders, legal complexities, and evolving recovery strategies. The Management, in a reply (October 2025) forwarded through the Ministry of Finance, stated that a revised SOP defining the processes for timely preparation of Resolution Plans is under preparation and is expected to be issued by 31 March 2026.

The reply may be viewed in light of the fact that the revised plans were submitted subsequent to audit observation. Further, the attribution of delays to operational complexities may be viewed in the light of the fact that the timeline for approval of Resolution Plan was explicitly stipulated in the Operational Manual of ASREC. The deficiencies observed indicate systemic weaknesses in internal controls and documentation processes.

Recommendation 6: ASREC needs to establish appropriate checks to ensure that the Resolution Plan for each loan account is prepared and approved within the stipulated six-month timeline, in compliance with its Operational Manual and the applicable regulatory guidelines.

A.3 Uniform adoption of five-year resolution period in Resolution Plans without adequate justification

In all the 38 sampled acquisitions cases, Audit noticed that the Management Level Resolution Committee uniformly approved a five-year resolution period in the resolution plans, citing the time normally required for legal action. However, adopting a uniform five years period for every loan account lacked justification, particularly considering that each case carried distinct recovery risk and that the expected realisation period adopted in the Due Diligence Reports for these loan accounts ranged from three months to three years **(Annexure-IV)**. Further, Audit could not find any records indicating that the resolution period mentioned in the Resolution Plans was approved based on any objective assessment of factors such as the nature of the loan, extent of litigations or action already taken by seller bank/FI, etc.

The Management replied (May 2024) that DDR is part of the acquisition process whereas expected time frame for realisation relates to resolution process. DDR is prepared before the acquisition of any account which records the status of the respective account at that particular point of time to arrive at the minimum value of acquisition. The exercise of planning for resolutions is done only after the entire process of acquisition is completed within six months from the date of acquisition as per RBI master circular. Moreover, actual resolutions may vary due to various factors including ongoing litigations. Considering the nature of complication and uncertainty involved in the accounts, comparison of DDR with resolution planning is not workable. The Management further stated (March 2026) that five-year period was adopted as a prudential outer benchmark in the Resolution Plans based on maximum initial resolution period permitted by RBI. The Management, in a reply (October 2025) forwarded through the Ministry of Finance, also stated that a revised SOP for resolution of financial assets is under preparation and expected to be issued by 31 March 2026.

The reply may be seen in light of the fact that the expected time for realization is a critical parameter applied for valuation of loan accounts at the time of acquisition of loan accounts. Thus, the realization/resolution period is not altogether disjointed from the acquisition operations. Further, while RBI guidelines prescribe a maximum realization period of five years (extendable to eight years), they do not mandate adoption of a uniform period in all cases. The reply that resolution may vary due to variable factors is not in line with the practice being followed by ASREC, as the resolution/realization period approved in the Resolution Plans for all the loan accounts were uniformly considered as five years.

Recommendation 7: ASREC may consider adopting a rational/uniform methodology for estimation of expected time frame for realisation and also document the basis of such estimation for each loan account.

B Resolution through One Time Settlement

As per the Operational Manual, Negotiated Settlement of dues payable by the borrower through One Time Settlement (OTS)/Compromise Settlement is one of the measures adopted for recovery of dues in the accounts acquired from Banks/Financial Institutions-as it is less time-consuming, a non-legal remedy, less expensive and is achieved in a win-win situation. The Operational Manual encompasses the policy for settlement of dues under OTS which specifies the guidelines and procedures applicable for compromise settlement/OTS. The powers delegated with regard to OTS proposals are as follows:

Table 4.5: Delegation of Powers pertaining to OTS offers

Delegation	Competent Authority
• For OTS proposals in accounts with net investment of ASREC at the time of settlement up to ₹5 crore and giving annualised return of 20 *per cent* or above including management fees and other recovery incentives	Management Level Resolution Committee

Delegation	Competent Authority
• OTS in accounts where criminal action is initiated or matter is under investigation by any investigating authority. • For proposals beyond the authority of the Management Level Resolution Committee	Board Level Resolution Committee

Subsequently in October 2022, Reserve Bank of India amended Regulatory Framework for Asset Reconstruction Companies, according to which settlement of dues with the borrower shall be done only after the proposal is examined by an Independent Advisory Committee (IAC) which shall consist of professionals having technical/finance/legal background. After assessing the proposal, the IAC shall give its recommendations to the ARC regarding settlement of dues with the borrower. The Board of Directors shall deliberate on the recommendations of IAC and consider the various options available for recovery of dues before deciding whether the proposed option of settlement of dues with the borrower is the best option available under the existing circumstances and the decision, along with detailed rationale, shall be specifically recorded in the minutes of the Board Meeting. Accordingly, the Operational Manual was amended (November 2022) by the Board to give effect to the revised RBI Guidelines.

Audit reviewed the procedure regarding acceptance and rejection of OTS offers in 24 resolution/recovery cases out of the 65 sampled cases and the following issues were noticed:

B.1 Procedure for rejection of OTS offers

Out of the 24 NPA loan accounts, a single OTS offer was received in case of 16 loan accounts, which was accepted by ASREC. In the remaining eight loan accounts, multiple OTS offers were received **(Annexure VI)** from the borrowers. Out of these eight NPA loan accounts, in two accounts[12], with acquisition costs of ₹17.78 crore and ₹43.60 crore, the highest OTS proposals of borrowers of ₹25 crore and ₹47 crore, respectively, were rejected without being referred to the competent authorities for evaluation/approvals.

In the remaining six cases, although the final OTS proposals were approved by the competent authority, it was observed that earlier offers were rejected without being submitted for consideration to the competent authorities. This indicates a deviation from the due process and potentially undermining transparency and accountability in decision-making.

The Management replied (May 2024) that the Company authorises designated persons from the resolution team to negotiate for settlement of dues payable by the borrower. The proposal for OTS received from the borrowers is screened by the Authorised Officer for various parameters. Moreover, the OTS proposals are to be submitted by the borrower

[12] ***Company-21 and Company-20***

along with a sizeable amount of upfront payment which will determine the bonafide of the proposal. After scrutiny of the OTS proposal, only the proposal complete in all respect is placed before the Competent Authority for consideration. The Management in its reply (March 2026) acknowledged the absence of documentation for rejected OTS proposals and assured that the SOP was being strengthened to address the gaps.

The reply may be viewed in light of the fact that only Management Level Resolution Committee, Board Level Resolution Committee or the Board of Directors, being the designated competent authority, as the case may be, were authorised to take decisions on the proposals of the borrowers. Further, as replied, the Authorised Officers designated by ASREC may screen the proposal but are not authorised to take a final decision on the rejection of the proposals of the borrowers. Regarding the upfront payment, the Operational Manual stipulates that a minimum upfront payment of five *per cent* of the proposed OTS amount be insisted upon at the time of submission of OTS request. However, it should not come in the way of entertaining the OTS proposal, otherwise acceptable. Thus, upfront payments are not a pre-requirement for evaluation and approval of OTS proposals.

Recommendation 8: ASREC may consider revising the provisions of the Operational Manual to ensure that the role of the Authorised Persons in dealing with OTS offers is clearly laid down. ASREC may also ensure that the evaluations/assessments conducted by such authorised persons are adequately documented and that all proposals, after such review, are submitted to the Competent Authority for decision and duly documented.

B.2 Unauthorised rejection of OTS proposal leading to re-assignment of NPA loan account at lower value

ASREC acquired (June 2017) the loan account of Company-21 for ₹17.78 crore from Bank-8 under the Trust. During the period from January 2018 to March 2021, the borrower made six one-time settlement (OTS) proposals wherein the highest OTS proposal was made for ₹25 crore. Subsequently, the loan account was reassigned to other ARC for ₹19 crore after the approval (March 2022) from the Board Level Resolution Committee.

It was observed that ASREC has rejected the OTS proposals without any approval from competent authority and without any analysis/justification, citing that the offer was not acceptable and that legal action for recovery will continue. Thus, unauthorised rejection of OTS proposal of the borrower by ASREC led to loss of opportunity to earn extra amount of ₹6 crore against the NPA loan account.

The Management replied (May 2024/December 2024/March 2026) that OTS proposals were not placed before the Competent Authority as these proposals were not as per acceptable parameters. Further, as directors of the borrower were implicated in economic offences and were serving jail term during the relevant period, the company disinvested the stake in the loan account, to another ARC. The borrower/guarantors were chronic defaulters, and the proposals were being submitted only with the intention to derail the entire recovery process. Due to uncertainty involved in the resolution process, the Company assigned the debt to another ARC after obtaining approval from Competent Authority to de-risk exposure. The management further acknowledged that the documentation of the rationale for the decision was not adequate.

The reply may be viewed in light of the fact that while rejecting the OTS proposal of ₹25 crore (Nov 2019), ASREC only stated that the offer was not acceptable and be treated as declined, without citing any specific deficiency in the proposal against the established parameters of evaluation which led to the rejection of the proposal. Also, while obtaining the approval (March 2022) for re-assignment from the Board Level Resolution Committee, the Memorandum for approval only cited that the amicable settlement with the borrower did not materialise despite giving ample opportunity. However, it did not mention about the six OTS proposals received from the borrower earlier. Further, the Directors of the borrower company had been in police custody since November 2016, and this fact should have been duly considered during the due diligence conducted by ASREC prior to the acquisition of the loan account in June 2017. Therefore, citing and relying on this factor at the resolution stage to reject the OTS proposals and to re-assign the account to another ARC at a lower value does not appear justified, particularly when a higher OTS offer of ₹25 crore had been received by ASREC in November 2019.

C Disinvestment in the Security Receipts

As per the guidelines (August 2014) issued by the RBI, the ARCs shall invest in Security Receipts, a minimum of 15 *per cent* of the SRs issued by them. The RBI modified (October 2022) the aforesaid provision by stipulating that ARCs shall invest in the SRs at a minimum of 15 *per cent* of the transferor's investment in the SRs or 2.5 *per cent* of the total SRs issued, whichever is higher. Considering RBI's modified guidelines (October 2022), ASREC has also modified its Operational Manual and stated that it shall continue to hold investment in SRs as per minimum threshold criteria then applicable under each scheme/trust formed prior to 11 October 2022.

ASREC acquired (March 2022) the loan account of Company-22 from Bank-2 for ₹26.25 crore through formation of a Trust with Qualified Buyer viz. Company-23. Under this Trust, ASREC held 15 *per cent* of the Security Receipts (SRs) whereas Company-23 held the remaining 85 *per cent* of the SRs. Subsequently, in January 2023, ASREC sold 12.5 *per cent* of its SRs valuing ₹3.28 crore to Company-23 and thus reduced its share of holding from 15 *per cent* to 2.5 *per cent* and booked the premium of ₹0.61 crore on SRs.

Audit observed that the Trust was formed prior to October 2022 and as per the provisions of the Operational Manual, the Company should have maintained the threshold of 15 *per cent* investment in the SRs of the Trust. However, the Company disinvested (January 2023) its holdings to 2.5 *per cent* in contravention of the provisions in the Operational Manual and without any adequate justification/rational for taking such action. As disinvestment of SRs is part of the resolution of NPA loan account, the approval for disinvestment was to be obtained from the Board/Management Level Resolution Committee, which was, however, not obtained from the competent authority. This indicated a lack of internal control in the financial affairs of the Company.

The Management replied (May 2024) that it reduces its investment in a particular account by disinvesting a portion of its SR so as to meet cash flow requirements and/or to invest the available funds to acquire some other pool of accounts in order to maximise returns. Further, the disinvestment of SRs is part of the resolution of loan accounts, and the transaction is also authorised by the Competent Authority. It further replied (December 2024) that the disinvestment of SRs was approved by the authority who had initially approved acquisition and investment in SRs. In order to bring more clarity ASREC has already covered these aspects in its Securitisation Policy under the Board's approval (August 2024). The Management also stated (March 2026) that the variation observed was due to transition to amended RBI framework.

The replies may be viewed in light of the fact that the Operational Manual mandated a 15 *per cent* holding in SRs for trusts formed prior to October 2022. The approval cited by the management in its reply was granted by the Management Level Valuation Committee, which, as per the Delegation of Powers, was authorised only for acquisition of NPA loan accounts. Therefore, even considering Management's contention that disinvestment formed part of loan resolution, the decision was outside the Valuation Committee's purview and should have been duly placed before the Board/Management Level Resolution Committee.

4.1.6 Conclusion

The acquisition process of NPA loan accounts is a critical activity in ASREC's core operations as it forms the basis for future recoveries. While the Company has an Operational Manual and Delegation of Powers to guide the acquisition process, the Manual lacks clarity on key aspects such as discounting factors and timelines for realisation. Additionally, procedural lapses were noted, including incorrect application of discounting terms leading to higher acquisition costs, acquisition at costs more than value of underlying securities, and instances where acquisitions were made without approvals from the competent authority, reflecting weak internal controls and lack of transparency.

The resolution operations are critical for maximising recoveries from acquired NPA loan accounts, and any delays or deficiencies in these operations may have implications for the realisation of dues. Inconsistent documentation and lack of transparency in preparation of Resolution Plans undermine the credibility of the resolution process. Further, the uniform application of resolution timelines without case-specific evaluation reflects inadequate risk assessment in the resolution operations of ASREC. Non-compliance with prescribed procedures in processing OTS proposals, and disinvestment of SRs in contravention of internal guidelines reflect deficiencies in internal controls/oversight mechanisms.

Oriental Insurance Company Limited, National Insurance Company Limited, United India Insurance Company Limited and New India Assurance Company Limited

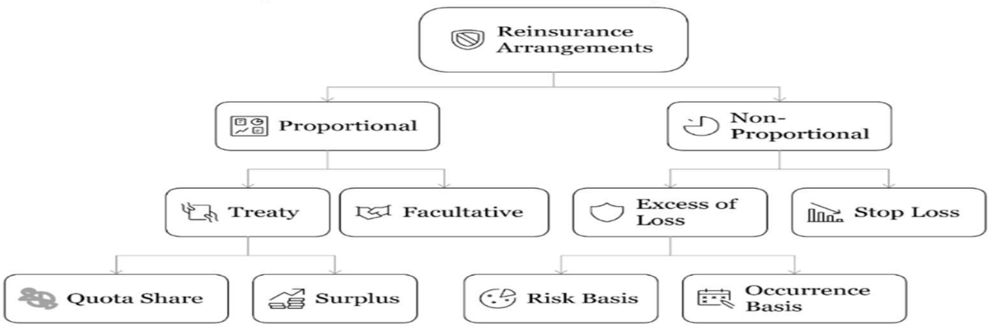
4.2 Reinsurance Operations

4.2.1 Introduction

The Insurance Act, 1938 is the primary act governing Insurance sector in India. It mandates the Insurance Regulatory and Development Authority of India (IRDAI) to frame regulations for supervision of the entities operating in insurance sector. Other Acts (viz., Marine Insurance Act, 1963 and Public Liability Insurance Act, 1991) also regulate in governance of specific Lines of insurance Business (LoB) and its functioning. The IRDAI (Reinsurance) Regulations, 2018 and IRDAI (Obligatory Cessions to Indian Re-insurers) Notifications constitute the legal framework documents for reinsurance business in India.

Reinsurance (RI) is an arrangement of spreading the risk between insurer[13] and reinsurer whereby an insurer, referred as cedant, transfers all or part of a risk to another insurer called reinsurer to mitigate the losses arising out of primary/direct insurance. Reinsurance operations are classified into two categories viz. (i) outward RI and (ii) inward RI. In outward RI, the insurer transfers part of the risk to the reinsurer whereas in inward RI, the insurer accepts part of the risk from the other original insurer or reinsurer. The reinsurer bears the losses which exceed certain pre-determined amount viz. retention limit, which is to be borne by the primary insurer and is based either on one type of risk or an entire risk category. There are primarily two types of reinsurance viz. Proportional and Non-proportional. Under proportional reinsurance, the reinsurer receives a pro rata share of all policy premiums underwritten by the insurer and the reinsurer bears a portion of the losses in the same proportion. In the case of non-proportional reinsurance, the insurer will pay premium derived from agreed rates on net earned premium during the year.

Figure 4.1: Reinsurance arrangements



Insurers execute proportional treaty with the reinsurer where every risk covered in the treaty will be ceded and the claims will be paid accordingly. A quota share treaty is a pro-rata reinsurance contract where the insurer and reinsurer share premium and losses in a fixed percentage. A surplus share treaty is a reinsurance agreement where the insurer retains a

13 *An entity which agrees, for a consideration, to indemnify the pecuniary loss suffered by the insured caused by an insured peril.*

part of the risk, and the reinsurer takes responsibility for the remaining amount. Facultative reinsurance is reinsurance of individual risk by offer and acceptance wherein the reinsurer can either accept or reject and individually price each risk offered by the insurer. An Excess of Loss (XoL) treaty provides the insurer with reinsurance protection for retained risk covering a certain layer of loss for a specified category of individual (direct) policy. A stop-loss treaty is where the reinsurer covers losses exceeding a specified amount or percentage of the insurer's earned premiums, protecting the insurer from losses.

4.2.1.1 Reinsurance business in India

As per Regulation 3 of Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018, the re-insurance programme of every Indian Insurer shall be guided by four objectives to maximise retention, to develop adequate technical capability and financial capacity, to secure the best possible Re-insurance coverage and to simplify the administration of business.

In India, there are four Public Sector General Insurance Companies (PSGICs), namely, The New India Assurance Company Ltd (NIA) Mumbai, National Insurance Company Limited (NIC) Kolkata, The Oriental Insurance Company Limited (OIC), New Delhi and United India Insurance Company Limited (UIIC), Chennai carrying out direct insurance business and reinsurance operations. There is one Indian Reinsurer viz. General Insurance Corporation of India (GIC Re), a Public Sector Enterprise and eleven Foreign Reinsurance Branches (FRBs)[14] doing reinsurance business in India (March 2024). In addition, reinsurance business was also being carried out in India by Cross Border Reinsurers who do not have any physical presence in India but carry on reinsurance business with Indian insurers. As sole Indian Reinsurer, GIC Re receives obligatory cessions[15] on each policy issued by domestic general insurers.

4.2.1.2 Financial performance of PSGICs

The consolidated financial performance of PSGICs for their direct insurance and reinsurance operations for the period from 2018-19 to 2022-23 is given below:

Table 4.6: Financial performance of PSGICs for the period from 2018-19 to 2022-23

(₹ in crore)

Sl. no.	Details	NIA	NIC	OIC	UIIC
1.	Net earned premium	1,38,521.26	57,982.28	57,452.02	71,296.40
2.	Net Incurred Claims	1,21,755.52	57,033.49	60,703.29	68,144.51
3.	Incurred Claims Ratio[16] *(per cent)* (2/1*100)	87.90	98.36	105.66	95.58

[14] ***A branch of a Foreign Company engaged in re-insurance business, who has been granted certificate of registration by IRDAI.***

[15] ***Five per cent during 2018-19 to 2021-22 and four per cent during 2022-23.***

[16] ***The Incurred Claims Ratio (ICR) is a financial metric measuring total value of incurred claims (paid and outstanding) relative to the premium collected in a financial year and expressed as a percentage. ICR = (Incurred claims / premium earned) *100.***

Sl. no.	Details	NIA	NIC	OIC	UIIC
4.	Net Commission paid	11,664.47	4223.18	4249.66	4379.42
5.	Profit / Loss (including direct business) [1-(2+4)]	5,101.27	(3,274.39)	(7,500.93)	(1,227.53)
6.	Net Worth (as on 31 March 2023)	19,919.24	(963.27)	(4,146.93)	(732.00)
7.	Share Capital (as on 31 March 2023)	824	9,375	4,620	3,905

Further, performance of reinsurance operations of PSGICs is reviewed in two parts i.e. outward and inward reinsurance business. Results of outward RI cessions and inward RI acceptances by the PSGICs from 2018-19 to 2022-23 are given in table below.

Table 4.7: Performance of Outward Reinsurance (Cession) Business of PSGICs (2018-19 to 2022-23)

(₹ in crore)

Sl. No.	Details	NIA	NIC	OIC	UIIC
1.	Premium Ceded	33,472.92	17,960.34	13,105.00	14,732.71
2.	Incurred Claims	21,613.63	15,127.35	10,000.81	12,595.80
3.	Incurred Claim (in *per cent)* (2/1*100)	64.57	84.23	76.31	85.50
4.	Commission Earned	2,598.07	1,195.46	1,000.02	1,018.72
5.	Commission (in *per cent*) (4/1*100)	7.76	6.66	7.63	6.91
6.	**Net Outgo in RI Outward [1-(2+4)]**	**9,261.22**	**1,637.53**	**2,104.17**	**1,118.19**

Source: Annual Reports of PSGICs

In RI outward, risk is shared with reinsurer by an insurer to secure financial protection and capacity for direct insurance business. However, results of RI outward business of all PSGICs indicated need for better management of RI operations by optimum RI programme, net retention policy, maximisation of retention, better negotiation of terms with brokers/reinsurers and effective reinsurance claim management.

Table 4.8: Performance of Inward Reinsurance (Acceptances) Business of PSGICs (2018-19 to 2022-23)

(₹ in crore)

Sl. No.	Details	NIA	NIC	OIC	UIIC
1.	Premium Accepted	7,039.99	2,166.86	2,343.46	1,172.53
2.	Incurred Claim	5,327.94	1,399.94	1,655.37	445.12
3.	ICR (in *per cent*)	*75.68*	*64.61*	*70.64*	*37.96*
4.	Commission Paid	1,150.94	248.11	336.43	167.59
5.	Commission (in *per cent*)	*16.35*	*11.45*	*14.36*	*14.29*
6.	Net results of RI (Inward)	561.11	518.81	351.66	559.82

Source: Annual Reports of PSGICs

PSGICs reported net inflow in inward reinsurance business indicating comparatively better management of inward reinsurance business.

4.2.1.3 Audit objectives, scope and methodology

Audit examined reinsurance operations of PSGICs for a period of five years from 2018-19 to 2022-23. Further, records relating to treaties and facultative arrangements were examined based on statistically selected sample[17]. The audit was conducted to affirm that reinsurance operations were carried out by the PSGICs, in alignment with the Regulations prescribed by IRDAI and appropriate process, procedures and effective internal control mechanism exist in the PSGICs to ensure reinsurance arrangements are executed with economy, efficiency and effectiveness.

Audit commenced with an Entry Conferences[18] with PSGICs wherein the Audit objectives, scope, criteria, and methodology were explained to the management. Audit examined the records relating to reinsurance programme, reinsurance placement and internal controls, etc. In respect of treaties and facultative reinsurance arrangements, records of selected sample provided in physical or electronic form were examined. In addition, data analysis through electronic tools was carried out in respect of selected premium and claims bordereaux pertaining to five years (2018-19 to 2022-23). The draft Audit Report was issued to the Management of PSGICs and Department of Financial Services, Ministry of Finance (Ministry). The Exit Conferences[19] were held with Management of PSGICs and Ministry. The views of the Management/Ministry have been considered in the finalisation of the audit findings as discussed in subsequent paragraphs.

In view of the sensitivity involved, the names of reinsurers, cross border reinsurers, co-insurers insureds, claimants, bank and broker have been masked using masking codes (in italics) such as Reins 1 to 15 for reinsurers, Insured Co 1, 2, and 3 for insured companies, CBR 1, 2, and 3 for cross border reinsurers, and BK for bank.

4.2.2 Formulation and implementation of Reinsurance programmes

Insurance companies draw up reinsurance programmes for various classes of risks under each LoB in order to fix retention limits for risks commensurate with their financial strength. The balance risk beyond the retention limits is reinsured. Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018 came into effect from 1 January, 2019. Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018 (Regulations) stipulates that the reinsurance programme of every Indian insurer shall be guided by the following objectives:

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[17] ***Proportional and Non-proportional treaties (outward and inward) - 50 per cent of the total population in terms of value of cession (premium amount) and Facultative arrangements (outward and inward): 25 per cent of the value selected from premium, claims paid and claims outstanding. However, a lesser percentage was selected in NIA due to the higher quantum of operations.***

[18] ***19 July 2023 (UIIC), 27 September 2023 (OIC), 11 October 2023 (NIA) and 30 January 2024 (NIC)***

[19] ***18 December 2024 (UIIC), 16 January 2025 (NIC), 20 January 2025 (NIA), 7 February 2025 (OIC) and 2 July 2025 (Ministry)***

- Maximum possible retention within the country
- Develop adequate technical capability and financial capacity
- Secure best possible reinsurance coverage
- Simplify the administration of business

RI programmes of the four PSGICs for the period 2018-2023 were reviewed in audit. The, non-compliances, deviations and financial losses were noticed in framing and implementation of RI programmes. The cases of non-compliances to RI Regulations, 2018 as noticed in audit of PSGICs are discussed in following sub-paras.

4.2.2.1 Absence of Retention Policy

Every Indian insurer has to submit to IRDAI a Board approved Reinsurance programme along with its Retention[20] Policy 45 days before the commencement of the financial year. The regulation stated that every Indian insurer shall maintain the maximum possible retention in commensuration with its financial strength, quality of risks and volume of business and formulate a suitable insurance segment-wise Retention policy. The Board, while formulating the Re-insurance Programme and the Retention policy, shall ensure that the Re-insurance arrangements are effective and appropriate by taking into consideration, *inter-alia*, the following factors:

- Business mix, overall risk appetite, type and extent of Re-insurance protection required;
- Level of risk concentration and retention levels;
- Mechanism of reinsurance.

Thus, fixation of retention limit is the basis on which RI programme is designed. To ensure compliance to the Regulations, updated Retention policy is a pre-requisite for designing and formulation of RI programme.

Audit observed that UIIC and NIC did not have a Retention Policy for fixation of retention limits for different risks under each LoB. The absence of Retention policy was a non-compliance to the Regulations. OIC and NIA were having Board approved Retention policy for fixation of retention limits.

UIIC replied (September 2024) that Reinsurance Department places the proposed RI Programme which includes proposed retention limits for each line of business. NIC replied (January 2025) finalisation of retention and retention policy forms a part of the Reinsurance Programme submitted to the Board for approval every year.

[20] ***Retention means the portion of the risk, which an insurer assumes for its own account.***

Ministry replied (June 2025) that Reinsurance Manual is under updation in UIIC and Retention policy is part of the RI progamme of NIC.

Management and Ministry reply is not specific to absence of Retention policy since Board approved RI programmes of UIIC and NIC did not contain a Retention Policy. Approval of retention limits as a part of RI programme may not justify and substitute a separate documented Retention Policy as required under the RI Regulations.

Thus, absence of Board approved Retention Policy for formulation of RI Programme in UIIC and NIC was not in line with the RI Regulations.

Recommendation 9: UIIC and NIC are required to take necessary action to devise and get approval of Retention policy for determination of net retentions and formulation of RI programme.

4.2.2.2 Placement of Reinsurance business with ineligible Cross Border Reinsurers

The Regulations stipulated that no Indian insurer shall place its RI business with any Cross Border Reinsurer (CBR)[21] with a lesser credit rating against mandated rating of 'BBB' from Standard & Poor or equivalent rating from an international rating agency during the immediate past three continuous years. RI placements with lesser rated CBRs required prior approval of IRDAI.

Audit observed that the placements were made with ineligible CBRs having no rating and low rating (B, B+ and BB+) and premium were ceded by PSGICs to the ineligible CBRs without IRDAI approvals during the period from 2018-19 to 2020-21 as given below.

Table 4.9: Premium ceded to ineligible CBRs from 2018-19 to 2020-21

(₹ in crore)

Company	Ineligible CBRs	Premium ceded
NIC	60	417.12
OIC	12	381.74
NIA	4	117.82
UIIC	4	21.59

UIIC replied (June 2024) that business was offered to ensure complete placement. NIC stated (January 2025) that Company always complied with the applicable IRDAI regulations, and the necessary approval was taken from the BoD and filed with IRDAI. NIC further assured that the audit observation would be implemented for better presentation. OIC accepted (February 2025) the audit observation and noted to comply with IRDAI's provision on maximum placement with such CBRs. Ministry concurred with the

[21] ***A foreign re-insurer whose place of business is established outside India, and which is supervised by its home country regulator.***

reply of NIC and stated that UIIC maintained the limits set by IRDAI for cession to these CBRs. Ministry did not provide reply on premium cession to ineligible CBRs by NIA.

It is evident that UIIC and OIC did not state whether they had obtained approval from IRDAI before making such placements. Hence, this was not in line with the Regulations.

4.2.2.3 Full cession of premium resulting in 'Fronting'

IRDAI (Re-insurance) Regulations, 2018 mandates preparation of Reinsurance (RI) Programme which maximises retention inside the country. IRDAI (Re-insurance) Regulations, 2018 defines 'Fronting' as a process of transferring risk in which an Indian insurer cedes or retrocedes most of or all of the assumed risk to a Reinsurer or retrocessionaire[22]. Further, Regulations state that every Indian insurer shall ensure that the reinsurance arrangement is not fronting.

As IRDAI regulations provide broad framework, individual insurers are primarily responsible to ensure that the RI programmes are in consonance with business requirement, magnitude of operations, financial strengths, market practice, risk appetite, retention policy and in compliance to IRDAI's Regulations. RI arrangements finalised by the PSGICs shall be in line with the approved RI programme. In implementing the RI programme, PSGICs will have to adhere to the net retention limits, cessions to proportional treaties, and facultative arrangements. In review of RI programmes, it was noticed that approved RI programmes of UIIC had nil retentions in Aviation (Hull and Excess Liability) LoB for the year 2021-22 and 2022-23. Hence, RI programmes of UIIC for the years 2021-22 and 2022-23 permitted fronting in Aviation (Hull and Excess Liability) policies which was not in line with the RI Regulations. However, RI programmes of UIIC for the remaining years (2018-19 to 2020-21) and RI programmes of other companies for the audit period (2018-19 to 2022-23) were in adherence with the RI Regulations no. 3(2)(A)(c).

Table 4.10: Break-up of Cessions for Aviation (Hull and Excess Liability) Segment as per approved RI programme of UIIC

Year	No. of policies	Obligatory Cessions	Facultative placement	Net Retention	Premium ceded (₹ in crore)
		(in per cent)			
2021-22	40	5	95	0	7.60
2022-23	43	4	96	0	6.54

Source: Details furnished by UIIC

Fronting reduced the role of PSGICs to that of a broker and it was against the RI objective of maximum retention within India.

[22] ***Retrocession is defined as a transaction where a reinsurer cedes a part of the assumed reinsured risk to another reinsurer (the retrocessionaire)***

UIIC stated (July 2024) that available capacity was utilised for inward business and hence outward business was fully ceded. Ministry concurred (June 2025) with the reply of the management. The reply of Management and Ministry may be viewed in the light of the fact that the Regulations did not provide any relaxation for fronting.

Similarly, audit observed from test check of cession details that retention by NIC, OIC and UIIC was nil for all the 76 aviation policies issued to an insured *(Insured Co 1),* one fire policy out of 331 Large Risk Fire Policies, and six liability policies out of 2.75 lakh policies, which resulted in fronting though RI programme mandated retention as detailed below.

Table 4.11: No. of policies with nil retention resulting in 'Fronting'

Year	Company	LoB	No. of policies	Total premium (₹ in crore)
2018-19 to 2022-23	NIC	Aviation	76	154.35
2022-23	OIC	Fire	1	34.13
2021-22 and 2022-23	UIIC	Liability	6	21.06

Source: Details furnished by PSGICs

UIIC replied (July 2024) that in aviation there was no fronting due to existence of both inward and outward RI arrangements against the policies and fronting was done only in outward reinsurance. For Liability policies, it was stated that UIIC had participated in more than one layer of each risk and cited that there is no fronting as risk in only one layer was ceded out in entirety. In two cases, UIIC cited Ukraine-Russia war as the justification for fronting.

Ministry stated that UIIC was a follower (co-insurer) in the liability policies and the leader issued multiple policies for the same risk in order to have a proper utilisation of treaty cover limit. This gives a stand that one policy is ceded 100 *per cent* and the other policy is retained more. Hence, all policies are for the same risk and the combined sum insured and reinsurance cession is as per their Board approved RI programme. Hence, there is no fronting in these cases.

The reply may be viewed in the light of the fact that ceding of entire premium in any policy amounts to fronting. IRDAI Regulations did not grant any exception to permit fronting.

NIC stated (January 2025) that in Aviation sector, the airlines having their aircrafts on lease put a condition that the insured should have higher rating. Hence, NIC had to cede entire premium as they did not have the rating required. However, they are participating in the inward acceptance as per the industry practice in aviation business. OIC replied (February 2025) that entire risk was ceded to comply with the requirement of Lead Insurer.

Ministry justified (June 2025) that NIC maintains a single retention per risk, and if not utilised on the original policy, it is applied to the reinsurance of the same aviation risk. Hence, they asserted there is no violation of retention norms and the arrangement should not be considered a fronting contract. It also stated that OIC and UIIC had to accept lead insurer's reinsurance method which led to fronting.

Management and Ministry reply indicates business and operational requirements for nil retention in the policies.

4.2.2.4 Excess cession of premium to Cross Border Reinsurers

IRDAI granted special approval to certain CBRs rated less than BBB and specified maximum cession in percentage of the total reinsurance premium to these CBRs.

Audit noticed that in OIC and NIC excess cession were made as against the specified percentage to following specified CBRs as given below:

Table 4.12: Excess cession made to CBRs

Cross Border Re-insurers	Year	Insurer	Maximum cession (in per cent)	Cession made (in per cent)
CBR 2	2018-19	OIC	5	6.83
	2019-20			9.09
CBR 1	2020-21	NIC and OIC	2	10.28 and 4.36
CBR 3		OIC		2.55
CBR 2		NIC		6.37

OICL accepted (February 2025) the audit observation and noted to comply with IRDAI's provision on maximum placement with such CBRs and stated to ensure it for future references. Ministry replied (June 2025) that many a times OIC need to accept written lines from CBRs having a rating lower than the stipulated one to ensure 100% placement of all their treaties and Facultative placements. Few of such CBRs are Government entities and have been supporting them for the last many years, without having any issues in settlement of balances. Due to their valuable long-term business association, they endeavor to keep continuing with such CBRs in their placements. Nonetheless, before finalisation of any placement, they remain mindful of IRDAI's requirement on issuance of FRN numbers to the CBRs and its compliance is ensured. However, audit observation regarding compliance of IRDAI's provisions on maximum allowed placement with such CBRs has been noted and shall endeavor to ensure compliance in future.

The fact remains that the business offered to such CBRs was a deviation to Regulations.

NIC while accepting the audit contention stated (January 2025) that the audit points would be taken care of in future. Ministry stated (June 2025) that NIC reported excess cession to CBRs to IRDAI ensuring regulatory compliance.

Management/Ministry did not provide approval of IRDAI for excess cession to CBRs.

4.2.2.5 Retention of risk in deviation to approved reinsurance programmes

Additional exposure by excess retention of risk in insurance policies may result in financial loss beyond the financial capacity and strength of the insurer. Excess retentions in violation of approved RI Programmes were observed across various LoB. The cases of the excess exposure are discussed in following sub-paras.

A. Excess retention in Group Personal Accident (GPA) Policies

UIIC's RI programme (2021-22) for GPA policies mandated net retention of ₹10 crore on Probable Maximum Loss basis[23] (PML) after obligatory cession, ₹10 crore - ₹100 crore (PML) cession in Miscellaneous Surplus Treaty (MST) and balance above ₹100 crore towards Facultative arrangement.

i) Audit noticed that PML of 24 GPA policies issued during 2021-22 ranged between ₹122.31 crore to ₹27,333 crore. However, cessions towards MST or Facultative arrangement (FAC), was nil in violation to RI Programme. This resulted in additional risk exposure of ₹36,457.78 crore (as given below in table) in the GPA policies on the net account of UIIC which should have been ceded to MST and facultative arrangement.

Table 4.13: Additional risk exposure on the net account in the GPA policies

(₹ in crore)

No. of policies	Total PML of all the policies	Obligatory Cession (five percent)	Net retention as per RI programme (₹10 crore for each policy)	PML to be ceded to MST (₹100 crore for each policy)	PML for which facultative reinsurance was to be arranged	PML retained by UIIC	Excess PML retained (7-4)
1	2	3	4	5	6	7	8
24	38,629.24	1931.46	240	2,400	34,057.78	36,697.78	36,457.78

UIIC replied (July 2024) that PML reflected in the Bordereaux[24] was incorrect and cited software glitches during migration from erstwhile Integrated Reinsurance System (IRS) software to new GC Core software as a reason. Ministry, while concurring (June 2025) with the reply of UIIC, stated that such issues are now resolved.

Reply of the Management may be viewed in light of the fact that bordereaux data generated by IT system need verification for any inaccuracy due to technical glitches. Excess net

[23] ***An underwriter will estimate the maximum amount of damage that would probably occur in the event of an accident & base the decisions on retentions and reinsurance on such an estimate.***

[24] ***A general practice under proportional treaties is for the ceding insurer to provide the reinsurers with a list detailing the risks ceded to the treaty. This list is called bordereaux. Bordereaux is a basic record for generating Statement of Accounts (SoA) to recover and pay dues from and to various reinsurers.***

retention in deviation to RI programme was beyond UIIC's financial capacity to retain the risk. In case of claims, there could be severe adverse financial impact.

ii) Out of 2,505 policies, entry in the bordereaux on initial GPA policy issued (2021-22) by UIIC to a bank (*BK)* had nil cession to MST whereas policy endorsements had cessions towards MST. The PML depicted in respect of initial policy was ₹811.26 crore which was revised to ₹100 crore in policy endorsements. However, no premium was ceded to MST or facultative arrangement from the original policy issued. While re-fixing PML as ₹100 crore during endorsements, UIIC made cessions to MST also as mandated by the RI Programme. No cession was made towards MST in the original policy hence UIIC could not recover claim amount of ₹1.29 crore from MST out of ₹1.53 crore paid to claimants under the policy in 26 claims.

UIIC stated (July 2024) that PML was increased from ₹10 crore to ₹100 crore in policy endorsements. Ministry stated (June 2025) the same as a 'one off incident' and assured that UIIC will be cautious in the future.

It is evident that nil cession towards MST for the original GPA policy resulted in financial loss of ₹1.29 crore to UIIC.

B. Excess retention in Special Contingency Policy

UIIC's RI programmes for 2021-22 and 2022-23 for Special Contingency Policy (SCP), mandated obligatory cession, ₹20 crore (PML) as net retention, ₹100 crore towards Miscellaneous Surplus Treaty (MST) and balance, if any, to be reinsured facultatively.

Audit noticed that net retention was ₹5,058.46 crore against mandated net retention of ₹140 crore (₹20 crore x 7) as per RI Programme in seven Special Contingency policies out of 24 policies. This resulted in excess retention of ₹4,918.46 crore and nil cession to MST.

UIIC accepted (July 2024) accounting error in one policy which was rectified in 2023-24 and in remaining six policies indicated lack of internal check and control in UIIC's IT system hence PML was incorrectly displayed in the bordereaux. Ministry accepted (June 2025) the audit observation and stated that errors were rectified subsequently.

It is evident that UIIC was exposed to additional risk which should have been transferred to MST.

C Excess retention in Personal Accident Policies

NIC's Reinsurance Programmes for 2021-22 and 2022-23 mandated retention of ₹2 crore in Personal Accident (PA) policies and cession of balance risk to Miscellaneous Accident Surplus Treaty (MAST) on sum insured basis.

On test check of Bordereaux of Miscellaneous Department it was observed that NIC reinsured (RI cessions to MAST) 13 PA policies out of 861 policies during 2021-22 and 2022-23 on PML basis instead of sum insured basis which was not in line with its Reinsurance Programme as well as the terms of MAST. This resulted in excess exposure of ₹79.30 crore as given below in table:

Table 4.14: Additional risk exposure on the net account in the GPA policies

(₹ in crore)

Year	No. of Policies	Total Sum insured of policies	Obligatory cession	Incorrect Net retention by NIC as per Sum Insured basis	RI Cession made to MAST (wrongly on PML basis)	Correct Net retention as per Sum Insured	Excess Retention (5-7)
1	2	3	4	5	6	7	8
2021-22	12	132.45	6.62	88.30	37.53	24.00	64.30
2022-23	1	34.00	1.36	17.00	15.64	2.00	15.00
Total	**13**	**166.45**	**7.98**	**105.30**	**53.17**	**26.00**	**79.30**

NIC stated (January 2025) that the error was due to system lapses and assured that necessary action would be taken by the Company. Ministry replied (June 2025) that a control mechanism in the IT system has been developed at the policy issuing office level which blocks any policy which varies from the underwriting guidelines (with respect to maximum allowed Sum Insured or PML) as per Reinsurance Programme. The above mechanism shall prevent any inadvertent retention beyond the Board approved Reinsurance Programme.

Management and Ministry reply needs to be viewed in light of the fact that NIC could have faced additional financial burden (claims) for retained excess risk of ₹79.30 crore due to system lapses.

D Excess retention in Aviation policy

NIC's RI Programme (2018-19) mandated 10.79 *per cent* net retention in Aviation Liability policy. Out of total 192 facultative placements of Aviation policies, Audit reviewed 71 policies and noticed that an Aviation policy was issued to an insured (*Insured Co 2)* in the year 2018-19, where NIC had retained ₹630 crore of liability risk against ₹340 crore (as per RI Programme). The actual RI cession as well as cession as per RI programme is shown below:

Table 4.15: Actual RI cession and as per RI programme

(₹ in crore)

Particular	Actual Cession			Cession as per RI Programme			Excess Cession
	Per cent	**Sum insured**	**Premium**	***Per cent***	**Sum insured**	**Premium**	
Obligatory	5.00	157.50	0.88	5.00	157.50	0.88	-
Net	20.00	630.00	3.54	10.79	340.00	1.91	1.63
Facultative	75.00	2,362.50	13.27	84.21	2,652.50	14.90	(1.63)

Subsequently, a loss was reported on 1 February 2019 under the policy and NIC paid an amount of ₹31.81 crore and ₹9.60 crore was outstanding (March 2023). Thus, there was an additional claim outgo of ₹3.81 crore as detailed in the table below:

Table 4.16: Claim paid and claim outstanding as per actual RI cession and as per RI programme

(₹ in crore)

Particular	Actual Cession		As per RI Programme		Excess Claim in NIC net account	
	Per cent	**Claim Paid**	***Per cent***	**Claim Paid**	***Per cent***	**Claim Paid**
Claim Paid: ₹31.81 crore						
Obligatory	*5.00*	1.59	*5.00*	1.59		
Net	*20.00*	6.36	*10.79*	3.43	***9.21***	**2.93**
FAC	*75.00*	23.86	*84.21*	26.79	***(9.21)***	**(2.93)**
Claim outstanding: ₹9.60 crore						
Obligatory	*5.00*	0.48	*5.00*	0.48		
Net	*20.00*	1.92	*10.79*	1.04	***9.21***	**0.88**
FAC	*75.00*	7.20	*84.21*	8.08	***(9.21)***	**(0.88)**
Total excess claim paid by NIC						**3.81**

It is evident from the above table that due to excess retention in deviation from Board approved RI programme, NIC paid an excess claim of ₹3.81 crore against excess premium of ₹1.63 crore.

NIC assured (January 2025) that cession would be made as per approved RI Programme in the future. Ministry concurred (June 2025) with the reply of the Management.

Recommendation 10: PSGICs may strengthen IT systems and internal controls to avoid deviations to approved RI programme.

4.2.2.6 Acceptance of inward reinsurance business in deviation to RI programme

Reinsurance Programmes of UIIC and NIC envisaged acceptance of foreign inward business upto net retention of the respective LoB. Net retention of the company was protected by Excess of Loss treaties.

As per UIIC's RI programme, net retention in case of Aviation Hull and Spares and Aviation Liability policies was ₹50 crore and ₹200 crore respectively. Based on the above acceptance limits, the inward acceptance cannot be more than ₹200 crore in Aviation Liability policies. Audit noticed that UIIC accepted inward business in five[25] Aviation liability policies during 2021-22 and 2022-23 where its share in Sum Insured was more than ₹200 crore. This resulted in excess exposure beyond UIIC's net retention capacity by ₹435.21 crore.

Similarly as per NIC's RI programme, net retention for Aviation Hull and Spares and Aviation Liability was ₹40.80 crore and ₹340 crore respectively. However, NIC accepted (2018-23) inward business in excess of its net retention in 58 policies in Aviation (Hull and

[25] *four policies with excess retention of ₹412.08 crore during 2021-22 and one policy during 2022-23 with excess retention of ₹23.12 crore*

Spares) risk and in four policies in Aviation Liability risk out of 302 policies which resulted in excess exposure beyond NIC's retention capacity by ₹1,148.73 crore[26].

UIIC replied (July 2024) that these transactions are made on Original Currency Loss Calculation method where premium is accepted and claims are settled in foreign currency. Combined single cover limit of these policies were more than the retention as stated in RI programme. Ministry concurred (June 2025) with UIIC reply.

NIC stated (December 2024) that there was no acceptance of inward business in excess of their net retention capacity. Ministry concurred (June 2025) with NIC reply.

UIIC's reply may be viewed in light of the fact that the RI programme for the years 2021-22 and 2022-23 did not specify retention as 'combined single cover limit' for Aviation Hull and Spares and Aviation Liability policies. Further, bordereaux is populated in INR and the retention mentioned in the bordereaux was more than what is permitted in the RI programme.

NIC's reply may be viewed in light of the fact that the NIC did not consider sum insured of spares in the inward business acceptance for working out the retention therefore NIC reply that there is no inward acceptance in excess of net retention capacity was incorrect.

4.2.2.7 Underwriting of crop insurance without adequate reinsurance coverage

Pradhan Mantri Fasal Bima Yojana (PMFBY) was launched from Kharif 2016 with aim to support production in agriculture by providing an affordable crop insurance product to ensure comprehensive risk cover for crops of farmers against all non-preventable natural risks from pre-sowing to post-harvest stage. The Scheme has completed 16 crop seasons and is being implemented across States/Union Territories (UTs).

The State/UT Government would invite the pre-qualified empaneled Insurance Companies as Implementing Agency (IA) through open tender for submission of district-wise and crop-wise cluster level actuarial premium rates as percentage of Sum Insured (financial bid). NIC participated in crop insurance business in five[27] states in 2019-20.

RI programme (2019-20) mandated obligatory cession, net retention and Quota Share arrangement of 5 *per cent,* 25 *per cent* and 70 *per cent respectively*. As per reinsurance agreement with GIC Re as Quota Share, the estimated premium income of ₹1,800 crore with buffer (+/-)10 *per cent* could be underwritten by NIC. Hence, maximum estimated premium income amounting to ₹1,980 crore could be ceded to Quota Share treaty under reinsurance arrangements. However, NIC booked total premium of ₹2,257.22 crore which was over and above maximum estimated premium of ₹1,980 crore thus resulting in retention of ₹277.22 crore (₹2,257.22 crore - ₹1,980 crore) to NIC's net account. For total

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[26] ***Hull and Spares - ₹1,073.05 crore and Liability - ₹75.68 crore***

[27] ***Uttar Pradesh (Kharif and Rabi), West Bengal (Rabi), Manipur (Kharif), Andaman and Nicobar Islands (Kharif and Rabi) and Puducherry (Rabi).***

premium of ₹2,257.22 crore for crop insurance in 2019-20, NIC had total incurred claims amounting to ₹2,391.70 crore. However, incurred claims amounting to ₹2,097.96 crore were covered under the Quota Share arrangement with GIC Re and balance amount of incurred claims of ₹293.74 crore were borne by NIC. Thus, underwriting of crop insurance beyond premium limit of Quota Share arrangement resulted in loss of ₹16.52 crore (₹293.74 crore - ₹277.22 crore) to NIC.

NIC accepted (January 2025) the audit observation and stated that it had taken up with GIC Re for mid-term revision of Estimated Premium Income (EPI) as per existing provision, but it was not accepted by GIC Re. Hence, NIC was forced to retain the excess premium. NIC further stated that inbuilt alert system would be developed in IT system. Ministry concurred (June 2025) with NIC reply.

It is evident that crop insurance business without adequate reinsurance coverage resulted in loss of ₹16.52 crore to NIC.

4.2.2.8 Dependence on single reinsurer for credit insurance business

Regulation 3(1)A of IRDAI (Reinsurance) Regulations, 2018 requires that the Re-insurance Programme shall be guided by the objective of maximising retention within the country, subject to proper and adequate diversification of risks and Regulation 5 (1) thereof requires that cedants shall seek terms at least from all Indian Re-insurers, who have been transacting Re-insurance business (other than emanating from obligatory cession) during the immediate past three continuous years and at least from four FRBs.

In case of credit insurance, NIA renewed reinsurance arrangements from time to time since 2004 to 2023 with one foreign reinsurer, *Reins 1*, without attempting to invite competitive bids, citing that *reinsurer (Reins 1)*were offering technical support.

Audit reviewed Board Notes regarding approval of Treaty and final RI programme on Credit Reinsurance. The percentage of cession on *Reins 1* account as per RI programme for five years is given below.

Table 4.17: Cession of Credit Insurance as per RI programme for five years

(in *per cent*)

Segment	2018-19	2019-20	2020-21	2021-22	2022-23
Foreign Accounts					
Obligatory	5	5	5	5	4
GIC Quota Share	12	12	12	12	0
Net Retention	13	13	13	13	25
Atradius Quota Share	70	70	70	70	71
Total	**100**	**100**	**100**	**100**	**100**
Domestic Accounts					
Obligatory	5	5	5	5	4
GIC Quota Share	12	12	12	12	0
Net Retention	36	36	36	36	48
Atradius Quota Share	47	47	47	47	48
Total	**100**	**100**	**100**	**100**	**100**

In addition to cession of 70 *per cent* of premium relating to foreign accounts and 47 *per cent* of premium relating to Domestic accounts, annual technical fees and processing fees per buyer were paid to *reinsurer (Reins 1)* in this arrangement. A treaty was in effect from October 2015 to September 2018. It was renewed from October 2018 to September 2021 without inviting bids. The treaty was due to expire in September 2021. Again, there was scope for market study and for inviting competitive bids. However, *Reins 1* participation in (June 2021) finalising Reinsurance Programme for the year 2021-22. This meant that the Company had pre-decided to continue with *Reins 1* without any attempt to explore the market for other prospective reinsurers or foreign reinsurer's branches as per IRDAI regulations.

Audit observed that no efforts have been made over a period of 20 years to come out of dependence on single vendor, which has affected competitiveness.

NIA replied (April 2024) that treaty with *reinsurer (Reins 1)* was renewed from October 2023 with reduced technical fees of ₹1.20 crore and NIA gained underwriting expertise for domestic buyers.

The reply of the management needs to be viewed in light of the fact that NIA claimed to have acquired underwriting expertise for domestic buyers but cession of domestic accounts and payment of processing fees of ₹1,500 per buyer to *Reins 1* was continued.

Ministry stated (June 2025) that Credit Insurance is a specialised business requiring significant investment in IT systems and skilled manpower, which are typically found in mono line insurers. Success in this area depends on the ability to continuously process data and monitor risks, which general insurance companies may not be fully equipped for.

NIA's continued reliance on a single reinsurer for 20 years without exploring alternatives lacked justification under IRDAI (Reinsurance) Regulations which emphasise risk diversification.

4.2.2.9 Underwriting in deviation to Ministry guidelines and treaty condition

Ministry of Finance directed (May 2012) the PSGICs not to underwrite policies of Indian Interest Abroad[28] (IIA) till further orders.

Audit noted that the Engineering First Surplus Treaty (EFST) and Engineering Second Surplus Treaty (ESST) executed with GIC Re by UIIC in 2014-15 required that coverage for the IIA would be sub-limited to ₹50 crore and ₹37.50 crore on sum insured basis respectively. UIIC arranged Excess of Loss Treaty (Risk XoL) with GIC Re (leader) to

[28] ***IIA covers the insurance or reinsurance of properties/assets belonging to Wholly Owned Subsidiaries (WOS), Joint Ventures (JV), or offices of Indian-headquartered companies situated outside India.***

protect their net (₹150 crore) account which stipulated, *inter alia,* that the coverage would be as per overlying Engineering Surplus Treaties.

Audit noticed that UIIC issued (February 2015) a Marine-cum-storage-cum-erection policy (long term) covering erection risk of a hydroelectric project at Kamichhu, Bhutan with SI of ₹1,090.24 crore. UIIC made reinsurance cessions on PML basis (₹327.07 crore) and ceded the premium to Inter Group Treaty (16.38 *per cent* each to OIC, NIA and NIC- IGT members). Hence, no surplus was available for cession to EFST and EEST (on PML basis). Subsequently, a loss (August 2019) resulted in claim payment of ₹200 crore and estimated claim payable of ₹100 crore (April 2024). However, IGT members refused to honour the claims as it was in violation of government guidelines and GIC Re (as XoL treaty leader) also refused to protect the loss of UIIC due to deviation to treaty condition. This resulted in non-recovery of reinsurance share of ₹234.99 crore[29].

UIIC accepted (June 2024) that an error occurred in underwriting on PML basis which resulted in no cession to surplus treaty. After GIC Re's non-condonation of claim and refusal of claim by IGT, UIIC had to take additional burden of claim into their net amounting to ₹234.99 crore. Ministry concurred (June 2025) with the reply of the Management.

Lack of due diligence in underwriting of risk on sum insured basis despite directives of GIC Re and in underwriting of IIA in violation of Ministry directives resulted in rejection of claims by GIC Re and IGT members. Consequently UIIC suffered a loss of ₹234.99 crore.

4.2.2.10 Payment of higher reinstatement premium due to inappropriate treaty terms

In non-proportional treaties (excess of loss treaties), reinsurer offers reinstatement provisions to automatically reinstate exhausted level/limit of claims through payment of reinstatement premium i.e. additional reinsurance premium that may be charged for reinstating the amount of reinsurance coverage reduced as the result of a reinsurance loss (claim) payment under a reinsurance contract. Reinstatement methods are:

Pro-rata as to amount - Reinstatement premium is calculated pro rata to the loss limit used.

Pro-rata as to amount and time - Reinstatement premium is calculated to the loss limit used and prorated for the number of days from the occurrence of the loss to the expiry of the treaty.

Audit noted that NIC availed non-proportional treaties with reinsurers to protect its net retention with reinstatement method of pro-rata as to amount. It was noticed that no cost

[29] ***As computed and submitted to Board of Directors for ratifying deviation from RI programme.***

benefit analysis was made by the company before accepting pro-rata as to amount method in the treaties.

Audit observed that in case of two high value claims[30], NIC recovered ₹284.76 crore from risk excess of loss treaties of 2019-20 and 2022-23. To reinstate the used limits, NIC paid reinstatement premium of ₹74.69 crore and ₹19.84 crore in 2019-20 and 2022-23 respectively for full year while the unexpired periods of treaties for reinsurance cover as on date of loss were nine days and 90 days only in 2019-20 and 2022-23 respectively. Full year premium was paid since NIC did not avail reinstatement method of pro-rata as to amount and time in the treaties hence the reinstatement premium paid was ₹94.53 crore (for full year) instead of ₹6.73 crore (for remaining unexpired period) thus an amount of ₹87.80 crore could have been saved as given below in table.

Table 4.18: Excess reinstatement premium paid

(₹ in crore)

Year of Treaty	Claims Recovered	No. of days left to expiry of the treaty from date of loss	Reinstatement Premium paid by NIC for full year	Reinstatement Premium for days left to expiry of the treaty from date of loss	Reinstatement Premium which could have been saved
2019-20	237.53	9	74.69	1.84	72.85
2022-23	47.23	90	19.84	4.89	14.95
Total	**284.76**		**94.53**	**6.73**	**87.80**

NIC accepted (January 2025) the audit observation and assured to explore the market with an option for reinstatement at pro rata as to amount and time. Ministry concurred (June 2025) with the Management reply.

The financial loss due to lack of cost benefit analysis indicated scope to improve financial prudence in reinsurance transactions by NIC.

4.2.2.11 Corrective action at the instance of Audit

OIC executed Fire Additional Quota Share Treaty (AQST) with GIC Re. Loss Participation Clause (LPC) of AQST for 2018-19, stipulated that "if the incurred loss ratio for the underwriting year including natural catastrophe loss exceeds 90 *per cent* of earned premium, the ceding OIC shall take a 100 *per cent* share of losses, exceeding that percentage however limited, to 30 *per cent* of earned premium.”

Incurred Claim Ratio (ICR) for 2018-19 was 97.96 *per cent*, which triggered LPC. LPC was to be adjusted within 24 months after treaty inception date (i.e. before April 2020). OIC did not comply with the stipulated timeline in booking liability arising out of LPC as per treaty terms. However, the same was booked in September 2023 on being pointed out by Audit. Similarly, LPC share applicable for 2015-16 was also booked in September 2023,

[30] ***Claimant 1 (date of loss: 23 March 2020) and Claimant 2 (date of loss: 1 January 2023)***

on pointing out by Audit. The total amount of LPC which was booked belatedly was ₹11.62 crore as detailed below:

Table 4.19: OIC's share as per Loss Participation Clause

(₹ in crore)

Underwriting Year	Premium	Claims Paid	Claims Outstanding	Incurred Claims		OIC's share of as per LPC
				Amount	*Per cent*	
2015-16	72.30	62.98	0.57	63.55	*87.89*	5.71
2018-19	74.32	56.11	16.69	72.80	*97.96*	5.91

Source: Details furnished by Management

Ministry stated (June 2025) OIC has confirmed that LPC triggered in the FY 2015-16 and 2018-19. The same was worked out and booked to the tune of ₹5.71 crore and ₹5.91 crore respectively. OIC also confirmed that henceforth LPC calculations shall be checked and rendered to the reinsurer within the stipulated time.

Belated adjustment of LPC liability indicates absence of a robust system and monitoring mechanism to book liability when accrued.

4.2.3 IT Systems and Internal Controls

Internal control is a process effected by an entity's Board of Directors, Committees, top management and other personnel, to provide reasonable assurance that systems and procedures and Information Technology (IT) Systems are reliable, accurate, real time, compliant with applicable laws, regulations, approved policies and procedures and provisions of various contracts. Effective Internal control aids in risk minimisation by preventing errors and irregularities, identifying problems for corrective action.

PSGICs use various IT systems[31] as per the requirements to handle its varied business transactions. The IT systems landscape and controls varied across companies, with different levels of integration and automation.

A bordereaux is a basic record for generating Statement of Accounts (SoA) to recover and pay dues from and to various reinsurers. On acceptance of risk and settlement of claim on direct side, bordereaux for premium, claims paid and outstanding claims are generated. Premium bordereaux is populated with policy number, insured name, details of risk covered, premium received, cession percentage, treaty wise premium split. Claims outstanding and claims paid bordereaux are populated on claim intimation and settlement

[31] ***NIA - Reinsurance Accounting Management System (RAMS) for reinsurance operations and Centralised Web based Insurance System Solutions (CWISS) for direct operations; NIC - Reinsurance Software (REIS) for reinsurance and Enterprise Architecture Solution for Insurance (EASI) for direct business. OIC - INLIAS (Integrated Non-Life Insurance Application Software) for both direct and reinsurance operations, with reinsurance accounts handled separately on a UNIX OS. Additionally, OIC's Group Underwriting Cell (GUC) uses systems based on Oracle, MS Excel and MS Access. UIIC - Comprehensive Online Real-time System (CORE), for direct and reinsurance business.***

on direct side with details of claims to be recovered from each treaty. Input controls and mapping of the treaty conditions for RI transactions were tested. Deficiencies noticed in IT systems and internal control processes relating to reinsurance operations in PSGICs are discussed in succeeding paragraphs.

4.2.3.1 Delay in payment of premium to facultative reinsurers

Facultative (FAC) agreements *inter alia* include Premium Payment Warranty (PPW) clause which stipulates the number of days (from inception of the contract) within which premium is to be paid to the reinsurer. The reinsurer has the right to cancel the contract if premium is not paid within the stipulated time, resulting in exposure of the risk, to the cedant.

Audit reviewed the existing procedure and related IT systems on executing FAC agreements and observed that IT system of OIC did not capture the trail of the entire transaction to act as a control measure to ensure timely payment of premium. Hence premium payment could not be fully verified for the entire audit period since trail of date of submission of FAC agreements and documents by Technical Departments to RI department, due date for premium payment and date of premium payment by RI Accounts Department was not existing. Delay (two to 328 days) in payment of premium by OIC was observed in 16 out of 60 Miscellaneous FAC agreements for 2021-22 and 2022-23.

OIC accepted (February 2025) the observation and assured to update their IT system. Ministry concurred (June 2025) with the Management reply.

Similarly, review of data (Q4 2022-23) on test check basis[32] revealed delay (one to 101 days) in payment of premium in 79 cases out of 206 FAC agreements[33] of UIIC.

UIIC replied (September 2024) that delay was due to non-furnishing of signed slips by brokers and brokers were insisted to get extension of Premium Payment Waranty date from Reinsurers. UIIC assured to update the CORE IT system to capture the entire trail, including FAC premium payment date. Ministry while concurring with the Management reply confirmed (June 2025) that UIIC was now generating MIS report on premium payment date.

Recommendation 11: PSGICs may update and utilise the IT systems and Management Information Systems to generate transaction statements to detect deviations at an early stage.

4.2.3.2 Variation in obligatory cession

IRDAI notified the obligatory cession to be placed with GIC Re as five *per cent* and four *per cent* of the sum insured on each general insurance policy to be reinsured for the period

[32] ***Data was received only for the quarter IV of 2022-23 as relevant data could not be extracted from Bordereaux.***

[33] ***Fire LoB – 59 out of 181 cases, Liability LoB 2 out of 4 cases, Package policies 18 out of 21 cases. (Total 79 out of 206 FAC Agreements)***

2018-19 to 2021-22 and 2022-23 respectively in respect of insurance except risks ceded to terrorism and nuclear pool.

Audit observed that in 27 cases of fire policies during the period 2018-19 to 2022-23 issued by NIC where the obligatory cessions ranged between 5.04 and 14.29 *per cent* resulting in excess payment of obligatory premium of ₹6.43 crore. However, in 22 cases of fire policies during the period 2018-19 to 2022-23, obligatory cessions ranged between zero to 4.98 *per cent* resulting in short payment of obligatory premium of ₹1.40 crore.

NIC accepted the audit observation (January 2025) and labelled it due to system error and assured rectification. Ministry concurred (June 2025) with reply of the management.

In case of 29 instances of Liability policies of UIIC during 2022-23, obligatory cession premium to GIC Re ranged between 1.01 to 3.88 *per cent* which was less than the mandated cession (i.e. four *per cent)* resulting in short ceding of premium of ₹6,852 to GIC Re by UIIC.

UIIC replied (July 2024) that the discrepancy was minimal. Ministry stated (June 2025) that the discrepancy was due to non-ceding of terrorism premium to obligatory cession (UIIC) in Q1 2022-23 which was subsequently rectified.

The replies of the management and Ministry needs to be viewed in light of the fact that absence of input controls resulted in incorrect mandatory cession to GIC Re, which needs to be rectified irrespective of the quantum of error.

4.2.3.3 Excess estimation of Minimum Deposit Premium

On approval of RI programme every year, PSGICs invite quotes and executes treaties. To protect its net retention, insurer executes Non-proportional Excess of Loss (XoL) treaties. PSGICs derive Estimated Gross Net Premium Income (EGNPI) for the ensuing year based on which reinsurers submit quotes for premium rates and for Minimum Deposit Premium (MDP).

Subsequent to signing the treaty, MDP is remitted to the reinsurers as per treaty terms. At the end of the financial year, final payment is arrived at based on actual premium income. If the actual premium exceeds the MDP, PSGICs will pay the difference to the reinsurer. If actual premium is less than the MDP, the difference amount is not refundable. Excess MDP paid by NIC, OIC and UIIC to the reinsurers during the years 2018-19 to 2022-23 amounted to ₹84.79 crore which revealed incorrect estimation of MDP as detailed in **Annexure-VII.**

NIC accepted the audit observation and stated (January 2025) that estimation would be done based on previous years' experience in future. OIC stated (February 2025) that EGNPI is based on actuals, current trends, and input from technical teams. Projections do not match actual GNPI and MDP at 85 *per cent* of XL premium is treated as final. UIIC replied (July

2024) that due to changes in IRDAI policy, non-proportional treaties were for a period of nine months during 2018-19, which resulted in an overestimation of MDP. Ministry concurred (June 2025) with NIC, OIC and UIIC reply.

The lack of system / monitoring mechanism to accurately assess the MDP is evident. Thus realistic estimates of EGNPI could have saved PSGICs from avoidable financial losses. NIA did not submit the required data.

4.2.3.4 Errors in computation of actual Gross Net Premium Income

PSGICs derive Estimated Gross Net Premium Income (EGNPI) for the ensuing year based on which reinsurers submit quotes for premium rates and for Minimum Deposit Premium (MDP).

For calculation of final premium under Non-proportional Excess of Loss (XoL) treaties, actual Gross Net Premium Income (GNPI) is calculated by eliminating ineligible policies i.e. policies which have sum insured less than treaty deductible amount and net retention sum insured amount. Based on actual GNPI calculated, adjusted premium is derived against MDP and in case of deficit in MDP, additional premium is paid to reinsurers.

Audit noted that in calculation of GNPI, ineligible policies were included and premium pertaining to ineligible policies were considered while assessing GNPI by PSGICs resulting in excess premium payment as detailed in table below:

Table 4.20: Excess premium payment due to excess GNPI

(₹ in crore)

Company	Year	Treaty Name	Treaty Deductible	Minimum SI for Inclusion after considering net retention	Premium of ineligible Policies	Treaty Rate (*per cent*)	Extra Premium paid (6*7)
1.	**2.**	**3.**	**4.**	**5.**	**6.**	**7.**	**8.**
OIC	2018-19	Non-Marine Risk XoL	25	35.71	19.26	*10.8238*	2.08
	2019-20		25	35.71	31.42	*13.0493*	4.10
	2020-21		25	41.67	48.44	*12.8622*	6.23
	2021-22		25	41.67	42.59	*12.358*	5.26
	2022-23		25	37.87	34.98	*14.423*	5.05
NIC	2020-21		45	47.37	71.48	*9.9603*	7.12
	2021-22		45	47.37	65.37	*10.4481*	6.83
UIIC	2021-22	Risk XoL	50	58.82	0.36	*17.6643*	0.06
						Total	**36.73**

Source: Details furnished by Management

For GNPI computation, UIIC's Risk XoL's deductible for the year 2021-22 was ₹50 crore. However, under Engineering LoB three policies with sum insured ranging from ₹0.78 crore to ₹43 crore was ceded which was not required. This resulted in excess payment of minimum deposit premium of ₹0.06 crore. NIC in non-Marine policies included risks having sum insured upto ₹45 crore in GNPI computation which resulted in excess payment of minimum deposit premium of ₹13.95 crore. In OIC's non-Marine Risk XoL treaties, deductible was ₹25 crore. However, 9,737 ineligible policies with sum insured less than the deductible were included in computing GNPI which resulted in excess payment of minimum deposit premium of ₹22.72 crore. Thus, total excess minimum deposit premium paid by UIIC, NIC and OIC was ₹36.73 crore.

UIIC replied (July 2024) that ineligible policies were included inadvertently and assured proper calculation in future. NIC noted (December 2024) the audit observation and assured to exclude ineligible policies. OIC accepted the audit observation (February 2025). Ministry concurred (June 2025) with the replies furnished by PSGICs.

Ministry and PSGICs needs to take appropriate actions to automate the process of GNPI calculation to ensure accuracy and avoid financial losses. NIA did not submit the required data.

4.2.3.5 Non-recovery of claims in proportion to premium ceded

Audit noticed that IT system of OIC did not have the provision to check whether the Recovery Advice for claim raised was proportionate to the premium ceded for facultative cover. In nine cases of settled claims (2018-23) of Fire and Miscellaneous portfolio, recovery of claim from obligatory share, net retention and facultative cover was not in proportion to the premium ceded. Due to discrepancy in raising claim, OIC had to bear avoidable loss of ₹1.24 crore on net account.

No such case was observed in NIC and UIIC. Audit could not verify the issue in NIA since data furnished was incomplete, incorrect and treaty reference number was not available.

OIC accepted (February 2025) the audit observation and stated that OIC is updating their IT system to replicate the existing rules in claim recovery along with introducing input controls. Ministry concurred (June 2025) with the reply of the Management.

Thus, absence of internal checks and monitoring mechanism resulted in financial loss of ₹1.24 crore.

4.2.3.6 Non-compliance to Cash Loss provisions

Proportional treaties executed by PSGICs contained cash loss clause, which mandates the cedant to raise a cash loss request for immediate payment by the reinsurers, if the claim exceeds cash loss limits specified, instead of recovery on quarterly basis. Cash loss clause aids in liquidity of funds while settling large claims. All claims (excluding cash loss) are settled on quarterly basis through Statement of Accounts (SoA) submitted to the reinsurers.

Table 4.21: Details of cash loss limits and cash loss requests not raised or recovered

(₹ in crore)

Treaty	Total Cash Loss request not raised by UIIC (2021-22 and 2022-23)	Total Cash Loss request not recovered by OIC (2018-19 to 2021-22)
Fire	36.66	2.41
Miscellaneous Surplus	5.5	-
Marine Cargo	-	1.18
Total	**42.16**	**3.59**

Source: Details furnished by Management

Audit reviewed the compliance to the cash loss clause and observed that UIIC (2021-22 and 2022-23) did not raise cash loss requests in eleven cases[34] which was a deviation to treaty condition thus foregoing an opportunity to recover ₹42.16 crore instantly. Further, the treaty terms did not include any time limit for reinsurers to settle cash loss claims, unlike SoA settlements.

UIIC replied (September 2024) that the treaty conditions did not specify time limit for reinsurers to settle cash loss claims unlike SoAs, which resulted in delay in recovery of the claims and the same is recovered through Quarterly SoAs smoothly. Ministry concurred (June 2025) with the reply of the management.

OIC raised cash loss claims of ₹90.37 crore with reinsurer during 2019-20 and 2022-23. However, due to absence of specific time limit for settlement, a delay of 15 to 1301 days was noticed and an amount of ₹3.59 crore is pending from various reinsurers (March 2024).

OIC accepted (February 2025) the audit observation and assured corrective action. Ministry concurred (June 2025) with the reply of the management.

It is evident that the companies did not utilise the cash loss clause provisions and continued to recover large claims through quarterly SoA resulting in delayed cash inflow.

4.2.3.7 Loss due to facultative reinsurance without ceding commission

Ceding insurers' acquisition cost for direct business is recovered from reinsurers through ceding commission. Further, as per circular issued (January 2014) by GIC Re, the terrorism pool members were allowed to receive brokerage/agency commission upto five *per cent* on terrorism premium.

Audit noted from the Technical Note for standalone terrorism policies prepared by NIC's Actuary that procurement cost as brokerage/commission charges for standalone terrorism business and management expenses were estimated @ 6 *per cent* and @ 2.50 *per cent of premium received*. Hence, NIC had to incur an expenditure of at least 8.50 *per cent* of GDPI

[34] ***Fire LoB four cases, Personal Accident four cases and Package Policies three cases***

for procurement of business through standalone terrorism policies issued. However, Audit noticed that 259 standalone terrorism policies were reinsured through facultative reinsurance placement without charging ceding commission resulting in a loss of ₹1.50 crore and 124 policies were reinsured with less than five *per cent* commission resulting in a loss of ₹0.53 crore due to short charging of ceding commission.

NIC replied (December 2024) that standalone terrorism policy was a facultative reinsurance driven policy hence management expenses were not required to be considered. NIC further stated that even for standalone terrorism policy ceded to the pool, ceding commission allowed was only five *per cent* while the total payout including management expenses remained much higher.

Ministry replied (June 2025) that NIC arranged facultative reinsurance when treaty limits are exhausted, coverages fall outside treaty terms, or pricing /terms does not align with treaty conditions, specialised or high-accumulation risks blocked from treaty cession and requires facultative placement and such risks are placed with reinsurers directly or via brokers, following IRDAI regulations.

The reply did not address the issue of non-recoverability of brokerage/commission paid on direct side and management expenses which should have been recovered while ceding the premium to reinsurers. Ministry reply need to be seen in view of the fact that facultative reinsurance is resorted if a risk cannot be ceded to treaty due to different reasons. However, placement of facultative reinsurance at zero or lower ceding commission was not justified.

Audit also reviewed facultative reinsurance placed by UIIC during 2021-23 and noticed that in 17 policies premium was ceded to the reinsurers without receiving ceding commission. UIIC had paid brokerage/commission of ₹0.45 crore against these policies.

UIIC replied (September 2024) that in many standalone terrorism policies, RI brokers quote premium netting off the ceding commission. In fire and engineering policies ceding commission received is more than direct commission paid, and in all policies of miscellaneous LoB pointed out by Audit, the net premium i.e. direct premium less direct brokerage charged by UIIC is more than the reinsurance premium paid and hence there was no loss of revenue. Ministry also added (June 2025) that Reinsurance FAC placements are of two types, Gross of commission (where ceding commission is receivable) and Net of commission (where ceding commission is adjusted in the rate quoted). Due to hard market and to retain the client base, in few cases, the company accepts the net of commission rates.

Management reply may be reviewed in the light of the fact that the gain due to difference in premium in direct side and reinsurance premium cannot compensate foregone ceding commission. Ceding commission should have been collected on the ceded premium.

4.2.3.8 Revision in ceding and profit commission from foreign reinsurers

Audit reviewed Fire First Surplus Treaty (FFST) and Fire Second Surplus Treaty (FSST) executed by OIC with GIC Re (leader) for the period 2018-19 to 2022-23.

Audit observed that addendums to treaties were made reducing ceding commission rates for certain follow reinsurers[35], without approval of Board of Directors of OIC and leader's consent[36]. This resulted in undue favour to three follow reinsurers by forgoing commission income of ₹55.12 crore by OIC in the years 2018-19 to 2022-23. In addition to commission loss, these addendums also included change in Loss Participation Clause (LPC)[37] by increasing the incurred loss ratio limit by 10 *per cent* during 2018-19 and 2019-20 and by 5 *per cent* during 2021-22 and 2022-23 which made OIC to bear increased share of LPC claims amounting to ₹3.96 crore.

Similarly, in EFST and ESST (2018-19) and EST (2019-20 onwards) executed with GIC Re (leader), addendums were made exempting specific follower reinsurers[38] from paying profit commission (for FY 2018-19 to 2021-22) and reducing ceding commission (FY 2022-23), without approval of Board of Directors of OIC and leader's consent, resulting in undue favour to these foreign reinsurers through forgoing income of ₹2.04 crore[39].

Ministry stated (June 2025) that OIC permitted specific exemption to certain reinsurers as treaties were under placed and full placement was to be ensured. Further seeking GIC Re's approval would have forced amendments to all reinsurers, which could have negatively impacted OIC.

Ministry's reply clarified on operational difficulty in placement of treaty with follow reinsurers but reply did not address the non-approval of the deviations.

4.2.3.9 Corrective action at the instance of Audit

a) UIIC issued an Industrial All Risk policy[40] to an insured (*Insured Co 3)* for the period (2021-22) as leader (60 *per cent*) with a Co-insurer (*Co-ins)* (40 *per cent)* of the risk. Audit found that though UIIC collected a total premium of ₹10.98 crore and its share was ₹6.58 crore (60 *per cent*), the fire premium bordereaux for the

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[35] ***Reinsurer (Reins 2) (2018-19), Reinsurer (Reins 3) (2019-20), Reinsurer (Reins 3) and Reinsurer (Reins 4) (2020-21 to 2022-23)***

[36] ***As per Signed Treaty slip with Lead Reinsurer (GIC Re) "All amendments and special acceptances to this agreement shall be binding to all reinsurers when initiated by the Contract Leader"***

[37] ***LPC stipulates that if the incurred loss ratio for the underwriting year including Natural Catastrophe losses exceeds particular per cent of earned premium, the ceding company shall take 100% share of losses exceeding that percentage limited to agree per cent of earned premium.***

[38] ***Reinsurer (Reins 2) (2018-19) and Reinsurer (Reins 3) (2019-20 to 2022-23)***

[39] ***Profit commission (₹2.02 crore) and ceding commission (₹0.02 crore)***

[40] ***Policy No.0902001120P114798750***

related period reflected ₹6.17 crore as its own share of premium and cessions were distributed accordingly.

The lapse highlights deficiencies in adequate verification of bordereaux and absence of internal controls as a monitoring mechanism warranting system improvement and introduction of input controls, designing Standard Operating Procedure (SoP) for verification and finalisation of bordereaux to generate SoA.

UIIC accepted (September 2024) the audit observation and stated that initially UIIC share under the policy was 60 *per cent* and co-insurance share of (*Co-ins)* was 40 *per cent*. However in Q4 (2020-21) itself UIIC share was reduced to 20 *per cent* (UIIC-20 *per cent*, New India-10 *per cent*, Oriental-10 *per cent*, National-10 *per cent*, ICICI-10 *per cent* and Reliance-40 *per cent*) through an accounting JV in the direct side but inadvertently not captured properly in Q4 2020-21 bordereaux. This co-insurance modification was captured in the GC by the operating office in Q1 2021-22 and the JV was reversed on the direct side. Both these entries are properly reflected in the bordereaux of Q1 2021-22. The omission to capture the co-insurance modification made in Q4 in RI bordereaux will be rectified in the current year 2024-25. Ministry stated (June 2025) that UIIC noted the audit observation.

b) Indian Market Terrorism Risk Insurance Pool (Pool) agreement mandated that members shall provide accounts to the Pool Manager and remit the dues on quarterly basis, with a grace period of 30 days from the end of the quarter. Pool Manager (GIC Re) allowed (January 2014) Brokerage/Agency Commission upto five *per cent* of gross terrorism premium to pool members. GIC Re also directed (January 2014) pool members to cede only net premium to the Pool, after deducting service charges and Brokerage/ Agency Commission at Pool rates.

Audit noticed that OIC did not adjust Brokerage/ Agency Commission in Statement of Accounts despite the directions of GIC Re. GIC Re once again allowed pool members (May 2019), to recover Brokerage/ Agency Commission for 2018-19 alone, provided the accounts were submitted by May 2019. OIC did not act to claim brokerage for the period 2018-19 also. Subsequently, in response to GIC Re's one-time offer for recovery of unclaimed brokerage, OIC submitted (September 2022) its claim for ₹19.64 crore pertaining to year 2014 onwards, which was adjusted in January 2024. Audit worked out loss of potential interest income of ₹6.47 crore [41] due to delayed recovery of brokerage by OIC.

OIC (February 2025) accepted the observation and stated that they have been claiming brokerage without delay, from Q2 2022-23 onwards. Ministry stated (June 2025) that under

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[41] ***Year wise amount outstanding on 31st March of respective year is multiplied with Rate of Return on investment earned by OIC of that year and interest calculated up to 13.10.2023. Year wise Rate of return from 2014-15 to 2022-23 was 8.66 per cent, 8.63 per cent, 8.46 per cent, 8.22 per cent, 7.25 per cent, 7.14 per cent, 7.34 per cent, 7.11 per cent and 7.5 per cent respectively. Calculated based on Rate of Return on investment earned by OIC.***

Terrorism Risk Pool arrangement, 100 *per cent* of the premium collected is ceded to GIC Re, with 10 *per cent* commission. GIC Re allowed recovery of unclaimed brokerage. Accordingly, OIC claimed ₹19.64 crore as brokerage for FY 2014 to 2023 and has since been including such claims in its quarterly Statement of Accounts.

c) OIC under-booked or over-booked Sliding Scale Commission income in multiple treaties with GIC Re (Leader) and other reinsurers. On being pointed out in audit (September 2023), the commission with respect to Fire First Surplus Treaty, Fire Second Surplus Treaty, Fire Additional Quota Share Treaty and Miscellaneous Accident Surplus Treaty for the years 2013-14 to 2022-23 was booked as per the treaty terms and recovered ₹89.06 crore towards Sliding Scale Commission (March 2025).

4.2.4 Receivables and Payables Management

Receivable management in reinsurance operations involves timely raising of claims in Statement of Accounts (SoA) and/or Recovery Advice (RA), receipt of dues, monitoring, follow up and recovery of outstanding receivable balances. Realisation of receivables is essential for a healthy cash flow and to avoid bad debts. In outward RI business, generally receivables from reinsurers are net recoverable balances of paid claims and ceding commission after netting off the premium ceded. In inward RI business, receivables includes premium receivable from reinsured after netting off claims and ceding commission payable. The various deficiencies noticed in receivable management in PSGICs are discussed in the succeeding paragraphs.

4.2.4.1 Pending receivables and payables from reinsurers

Robust receivable management is the nerve for healthy cash flow in any entity. Reinsurance receivables of PSGICs as on year end for five year period from 2018-19 to 2022-23 are given below.

Table 4.22: Position of reinsurance receivables at the end of financial year during 2018-19 to 2022-23

(₹ in crore)

Year	NIA	NIC	OIC	UIIC
2018-19	3,029.55	1,773.63	581.84	270.67
2019-20	2,749.51	1,125.69	1,053.21	656.38
2020-21	3,344.66	1,909.18	1,339.21	670.53
2021-22	3,734.47	1,636.78	958.96	1,782.38
2022-23	4,353.29	983.07	864.26	1,925.30

Source: Details furnished by Management

However, high balances of long pending reinsurance receivable balances indicated improper management by PSGICs. Deficiencies viz., delay in recovery of pending balances owing to lack of reconciliation, weak internal controls, system limitations and non-compliance to regulatory guidelines, were observed. The audit findings based on analysis of receivables for each company are given below.

A New India Assurance Company Limited

- Audit noticed that out of 858 non-GIC net balances totalling ₹283.20 crore, 474 balances valuing ₹112.48 crore (39.72 per cent) were more than 10 years old. Of the 858, six accounts totalling ₹47.25 crore (16.68 per cent) were characterised by delays in recovery/reconciliation, on which views of Management and remarks of Audit are given in **Annexure VIII**.

- Although NIA had settled the claims to its insured, there were 1,049 pending recoveries from facultative reinsurers/brokers for a period ranging from 90 days to 2,510 days as of 31 March 2023 amounting to ₹26.59 crore. These pending recoveries included 886 cases for recovery of ₹15.52 crore in which business was dealt with brokers.

- Apart from above, NIA had dues from 384 foreign parties totalling ₹824.48 crore as on 31 March 2023. Audit noticed that six CBRs with pending dues of ₹8.39 crore were either dissolved or under liquidation **(Annexure IX)**. The recovery amounts ranging from ₹12.11 lakh to ₹377.36 lakh were pending from prior to April 2013 to 2023 and year of liquidation was from 2014 to 2023 as on 31 March 2023.

- Further, prompt reconciliation of receipts with the receivable amounts is an important element of internal control on receivables. Audit reviewed receipts as per Reinsurance Recovery Control Account (Account Head 5618) and observed that an amount of ₹69.28 crore pertaining to 892 reinsurance receipts (2011-12 to 2022-23) were not reconciled with the receivables from various parties like brokers, insurers, reinsurers, and remittances by branch offices (December 2023). Unreconciled receipts reflected lack of follow up of receivables and set off of already received payments.

NIA replied (December 2024) that continuous follow up made with brokers as well as reinsurers for settlement of pending balances. NIA also provided status of pendency and copies of follow up letters by various departments on non-recovery of paid claims from reinsurers without offering any remarks on the observation. On CBRs that have closed/ are under liquidation it takes a longer time to settle claims in case of liquidation. NIA stated (December 2024) they have opened virtual[42] accounts for each department and informed brokers and reinsurers to send funds to the respective departments.

Ministry replied (June 2025) that the long pending balances are due to debit towards some facultative claim recoveries and premium paid to the reinsurers. As far as premium debits

[42] ***Virtual bank account was opened so that funds received can be easily identified by the Technical Deptt. and accounted accordingly.***

are concerned they are to be reconciled and cleared from the credits lying in other country codes of the same reinsurer/brokers. The same are to be identified, reconciled and cleared. Similarly, debits towards claim recoveries have been recovered and lying in broker codes pending reconciliation/ proper accounting. NIA formed a task force to identify such long pending receivables and knock off against the corresponding payables lying in different codes, or initiate recovery process if not already recovered. Ministry replied that the observations of the Audit have been noted by NIA for further improvement in reconciliation.

The reply of Management and Ministry indicated need for intensifying efforts to reconcile the amounts and to identify the balance amount for follow-up which is recoverable.

B United India Insurance Company Limited

UIIC's receivables from reinsurers increased by 711 *per cent* from 2018-19 to 2022-23. Absence of system-generated MIS reports, absence of reporting to top management and poor record management contributed to delayed recoveries and write offs.

UIIC accepted the audit observation and replied (September 2024) that they were unable to establish contact with some of the reinsurers. UIIC further stated that while providing data for solvency working, total disallowances (which included pending reinsurance balances), are submitted to the top management and action was initiated to generate MIS reports to facilitate monitoring and recovery. Ministry while concurring (June 2025) with UIIC reply added that Company is continuously reconciling, tagging reinsurer-wise balances for the settlements made. UIIC's outstanding balance reduced to ₹1,410.77 crore as on 31 December 2024.

On other side, effective payable management ensures that obligations are fulfilled within the prescribed time, helps in maintaining positive relationships with reinsurers while optimising cash flow. Audit noted that UIIC had outstanding payable of ₹1,293.95 crore to various reinsurers (2022-23) which includes ₹1,139.40 crore due to foreign reinsurers. Out of which, ₹776.80 crore (60 *per cent* of the total payables) was grouped as payable to 'Various Foreign Reinsurers' without referring to any specific reinsurers as individual reinsurer wise dues were not available with Reinsurance Department. This indicated absence of system, procedure and monitoring mechanism which led to unreconciled payable balances to an extent of ₹1,293.95 crore.

UIIC accepted the audit observation and stated (September 2024) that the reconciliation is in progress. Ministry concurred (June 2025) with UIIC reply.

C Oriental Insurance Company Limited

Out of ₹864.26 crore receivables from reinsurers, ₹26.70 crore remained unrecovered for over five years from 193 reinsurers/brokers as on 31 March 2023. No evidence of periodic review or follow-up for recovery was available. Despite guidelines for engaging recovery agents, they were never appointed. Delayed/non-recovery contributed to decline in OIC's solvency ratio[43] from 1.57 (2018-19) to 0.96 (2022-23).

Ministry replied that OIC is regularly chasing the Brokers/Reinsurers for pending recoveries keeping the technical and treaty department in the loop. Further, the debit balance of any reinsurer at any point of time consists of both debit as well as credit balances. Moreover, the said balances are dynamic and the status keeps changing due to settlement and addition of new balances. Mails are sent to the Reinsurer/Broker for the confirmation and settlement of balances. This follow up results into settlement after agreement of both the parties (Reinsured & Reinsurer). The impact on Solvency ratio is due to the collective results of the company's liabilities.

Similarly, OIC had payables of ₹527.15 crore which included ₹399.82 crore due to foreign parties. An amount of ₹20.15 crore was lying under a generic 'Miscellaneous' account (code 999) due to unclassified transactions as reconciliation was pending. OIC stated (February 2025) that the balances are dynamic due to settlement and addition of new balances. Ministry stated that OIC assured to book the accounts only after obtaining proper cedant details.

D National Insurance Company Limited

NIC has outstanding receivables from 411 reinsurers/ brokers. NIC did not submit SoA within stipulated time as defined in its treaty leading to delay in recovery. Lacunae in proper record maintenance also resulted in unreconciled reinsurance receivables and write-offs totalling ₹89.97 crore.

NIC replied (January 2025) that current receivables from reinsurer was reconciled as and when transactions occur and attempts were made to reconcile legacy transactions and receivables which were not traceable were written off. Ministry while concurring (June 2025) with reply of NIC added that NIC formed an oversight committee who looks into the aspect of pending recoveries from reinsurers before placement of facultative reinsurance. NIC introduced the feature of unique reference which automatically knocks off the debit and credit entries at the time of booking. Company has taken due care in reconciling old ledgers, introducing new software changes and recommending for write-off as per board approved policy wherever necessary.

Replies of PSGICs Management and Ministry indicated that a structured and time-bound action plan to monitor and recover reinsurance dues from reinsurers is required by PSGICs for avoiding delay in recovery and to address the core issues of receivable management. PSGICs need to reconcile existing payable balances and to improve monitoring mechanism and internal controls for payables.

[43] ***The solvency ratio measures an insurer's ability to pay out claims by comparing available assets to liabilities, ensuring they hold sufficient capital to meet long-term obligations and survive unexpected, high-volume claims.***

Recommendation 12: PSGICs should improve collection of details for receivable and payables balances on timely and regular basis to update the accounts of brokers/reinsurers on receipts and payments of dues.

4.2.4.2 Absence of mechanism to ensure timely raising of facultative claims recovery

As and when claims are paid on the direct side by insurers, paid claims are reflected in quarterly claims paid bordereaux. Reinsurance department gathers all relevant documents from operating offices and technical department before raising Recovery Advice (RA) on the concerned reinsurer/ broker for claim recovery.

Audit noted that OIC's technical departments raise Closing Particulars (CP) with the concerned reinsurer/broker for claim recovery after collecting all relevant documents from operating offices. Raising of RA was non-automated process in OIC. Further, no provision for MIS generation was available to monitor timely raising of RAs. Hence the risk of delay in raising RA cannot be ruled out. Absence of monitoring mechanism to ensure timely raising of RAs resulted in delay in claim recovery that may adversely impact cash flow of the company. In OIC, recovery of 34 paid claims (2021-23) from facultative reinsurers was checked which revealed delay ranging from 23 to 488 days in 24 claims for ₹15.02 crore.

Audit also noted delay in raising RAs to facultative reinsurers in 182 claims (2018-2023) in UIIC for recovery of ₹63.99 crore which ranged from two to 1,824 days after allowing 30 days to collect documents from the operating offices.

OIC accepted (February 2025) the audit observation and stated that MIS generation and popups are introduced to monitor timely raising of RAs. UIIC stated (September 2024) that for Recovery Advice generation, UIIC co-ordinated with TCS to auto generate RAs at the end of every quarter for claims on MIS generation for timely recovery of claims. UIIC was also planning to bring automated RA email to the concerned RI brokers/Reinsurers, immediately, whenever a claim payment is done in system against a FAC reinsured policy. Ministry concurred (June 2025) with the reply of OIC and UIIC and further stated that with introduction of GC CORE software in UIIC, claim intimation to reinsurers are automated as most of the required documents are available in GC CORE.

It is evident that lack of MIS generation, automatic raising of RAs, and accountability despite availability of IT systems led to delays in recovery.

4.2.4.3 Non-claiming of profit commission

Where the results under a treaty are profitable, the reinsurer may agree a further commission called a profit commission. By this method a percentage of the profits of the treaty for the treaty year are returned to the ceding insurer. Proportional treaties entered by UIIC included clause on profit commission.

Audit reviewed three treaties of Engineering LoB where treaty performance was good (after adjusting management expenses) and treaty profit to be shared in an agreed proportion of ceded premium. Audit noticed Engineering Surplus Treaties executed by UIIC with GIC Re as leader were profitable[44]. Treaty conditions provided UIIC to calculate profit commission[45] and produce the statement after 36 months of the treaty year and claim the same at the end of five years. However, even after lapse of five year period, UIIC did not claim applicable profit commission of ₹11.73 crore from reinsurers.

OIC did not claim profit commission of ₹6.18 crore from EST and ₹5.25 crore for the years 2019-20 and 2020-21 respectively. On being pointed out in audit, OIC recovered profit commission of ₹9.28 crore from some of the reinsurers and ₹2.15 crore was yet to be recovered. Management replied (February 2025) that they are chasing for recovery of profit commission from the rest of the reinsurers.

Similarly, NIC did not claim profit commission of ₹31.94 crore in respect of EST (2018-19 to 2022-23). On being pointed out in audit, NIC has accounted and recovered profit commission in respect of EST.

Ministry stated (June 2025) that UIIC shall work out the profit commission wherever applicable and submit to the reinsurers for recovery.

Reply may be viewed in light of the fact that there was non-recovery of profit commission in applicable treaties and corrective actions were taken only after being pointed out by audit.

4.2.5 Conclusion

All Public Sector General Insurance Companies undertake reinsurance to expand their underwriting capacity to handle larger risks, to stabilise underwriting results and to provide protection against catastrophes and natural calamities. Reinsurance programme is prepared as per IRDAI Regulations with the objectives to maximise retention within the country. Reinsurance provides adequate diversification of risks, technical capability and financial capacity. A review of reinsurance operations brought out that a full adherence to the Regulations in formulation and implementation of RI programmes was not ensured in PSGICs. Audit noted lapses such as absence of retention policy, fronting and placement with ineligible cross border reinsurers. Additionally, the deviations in risk retention and cession as per the approved Reinsurance programme impacted PSGICs in financial terms. Review of IT and internal control system revealed deficiencies in database and gaps in internal control mechanism resulting in avoidable/incorrect premium cession, errors in

[44] ***Net profit of treaties after adjusting management expenses were as follows: 2014 - ESST ₹1.29 crore, 2015 - EFST ₹5.17 crore, 2015 - ESST ₹8.85 crore, 2016 - EFST ₹11.85 crore, 2016 - ESST ₹ 5.33 crore, 2017 - EST ₹ 8.46 crore, 2018 - EST ₹22.36 crore***

[45] ***20 per cent for ESST (2014-15 to 2016-17), 25 per cent for EFST (2015-16 to 2016-17) and EST (2017-18 to 2018-19)***

computation of premium estimates, non-compliance to treaty conditions, delay in tagging receipts, delay in submission of accounts to reinsurers, non-reconciliation and settlement of receivables and payables, etc. Management of receivables was deficient as there was absence of mechanism to track and recover claims, non-reconciliation of balances, non-recovery of claims, and delay in recovering pending dues from reinsurers were observed. To mitigate these issues, PSGICs must strengthen internal controls, enhance monitoring mechanisms, and ensure compliance to approved Reinsurance programmes and with IRDAI regulations.

CHAPTER V: MINISTRY OF HEAVY INDUSTRIES

Andrew Yule and Company Limited

5.1 Operational Performance of Tea Division

5.1.1 Introduction

Andrew Yule and Company Limited (Company), working under administrative control of Ministry of Heavy Industries (Ministry), is operating in various sectors including Tea, Engineering and Electrical Industries with Tea plantation and manufacture being its core business.

The financial performance of the Company viz.-a-viz. performance of its Tea Division/Segment, during 2017-18 to 2024-25, is detailed in **Table 5.1** given below:

Table 5.1: **Financial performance of the Company viz.-a-viz. performance of its Tea Segment**

(₹ in crore)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Company's Performance								
Revenue from operations	361.50	311.16	299.14	330.51	414.39	374.04	309.85	311.71
Total Segment Operating Profit/(Loss)	8.97	(9.73)	(24.32)	8.68	10.88	9.86	(70.20)	(22.35)
Tea Segment								
Revenue from Operations	207.00	198.48	206.15	236.50	231.25	213.72	166.63	157.26
Segment Operating Profit/ (Loss)	19.02	6.83	(2.21)	24.07	23.11	(3.23)	(87.52)	(54.97)
Revenue from Tea to Revenue from Operations (in *per cent*)	57.26	63.79	68.91	71.56	55.80	57.14	53.78	50.45

(Source: Annual Reports of the Company)

From the above Table it could be observed that:

- Tea Segment's contribution to Revenue from Operations of the Company was more than 50 *per cent* throughout the period from 2017-18 to 2024-25. Thus, decline in Tea Segment Revenue from Operations during 2022-23 to 2024-25 contributed to decline in Company's Revenue from Operation as a whole during the same period; and

- Tea segment invariably had operating profit during the period 2017-18 to 2021-22 except for 2019-20, however, thereafter it was continuously having losses ranging from ₹3.23 crore in 2022-23 to ₹87.52 crore in 2023-24. Because of it and inspite of the other two business segments of the Company viz. Electrical and Engineering having Operating Profits during 2023-24 and 2024-25, the Company had Total Segment Operating Losses during 2023-24 and 2024-25.

Thus, deterioration in performance of the Tea Segment, during 2022-23 to 2024-25, affected overall financial health of the Company.

5.1.2 Tea Sector

The Company has 15 tea gardens and 12 tea factories, as in December 2025, located in Assam and West Bengal and it is only Central Public Sector Undertaking having both tea gardens and tea factories. Its tea business comprises cultivation of tea leaves, processing & manufacturing of tea and marketing & sale of finished tea. The Company manufactures CTC[1], Orthodox and Green Tea, using green leaf plucked from its own tea gardens as well as bought leaf procured from other tea growers. The marketing and sale of tea is carried out through Tea Board India registered tea brokers.

Details of total plantation area of its tea gardens and installed annual production capacity of its tea factories is detailed in **Table** below:

Table 5.2: Details of tea garden and tea factories of the Company

ASSAM				
Sl. No.	Tea garden	Area (in hectare)	Related tea factory	Annual Production Capacity of Factory (in Kg.)
1.	Bhamun	316.03	Khowang	21,00,000
2.	Hingrijan	307.86		
3.	Khowang	385.33		
4.	Basmatia	275.91	Basmatia	7,00,000
5.	Desam	327.71	Desam	9,50,000
6.	Hoolungoorie	404.51	Hoolungoorie	8,50,000
7.	Rajgarh	275.33	Rajgarh	7,50,000
8.	Bogijan	485.61	Murphulani	8,20,000
9.	Murphulani			
10.	Tinkong	505.37	Tingkong	13,00,000
Total		**3,283.66**	**Total**	**74,70,000**

WEST BENGAL				
Sl. No.	Tea garden	Area (in hectare)	Related tea factory	Annual Production Capacity of Factory (in Kg.)
1.	Banarhat	642.59	Banarhat	13,50,000

[1] ***Cut, Tear and Curl***

WEST BENGAL				
Sl. No.	Tea garden	Area (in hectare)	Related tea factory	Annual Production Capacity of Factory (in Kg.)
2.	Chunabhutti	401.80	Chunabhutti	10,00,000
3.	Karballa	755.24	Karballa	17,00,000
4.	Mim	187.65	Mim	1,20,000
5.	New Dooars	792.35	New Dooars	17,00,000
Total		**2,779.63**	**Total**	**58,70,000**

(Source: Management data and Company website)

From the above Table it could be observed that:

- In Assam, Company had 10 tea gardens with total plantation area of approx. 3,284 Hectares while in West Bengal, Company had five tea gardens with total plantation area of approx. 2,780 Hectares;
- The total installed annual production capacity of seven tea factories located in Assam was 74.70 lakh Kg. while the total installed annual production capacity of five tea factories located in West Bengal was 58.70 lakh Kg; and
- New Dooars in West Bengal was biggest tea garden of Company while Khowang in Assam was the biggest Tea factory, having the highest installed annual production capacity.

5.1.3 Scope of Audit

Audit reviewed the operational performance of Company's Tea Division, during 2017-18 to 2024-25, including performance of its tea gardens and tea factories.

5.1.4 Audit Findings

5.1.4.1 Yield per hectare

Tea garden yield is the quantity of raw tea leaves produced from a specific area of cultivation, usually measured in kilograms per hectare. It is one of the indicators of efficiency of a tea garden. The garden-wise yield per hectare of tea gardens of the Company during 2017 to 2024 is given in **Table 5.3** below:

Table 5.3: Year-wise yield of Company's gardens

S. No.	Name of the Garden	Yield per hectare (in Kg.)								
		2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Decrease *per cent* in 2024 vis-a-vis 2017**
1	Bhamun	1,957	1,688	1,831	1,431	1,681	1,502	1,564	1,196	38.89
2	Hingrijan	2,062	1,860	1,789	1,383	1,460	1,493	1,616	1,184	42.58
3	Khowang	2,333	2,336	2,178	1,793	1,626	1,890	1,564	1,623	30.43
4	Basmatia	2,308	2,092	1,906	1,367	1,178	857	1,527	1,669	27.69

S. No.	Name of the Garden	Yield per hectare (in Kg.)								
		2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Decrease *per cent* in 2024 vis-a-vis 2017**
5	Desam	2,331	2,299	2,219	1,627	2,015	1,392	1,843	1,906	18.23
6	Hoolungoorie	1,974	1,968	1,987	1,788	1,941	1,486	1,664	1,341	32.07
7	Rajgarh	1,949	2,143	2,168	1,656	1,826	1,545	1,642	1,719	11.80
8	Murphulani[2]	1,539	1,384	1,485	1,101	965	838	868	1,019	33.79
9	Tinkong	2,419	2,156	2,212	2,209	1,940	2,010	1,826	1,564	35.34
10	Banarhat	2,097	2,262	2,229	1,567	1,793	1,319	875	879	58.08
11	Chunabhutti	1,780	1,695	2,012	1,725	1,815	159	249	998	43.93
12	Karballa	2,211	2,008	1,897	1,769	1,240	1,197	851	677	69.38
13	Mim	224	468	515	408	423	437	459	294	(31.25)
14	New Dooars	1,661	1,731	2,226	1,976	2,011	2,020	950	1,049	36.84
Average Yield		**1,790**	**1,739**	**1,777**	**1,453**	**1,461**	**1,210**	**1,166**	**1,141**	**36.26**

(Source: Management data)

It could be seen from the table above that:

- Except for Mim tea garden the yield per hectare of all other tea gardens has decreased, during the period from 2017 to 2024, in the range of 11.80 *per cent* (Rajgarh tea garden) to 69.38 *per cent (Karballa tea garden)*;
- The average yield of all the tea gardens taken together is showing a declining trend from 2021 onwards; and
- The average yield from tea gardens during the period 2017 to 2024 has declined by 36.26 *per cent*.

The major reasons for downwards trend in yield per hectare were *inter alia* inadequate uprooting of old tea bushes & replanting new ones and inadequate arrangement of irrigation facilities as admitted by management itself and discussed in detail in the succeeding paras. However, no comprehensive business plan or Tea Segment specific strategy for improving operational performance was either available on record or shared with Audit.

Management in its reply (February 2024) accepted the facts given in the Audit observation and attributed the yield per hectare to impact of many factors *inter alia* uprooting old tea bushes & replanting new ones, irrigation facilities, variety of tea bushes, plucking practices, insecticides, pesticides and fertilizer practices. It further stated that the Tea Research Association (TRA) has been approached to advice on improving bush & soil health so as to increase yield. Inputs received from TRA are implemented and monitored.

Ministry in its reply (July 2025) stated that on availability of sufficient funds the same would be utilised for uprooting, replantation and completing the pending works of irrigation in a phased manner in the tea gardens of the Company.

[2] ***Combined data for Bogijan tea garden and Murphulani tea garden.***

Ministry/ Management reply may be viewed in light of the fact that the reasons given for less yield were controllable with better planning and coordination. Further, no documents could be furnished regarding effective action taken, based on TRA advice, in any of the tea garden of the Company so as to arrest the declining yield per hectare. No plan or framework to overcome the issue in near future has been detailed in the Reply.

5.1.4.2 Uprooting and replanting activities

Uprooting of old tea bushes, preparing the land and replanting new tea bushes is essential for improving both the quantity and quality of tea production. Garden-wise details of age of tea plantation as in 2025 and economy in their yield during 2017-18 to 2024-25 is detailed in **Table 5.4** below. Company does not have any declared policy/guideline in regard to what it assumes as uneconomical section of tea garden fit for uprooting and replantation, therefore taking cue from Tea Board guidelines[3] uneconomical section of tea garden has been derived[4] by Audit.

Table 5.4: Details of age of tea plantation and their yield

Sl. No.	Name of the Garden	Area (in Hectares)	Area ageing 50 years or more as in 2025 (in Hectares)	Area ageing 50 years or more as in 2025 (in *per cent*)	Area aging 50 years or more and uneconomic (in Hectares)	Area aging 50 years or more and uneconomical (in *per cent*)
a	b	c	d	e=d/c*100	f	g=f/c*100
1	**Bhamun**	316.03	155.61	49.24	59.79	18.92
2	**Hingrijan**	307.86	109.28	35.50	70.61	22.94
3	**Khowang**	385.33	124.17	32.22	84.80	22.01
4	**Basmatia**	275.91	152.45	55.25	104.29	37.80
5	**Desam**	327.71	187.53	57.22	55.30	16.87
6	**Hoolungooree**	404.51	42.35	10.47	22.06	5.45
7	**Rajgarh**	275.33	104.12	37.82	51.56	18.73
8	**Murphulani**	485.61	80.50	16.58	28.05	5.78
9	**Tinkong**	505.37	212.63	42.07	70.30	13.91
10	**Banarhat**	642.59	203.74	31.71	147.57	22.96
11	**Chunabhutti**	401.80	70.13	17.45	57.10	14.21
12	**Karbala**	755.24	280.71	37.17	132.26	17.51
13	**Mim**	187.65	187.65	100.00	94.83	50.54
14	**New Dooars**	792.35	201.61	25.44	142.36	17.97
Total		**6,063.29**	**2,112.48**	**34.84**	**1,120.88**	**18.49**

(Source: Management data)

[3] ***Old and uneconomic tea sections aged 50 years and above are recognized, by Tea Board India, for uprooting and replanting so as to increase the production.***

[4] ***Out of period of eight years i.e. 2017-18 to 2024-25, if the yield per hectare of the specific section of the garden was less than the average yield of all the sections in that particular year then that section has been assumed as uneconomical.***

It could be observed from the table above that the uneconomical section of the tea gardens of Company having age 50 years or more, as in 2025, ranged from 5.45 *per cent* (Hoolungooree tea garden) to 50.54 *per cent* (Mim tea garden) of the total area of that tea garden. Further, 18.49 *per cent* of the total area of all the tea gardens of Company taken together was of age 50 years or more and was uneconomical also. The reasons behind the same being no uprooting and replantation activities undertaken by the Company after 2019-20 due to paucity of funds, as claimed by Management. No comprehensive business plan or strategy for initiating action in regard to uprooting and replanting activities was either available on record or shared with Audit inspite it resulting in decline in the productivity of the tea gardens of Company as discussed in Para 5.1.4.1 above.

Management in its reply (February 2024) stated that the uprooting and replanting activities conducted during 2017-18 to 2021-22 were in line with Tea Board India's guidelines. It also stated that the uprooting and replanting was a capital expense, with nil contribution from that portion for next three to four years.

Ministry in its reply (July 2025) stated that replantation required capex of ₹8 lakh per hectare and replanted section would start yielding tea leaf after four years only. Hence, balancing of dip in present income to that of future income was required. On availability of sufficient funds the same would be utilised for uprooting and replantation in a phased manner in the tea gardens of the Company.

The reply of the Ministry/Management may be viewed in the light of the fact that no documents could be furnished regarding Company doing uprooting and replanting activities in line with Tea Board India's guidelines when in fact it did not carry out any uprooting and replanting activity after 2019-20 resulting in 18.49 *per cent* of total area of its tea garden being aged 50 years and more and uneconomical leading to declining yield over a period of time. No plan or framework to overcome this issue in near future has been detailed in the Reply.

5.1.4.3 Irrigation system

Tea Board India, in its Tea Development & Promotion Scheme for XII Plan i.e. 2012-13 to 2016-17 highlighted the fact that irregularity in the monsoon both in terms of lack of adequate rainfall and prolonged dry period was forcing crop loss for want of irrigation infrastructure. To assess/study the requirement of irrigation facility in seven gardens[5] of the Company viz. Hoolungoorie, Murphulani (including Bogiajn), Banarhat, Chunabhutti, Karballa and New Dooars the Company engaged (June 2013) a consultant who in its Report (July-August 2013) suggested increase in number of irrigations sets in all the seven gardens. The details of executions of Consultant's Report is given in **Table 5.5** below:

[5] ***Management claimed that other gardens were having adequate rainfall, hence, no irrigation facility was required in these gardens.***

Table 5.5: Details of irrigation sets installed in seven tea gardens of the Company

S. No.	Name of the Garden	Irrigation sets Available in 2013	Total No. of sets recommended by the Consultant including existing one	No. of irrigation sets as in December 2025
1	Hoolungoorie	1	3	1
2	Murphulani[6]	2	3	1
3	Banarhat	3	5	4
4	Chunabhutti	1	3	2
5	Karballa	3	6	4
6	New Dooars	3	5	3
Total		**13**	**25**	**15**

(Source: Management data)

It could be observed from the table above that, as against 25 sets recommended by Consultant, for seven tea gardens only 15 irrigation sets existed in December 2025 thereby contributing to decline in yield of these gardens as could be seen from **Table 5.3** as per which the average yield of these seven gardens was 1,609 Kg. per hectare in 2017 which dropped to 852 Kg. per hectare in 2024. The decrease *per cent* in average yield of these seven gardens was 11 *per cent* more than the decrease *per cent* in average yield of all the 15 gardens taken together during the same period. No comprehensive business plan or strategy for initiating action in regard to establishing new irrigation facilities in the tea gardens of Company was either available on record or shared with Audit.

Management in its reply (February 2024) stated that the installation of irrigation system being capital intensive in nature would be taken up in a phased manner as per availability of fund. It admitted that out of its total tea gardens area of 6,063.29 hectares only 923.68 hectares (15.23 *per cent*) only was under irrigation facility.

Ministry in its reply (July 2025) stated that on availability of sufficient funds, the same would be utilised for completing the pending works of irrigation in a phased manner in the tea gardens of the Company.

Ministry/Management reply may be viewed in light of the fact that due to not installing of requisite irrigation facility, the yield of its tea gardens suffered. No plan or framework to overcome the issue in near future has been detailed in the Reply.

5.1.4.4 Processing and Producing of Tea

The Company was having 12 tea factories, located at Assam and West Bengal, whereby it was processing and producing CTC[7], Orthodox[8] and Green Tea[9] from the leaf plucked from its own tea gardens and also from leaf bought from other tea growers, so as to utilise the idle tea production capacity of its factories and also to compensate loss in yield from its own tea gardens.

[6] ***Combined data for Bogijan tea garden and Murphulani tea garden.***
[7] ***Common tea used in India and prepared with the help of an equipment called CTC machine.***
[8] ***Common tea prepared through traditional tea making processes that involve hand or semi-hand processing techniques.***
[9] ***They are those leaves which are neither fermented nor getting oxidized.***

The production performances of the tea factories of the Company for the period from 2017-18 to 2024-25 is detailed in **Table 5.6** below:

Table 5.6: Details of tea production from the Company's tea factories.

(Figures in lakh Kg.)

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Installed production capacity of tea								
	133.40	**133.40**	**133.40**	**133.40**	**133.40**	**133.40**	**133.40**	**133.40**
Tea production targets as per Memorandum of Understanding (MoU) with Ministry								
	116.00	**118.00**	**118.00**	**118.00**	**110.00**	**121.00**	**131.00**	**MoU not signed**[10]
Annual production targets as fixed by Management/ Board of Directors								
Own leaf	104.75	105.45	110.80	97.83	106.55	89.90	104.05	96.92
Bought leaf	15.25	15.40	15.00	5.00	14.60	13.41	10.69	0
Total	**120.00**	**120.85**	**125.80**	**102.83**	**121.15**	**103.31**	**114.74**	**96.92**
Actual production								
Own leaf	102.96	101.45	104.23	89.36	89.84	83.46	74.34	71.18
Bought leaf	12.99	15.51	12.40	9.68	8.99	10.90	3.02	0
Total	**115.95**	**116.96**	**116.63**	**99.04**	**98.83**	**94.36**	**77.36**	**71.18**
Achievements in *per cent*								
Against installed capacity	**86.92**	**87.68**	**87.43**	**74.24**	**74.08**	**70.73**	**57.99**	**53.36**
Against target set in MoU	**99.96**	**99.12**	**98.84**	**83.93**	**89.84**	**77.98**	**59.05**	**-**
Against annual plan	**96.62**	**96.78**	**92.71**	**96.31**	**81.58**	**91.34**	**67.42**	**73.44**

(Source: Management data and MoU signed with Ministry)

From the above table it was noticed that:

- Annual tea production targets fixed as per MoU and by Management/Board of Directors were always short of the Company's installed capacity of 133.40 lakh Kg. per annum, declining yield from Company's own tea gardens being one of the reasons for the same besides the machines used in tea manufacturing being old;
- The actual yield from Company's tea gardens falling short of the anticipated yield accompanied with less leaf bought from other tea growers[11] contributed:
  - ➢ Towards actual production of tea showing declining trend, against installed capcity from 2018-19 onwards ranging from 87.43 *per cent* in 2019-20 to 53.36 *per cent* in 2024-25;
  - ➢ Actual production of tea continuously declined vis-a-vis MoU targets and ranged from 99.96 per cent (2017-18) to 59.05 per cent (2023-24) of the MoU targets set; and
  - ➢ Actual production of tea remaining always less than the annual targets fixed by Management/BoD and ranged from 67.42 *per cent* (2023-24) to 96.78 *per cent* (2018-19) of annual targets.

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[10] ***Considering the declining operational performance and financial position of Company, MoU not signed by Ministry for 2024-25 and 2025-26.***

[11] ***Management claimed to procure less leaf from other tea growers due to deteriorating quality.***

- Bought leaf procurement, which acted as a filler for idle installed capacity of the tea factories and compensated less yield from tea gardens, declined from 12.99 lakh Kg. in 2017-18 to 3.02 lakh Kg. in 2023-24 and then to Nil in 2024-25 due to lesser quality leaf available, as claimed by Management, thereby further hampering the tea production by Company' tea factories.

Management did not furnish any reply to the Audit Observation.

Ministry admitted (July 2025) the fact that lower yield from Company' tea gardens contributed towards decline in production capacity of its factories. It further stated that TRA has been approached for advising on improving the bush and soil health so as to increase the yield. The advice of TRA is being implemented as per availability of the funds.

Ministry reply may be viewed in light of the fact that the production from Company's tea factories has drastically declined from 115.95 lakh kg in 2017-18 to 71.18 lakh kg in 2024-25 i.e. decline of 38.61 *per cent*. Further, no documents could be furnished regarding effective action taken, based on TRA advice, in any of the tea garden of the Company so as to arrest the declining yield per hectare.

Recommendation 13: Company should take up planned and concerted efforts for uprooting of old tea bushes & replanting new ones and establishing requisite irrigation infrastructure in its tea gardens, in a time bound manner so as to increase the yield.

Recommendation 14: With better market exploration efforts, the procurement of quality tea leaf from other tea growers should be increased to utilise the idle capacity of tea factories

5.1.4.5 Sample testing

Food Safety and Standards (Licensing and Registration of Food Businesses), Regulations 2011 stipulated that all Food Business Operators should ensure testing of relevant chemical and/ or microbiological contaminants in food products as frequently as required based on historical data and risk assessment to ensure production and delivery of safe food through own or NABL accredited /FSSA notified labs at least once in six months.

The details of sample tests conducted by the Company in its tea processing factories during the period from 2017-18 to 2024-25 are detailed in **Table 5.7** below:

Table 5.7: Details of sample testing done in Company's Tea Factories

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
No of factories where samples were to be tested twice	12	12	12	12	12	12	12	12
No of factories where samples were tested twice	-	-	-	3	3	10	6	8
No of factories where samples were tested only once	9	10	10	6	7	2	6	4
No of factories where no sample was tested	3	2	2	3	2	0	0	0

(Source: Management data)

From the above table it could be observed that though the sample testing in the Company's tea factories has improved over the years but still it was not upto the mark. No reasons, for such non-compliance of statutory requirement, dealing with safety of consumers, were found on record.

Management in its reply (February 2024) noted the Audit observation. Ministry in its reply (July 2025) stated that the Company was uploading test report twice a year as per the requirements.

Ministry/Management reply are contradictory in nature. Also the reply of Ministry was not in line with the data made available to Audit.

5.1.4.6 Sales target realisation

The Company engages tea brokers, registered with the Tea Board India, for conducting sale of targeted quantity of tea produced from its factories at pre-fixed average price derived from indicative valuation done by the broker and Company's in-house team as per the quality of tea produced and the market conditions.

Details of sales targets achieved by the Company's brokers during the period 2018-19 to 2024-25 are detailed in Table 5.8 below:

Table 5.8: Details of sales targets achieved by the Company's brokers

(Amount in ₹ crore)

Name of Tea factory	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	Shortfall in sales target realisation vis-à-vis targeted	Shortfall in sales target realisation vis-à-vis targeted	Shortfall in sales target realisation vis-à-vis targeted	Shortfall in sales target realisation vis-à-vis targeted	Shortfall in sales target realisation vis-à-vis targeted	Shortfall in sales target realisation vis-à-vis targeted	Shortfall in sales target realisation vis-à-vis targeted
Khowang	2.95	15.05	15.24	7.43	44.37	27.00	31.42
Basmatia	1.94	4.07	4.66	5.21	10.65	3.66	3.81
Desam	2.97	4.84	6.34	3.84	9.27	8.20	8.69
Hoolungoorie	-	1.59	5.95	1.66	13.19	9.67	9.72
Rajgarh	1.15	1.65	5.31	0.22	10.92	8.25	6.33
Murphulani	1.92	2.12	2.12	4.43	14.90	10.27	5.92
Tingkong	2.39	6.19	11.75	6.04	25.12	16.04	18.24
Banarhat	2.59	3.91	6.32	2.83	15.39	16.98	18.56
Chunabhutti	2.00	2.68	7.57	8.01	13.32	11.72	11.26
Karballa	2.44	7.32	7.07	8.16	23.01	14.54	13.91
Mim	-	3.52	3.52	3.47	3.67	2.96	5.28
New Dooars	4.30	0.39	4.64	(7.16)	18.83	14.66	9.96
Total	**24.65**	**53.33**	**80.49**	**44.14**	**202.64**	**143.95**	**143.10**

(Source: Management data)

From the above table it could be observed that brokers invariably not able achieve the targeted sales realisation during the period 2018-19 to 2024-25 leading to short target sales realisation of ₹692.30 crore. The short target sales realisation was because of non-achievement of targeted quantity of sale or non-selling of targeted quantity at average fixed price or both *inter alia* because of following reasons:

- Actual production of tea by its factories falling short of targeted quantity due to less yield from its gardens and less tea being bought from tea growers; and
- Quality of tea produced being lesser than the quality expected while fixing average price.
- Non-performing tea brokers.

Audit further observed that:

- There was nothing on record to indicate that the Company did objectively review its target fixation considering the facts that actual tea production and average price fetched was invariably lesser than targeted sale quantity and targeted average fixed price respectively; and

- There were no explicit provisions in the agreement with brokers linking incentives or dis-incentives with the achievement of targets. Thus, inspite none of the brokers achieving its targets during 2018-19 to 2024-25 (barring 2021-22) they could not be penalised except for post-facto rearrangement of factories among them.

Thus, to arrest the shortfall in targeted sales realisation, there was no objective, scientific and verifiable target fixations, dynamic marketing strategy and documented framework specifying performance benchmarks, review criteria and graduated consequences for brokers.

Management in its reply (February 2024) stated that broker allocation was carried out through tendering followed by mutual contract. Auction prices were dependent on quality and market demand of the tea. Non-performing brokers were being penalised by withdrawing the allocated gardens from them.

Ministry in its reply (July 2025) assured to penalise the defaulting brokers and incentise ising the performing brokers.

Ministry/Management reply may be viewed in light of the fact that there was need for reviewing not only the brokers performance but also of the target fixed in quantity and price considering the quantity/quality and demand of tea produced and marketing strategies adopted.

Recommendation 15: Company should strive for fixing pragmatic sales target for tea considering its quantity, quality and demand, adopt dynamic marketing strategy and penalise the defaulting brokers while incentivise the performing brokers.

5.1.5 Conclusion

The Tea Division of the Company, which contributed more than 50 *per cent* of the revenue during 2017-18 to 2024-25, was operated without a documented, comprehensive and time-bound strategy to check the declining trend in productivity and financial performance. Despite continuous decline in yield per hectare, the Company did not undertake uprooting and replantation activities after 2019-20. Further, non-establishment of adequate irrigation infrastructure recommended by the consultant led to adversely affecting yield and green leaf production. Moreover, decline in availability of green leaf from the own gardens, coupled with reduction in procurement of bought leaf, resulted in significant decline in tea production. Deficiencies in compliance with statutory requirements relating to periodic testing of tea samples indicated gaps in quality assurance processes. The absence of a documented and verifiable framework for realistic target fixation adversely affected sales performance.

For ensuring operational efficiency and long-term sustainability of the Tea Division, the Company may:

- Take up planned and concerted efforts for uprooting of old tea bushes & replant new ones and establishing requisite irrigation infrastructure in its tea gardens, in a time bound manner so as to increase the yield.

- Take up better market exploration efforts, so as to procure quality tea leaf from other tea growers in increased quantity for utilizing the idle capacity of its tea factories.

Strive for fixing pragmatic sales target for tea considering its quantity, quality and demand, adopt dynamic marketing strategy and penalise the defaulting brokers while incentivise the performing brokers.

CHAPTER VI: MINISTRY OF STEEL

Steel Authority of India Limited

6.1 Performance of Rolling Mills

6.1.1 Introduction

Steel Authority of India Limited (SAIL or Company), a leading producer of iron and steel in India has five integrated plants namely, Bhilai Steel Plant, Bokaro Steel Plant, Rourkela Steel Plant, Durgapur Steel Plant, IISCO Steel Plant at Burnpur and three special steel plants namely, Visweswaraya Iron and Steel Plant at Bhadravati, Salem Steel Plant and Alloy Steels Plant at Durgapur.

In an integrated Steel Plant, Hot Metal is produced in a Blast Furnace which is transferred to Basic Oxygen Furnace (Converters) for production of Crude Steel in the form of billets, blooms & slabs for subsequent rolling in the Rolling Mills. The initial rolling of steel is done in a hot rolling mill where blooms, billets and slabs are rolled down to various rolled products such as plate, sheet, strip, coil, structures, rails, bars and rods. Cold rolling of steel is also carried out for some products. In special steel plants, crude steel is produced in Electric Arc Furnace which are subsequently rolled in Hot and Cold Rolling Mill.

SAIL has 32 Rolling/Finishing mills as on 31 March 2024 out of which 30 mills[1] were under operation as of March 2024.

6.1.2 Audit objectives, Scope and Criteria

The Audit objectives were to assess whether (i) Rolling mills were operated economically, efficiently and effectively with respect to the Annual Production Plan, (ii) Consumption of services was within the norms, (iii) Projects relating to up-gradation of Rolling mills were executed economically, efficiently and effectively, and (iv) Safety measures taken were adequate with compliance to safety laws during operation of the mills.

Records relating to production performance, consumption of services, project execution and safety issues relating to rolling mills of SAIL[2] were examined for the period from 2018-19 to 2022-23 in all the steel plants of SAIL. The entry meeting with Management was held in August 2023 and the exit meeting in June 2024. Figures in the report have been updated till 2023-24.

The draft paras were issued to the SAIL Management and Ministry of Steel and their replies have been incorporated in the report.

[1] ***Except Blooming mill and Billet mill of Bhilai Steel Plant.***

[2] ***Except Universal Rail Mill at Bhilai Steel Plant where records were examined for the period from 2016-17 to 2020-21.***

6.1.3 Audit Findings

Production Performance of Rolling Mills

SAIL prepares an Annual Business Plan/Perspective (ABP) each year, wherein the operational norms along with the production targets of the mills are fixed considering operating conditions and market scenario. Plant wise performance of some of the rolling mills of the steel plants of SAIL for the period from 2018-19 to 2023-24 is discussed in subsequent paras[3].

6.1.3.1 Bhilai Steel Plant

Bhilai Steel Plant produces large variety of wide and heavy steel plates, structural steel, rails, wire rods and merchant products (Angles, Channels, TMT bars). It has eight rolling/finishing mills. The rated capacity, Annual Business Plan and production of the Rolling Mills of Bhilai Steel Plant during the period 2018-24 are given in the table below:

Table 6.1: Production Performance of Rolling Mills of Bhilai Steel Plant during 2018-24

(Qty in million tonne)

Rolling Mills of Bhilai Steel Plant	Month of commissioning	Input Material	Output Material	Rated Capacity (2018-2024)	Annual Business Plan (2018-24)	Production (2018-24)	Percentage of achievement wrt Annual Business Plan
Merchant Mill	February 1961	Billet	Angles, Round, Channels	3.00	3.78	3.28	86.77
Wire & Rod Mill	September 1967	Billet	Wire Rods, TMT	3.30	2.80	2.10	75.00
Rail & Structural Mill	October 1960	Bloom & Billet	Rails & Structurals	4.50	4.74	3.74	78.90
Plate Mill	March 1983	Slab	Plates	7.80	7.07	5.89	83.31
Bar and Rod Mill	September 2020	Billet	TMT coils, Bar, Wire rods	3.23	3.01	2.92	97.01
Billet Mill	December 1959	Bloom	Billet	3.00	2.60	2.26	86.92
Blooming Mill	November 1959	Ingot	Blooms	4.30	3.13	2.44	77.96
Universal Rail Mill	September 2018	Bloom	Rails	7.20	5.16	4.18	81.01
Total				36.33	32.29	26.81	83.03

Source: Data furnished by Management and Annual Business Plan and Annual Statistics

[3] ***No material issues were noticed in IISCO Steel Plant and the three Special Steel Plants.***

Some of the issues noted in respect of rolling mills of Bhilai Steel Plant are discussed in subsequent paras.

A Universal Rail Mill of Bhilai Steel Plant

The Company installed (December 2016) Universal Rail Mill at Bhilai Steel Plant under the Modernisation and Expansion Plan to produce world's longest single rail of 130 metre/260 metre with the capacity to roll 1.2 million tonnes per annum (mtpa) of rails. The mill was planned to take Bhilai Steel Plant's total installed capacity to produce rails to two mtpa with improved surface quality, less residual stress and improved straightness.

Contract for installation of Universal Rail Mill at Bhilai Steel Plant was awarded (28 August 2010) to a consortium for ₹1,177 crore. The mill was, however, put into operation on 21 December 2016 with delay[4] of 41 months from scheduled date of completion of June 2013. As per the final delay analysis (March 2022) the delay in commencement of operation of Universal Rail Mill was on account of delay in submission of basic engineering drawing, delay in completion of civil work, delay in supply of equipment by Management to provide the desired storage infrastructure and erection of equipment. Thus, the entire period of delay of 1,912 days (from 22 June 2013 to 15 September 2018) was attributable to Bhilai Steel Plant. The final acceptance certificate was issued but the contract closure was yet to be completed (January 2026). The issues noted by Audit, relating to performance of Universal Rail Mill are discussed in succeeding paragraphs:

A.1 Issue of commissioning certificate without fulfilling the contractual obligations

As per clause 1.3.1 of the Contract Agreement for Installation of Universal Rail Mill, hot commissioning was deemed to be successfully completed when the production of about 10,000 tonne of commercially accepted rails was achieved within five consecutive days comprising of 52 kg and 60 kg rails. If, for any reason that was not attributable to the contractor, the above mentioned procedure for successful commissioning could not be established, the contractor would demonstrate that the Universal Rail Mill could operate at the production level of 66 *per cent* of the hourly design in three shifts. Commissioning certificate was issued by Bhilai Steel Plant on 2 September 2020 with effect from 15 September 2018. Audit observed the following:

- The test was conducted for eight days instead of five days stipulated in the agreement and 10,000 tonnes of commercially accepted rails could not be achieved in five consecutive days. The inability of Management to make the requisite infrastructure available led to non-conduction of the test in five days and consequently, relaxation was given to the contractor. The envisaged demonstration of 66 *per cent* of hourly capacity in three shifts was not done due to inconsistent quality of the input blooms,

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[4] ***The issue relating to delay in commissioning of Universal Rail Mill had been discussed in CAG Report No. 13 of 2019 earlier.***

non-commissioning of the balance facilities of the supporting packages and inadequate on the job training of the workforce of Universal Rail Mill.

- Despite the fact that the scope of the mill included both 52 kg and 60 kg rails, Bhilai Steel Plant waived the requirement to achieve desired performance as per the terms of contract, with respect to 52 kg rail. It informed (January 2019) the supplier that all relevant performance and facilities pertaining to 52 kg rail would be deemed to have been completed and contract closure would be effected without any commercial implication. Audit noted that such waiver was granted despite the fact that 52 kg rails are still produced and sold from other rolling mills in SAIL. Thus, this waiver led to reduction in scope of the contract.

- Commissioning certificate was issued by Bhilai Steel Plant with effect from September 2018, much before the commissioning of critical facilities like L2 Automation, Hot commissioning and Head Hardening facilities (April 2021/October 2023).

- Bhilai Steel Plant had taken over Universal Rail Mill for commercial production from 14 December 2016 with Risk Transfer Certificate before issue of the Preliminary Acceptance Certificate (31 July 2017 with effect from 11 March 2017). Consequently, defect liability period of one year expired in 2017, absolving the contractor from all the responsibilities before the commissioning of the project (15 September 2018).

Management replied (March 2022) that the number of days taken was about eight instead of five days due to reasons not attributable to the contractor. Moreover, the contractor had fulfilled the requirement of 10,000 tonnes of rails. Ministry added (November 2022) that as per the contract, rail sizes would be mutually agreed between employer and contractor and would be representative product mix. Accordingly, 52 kg rails were excluded as a part of the demonstration of commissioning.

The reply may be viewed in the light of the fact that relaxations were given to Contractor regarding the number of days for fulfilling the requirement of rails and also by exempting the demonstration of commissioning of 52 kg rails, on account of reasons not attributable to the Contractor. Even after a lapse of nine years since its installation in December 2016, and despite it being critical to supply of rails to Indian Railways, URM was unable to meet its rated capacity or its Annual Business Plan quantity over the years. The performance however, showed an improving trend over the audit period.

A.2 Loss of contribution due to lower production of rails

Universal Rail Mill had capacity to roll 12 lakh tonne per annum rails. Audit noted that by considering the initial years for stabilisation (up to 2018-19), the production target fixed in the Annual Business Plan was around 66 *per cent* of the installed capacity of the Universal

Rail Mill during 2019-20 to 2021-22 which increased to 85 *per cent* in 2023-24. Further, the mill could achieve production only between 50.37 *per cent* and 75.08 *per cent* of the installed capacity and between 75.55 *per cent* and 96.45 *per cent* of Annual Business Plan quantity during 2019-2024. The production, however, showed an increasing trend over the years and was as high as 96.45 *per cent* of the Annual Business Plan in 2022-23 and 87.90 *per cent* in 2023-24.

Audit observed that Universal Rail Mill did not achieve the targeted production even after lapse of seven years of operation. It was faced with several constraints like bottlenecks in production process like space constraint in cooling bed resulting in slower rolling rate, excess generation of short length rails etc. These constraints led to loss of production hours and thereby resulted in loss of production which are discussed in para 6.1.3.1(A.4 & A.5) below. Less production of rails than the Annual Business Plan has resulted in potential loss of contribution[5] of ₹1461.30 crore during the period 2019-20 to 2023-24.

Management replied (March 2022) that production of Universal Rail Mill had been ramped up and achieved 89 *per cent* of Annual Business Plan target in 2020-21 despite the COVID 19 pandemic. Ministry added (November 2022) that owing to intense pressure from Indian Railways to start commercial production of long rails, Bhilai Steel Plant decided to commence production in the absence of required foreign experts from original equipment manufacturer for stabilisation of the Mill. Moreover, during operation of the mill some relocation/modification of equipment were required to optimise the process.

The reply may be seen in the light of the fact that although the Annual Production Plan was fixed much lower (between 52 and 86 *per cent)* than the installed capacity of the Universal Rail Mill during 2017-2024, production was lower than the Annual Business Plan.

A.3 Less supply of rails to Indian Railways

Total requirement of rails in the country was estimated (July 2019) by Indian Railways to be around 1.69 to 2.2 mtpa for the next ten years. The production potential of rails at Bhilai Steel Plant against the above requirement was estimated between 1.35 mtpa and 1.73 mtpa and for long rails of 260 metre it was estimated between 0.71 and 1.17 million tonnes.

Table 6.2: Indent of rails received from Indian Railways vis-à-vis rails supplied by SAIL

(Quantity in tonnes)

Year	Initial Bulk indent received from Indian Railway (T)	Final Indent of rails received from Indian Railways (tonne)	Total quantity of rails dispatched by Bhilai Steel Plant (Rail & Structural Mill+ Universal Rail Mill)	Percentage of rails supplied by SAIL	Short supply of rails to Indian Railways (tonne)
2016-17	624516	10,04,660	6,12,905	61.01	3,91,755
2017-18	1145000	11,45,000	8,45,607	73.85	2,99,393
2018-19	1327024	15,22,906	9,20,080	60.42	6,02,826

[5] ***Contribution = Net Sales Realisation over the variable cost***

Year	Initial Bulk indent received from Indian Railway (T)	Final Indent of rails received from Indian Railways (tonne)	Total quantity of rails dispatched by Bhilai Steel Plant (Rail & Structural Mill+ Universal Rail Mill)	Percentage of rails supplied by SAIL	Short supply of rails to Indian Railways (tonne)
2019-20	1204200	16,97,471	12,35,578	72.79	4,61,893
2020-21	1715000	11,85,353	10,88,340	91.82	97,013
2021-22	1197730	12,91,012	9,79,634	75.88	3,11,378
2022-23	1462194	12,53,227	11,68,653	93.25	84,574
2023-24	1412293	14,49,636	11,52,045	79.47	2,97,591
Total	**1,00,87,957**	**1,05,49,265**	**80,02,842**	**75.86**	**25,46,423**

Source: Data furnished by Management

Audit noted that against indent of 10.55 million tonne of rails by the Indian Railways, supply of rails by SAIL/Bhilai Steel Plant was 8 million tonne during 2016-2024. Fulfillment of indent was between 60.42 *per cent* (2018-19) and 93.25 *per cent* (2022-23) of the total indent[6] during the period 2016-17 to 2023-24. Indian Railways had increased the final quantity of indent in five out of eight years during 2016-2024. In 2020-21 and 2022-23, the final indent was decreased whereas the initial and final indent was same in 2017-18 and the average supply of rails was 86 *per cent.*

Management/Ministry replied (March 2022/November 2022) that indent issued by Indian Railways at start of the year got revised from time to time during the year depending upon their actual requirement. SAIL Board was critically analysing the matter to initiate actions to remove the bottlenecks and facilitate resolving the pending project commissioning issues for enhancement of production at Universal Rail Mill.

Replies may be seen in light of the fact that SAIL could supply on an average only 75.86 *per cent* of the total indent of rails to the Indian Railways during 2016-2024. Thus, if BSP did not ramp up the production of rails via URM, SAIL may not be in a position to fulfill the future requirement of Indian Railways (2.2 mtpa by 2028-29).

A.4 Bottleneck of space constraint in cooling bed resulting in slower rolling rate

When rolling in mill goes well but finishing is slow or when there is a delay in mill causing finishing area waiting for rails, the average production rate suffers on account of non-availability of buffer zone. The proposal to install the Second Cooling Bed was initiated (May 2019) two and a half years after commercial operation of Universal Rail Mill and feasibility report approved (October 2021).

As per the feasibility report (October 2021) by CET/SAIL, the Second cooling bed[7] could resolve the mismatch between the production rate of mill and the processing rate of the finishing area and also reduce the interdependence between the mill and finishing areas. It

[6] ***Including the sales from Rail and Structural Mill (Bhilai Steel Plant) as discussed in in para 6.1.3.1(B).***

[7] ***Second Cooling bed would be a storage bed for hot rails. It would be hydraulically operated for its forward and backward movement and would be controlled by electrical and electronic signals from various field devices.***

further envisaged that Second Cooling Bed was to be commissioned in 18 months from Stage II approval with estimated cost of ₹152.63 crore leading to an upsurge in the production of 260 metre welded panel of prime rails by around 11,925 tonnes per year with additional contribution of ₹40.92 crore per annum. As per the report, the requirement of Second Cooling Bed was proposed for Universal Rail Mill since its inception and accordingly space was provided in the layout and a major portion of civil foundation was made for the same as a part of erection and commissioning.

Audit observed that during the period 2018-19 to 2023-24, 3,840 production hours were lost due to non-availability of Cooling bed resulting in loss of production of 5.39 lakh tonne rails. Besides, the Company continues to suffer potential loss of annual contribution of ₹40.92 crore.

Management replied (March 2022) that the Second Cooling Bed was not envisaged as a part of Universal Rail Mill package, but available space was utilised to make basic civil foundation in view of future expansion requirements. Ministry replied (November 2022) that Universal Rail Mill was planning to commission the Second Cooling Bed to further ramp up the production. Management added (November 2024) that the project was put on hold due to upcoming project of Universal Rail and Structural mill.

Reply of the Management/Ministry may be seen in the light of the fact that production hours were lost due to non-availability of cooling bed. As per the feasibility report of CET, this could be avoided with the coming of the Second cooling bed.

A.5 Generation of short length rails

(i) Universal Rail Mill was to produce 130 metre long rails in the form of 260 metre long rail welded panels by welding two 130 metre rails. Production of 130 metre prime rail was however low due to bent end defects in the rails. Indian Railways allowed (September 2017) Bhilai Steel Plant to cut the rails into different other standard lengths required to make 260 metre welded panels with different combination to take care of situations where it was not possible to get full 130 metre prime length of rails. The permission was, however, on provisional basis till the rail rolling processes at Universal Rail Mill was stabilised and length of bloom was optimised and without any extra payment for additional welds.

Audit noted that 48.80 *per cent* of the rails produced during 2017-2024 were not of 130 metre category and were required to be salvaged to recover the maximum possible standard prime lengths requiring additional cost that was not reimbursed by the Indian Railways. The production of short length rail however reduced over the years from 84 *per cent* in 2017-18 to 30.11 *per cent* in 2023-24.

(ii) The expected bar length of the rails depends more on the weight of the bloom rather than on its length. So, the length of bloom should be such that it contains appropriate weight to get the rails of the required length. The weight of the bloom was required to be sufficient to roll more than 134.5 metre rail to produce 130 metre prime rail after crop cutting. Audit noted that many times length of blooms received at Reheating Furnace was less than the designated length. Industrial Engineering Department of Bhilai Steel Plant observed (February 2019) that out of 140 rolled rails, only nine could achieve the desired length of 130 metre.

Management replied (March 2022) that some process improvements in steel area, design modifications and continuous process monitoring in the mill, have been taken to maximise production of 130 metre length prime rails. Efforts were on to enhance the prime acceptance of 130 metre rails to maximum possible extent. Ministry added (November 2022) that installation of a laser-based bloom length measurement and cutting system at Steel Melting Shop-III, for more precise control of bloom length, bloom weight thereof had been envisaged.

The reply may be viewed in the light of the fact that Indian Railways while estimating its requirement of new rails for next 10 years from 2019-2029 stated (July 2019) that 80 to 90 *per cent* of requirement would be of 260 metre long panels. It is notable that after installation (April 2023) of laser-based bloom length measurement and cutting system at Steel Melting Shop-III, generation of short length rail has reduced considerably and was around 30 *per cent* in 2023-24.

A.6 Non-finalisation of Post Completion Report for Universal Rail Mill

Post Completion Report includes detailed analysis of the accomplishment of project objectives (technical and commercial), time and cost overrun, if any, difficulties faced in the execution of the project, lesson learnt from the projects etc. Post Completion Report should be prepared within one year of commissioning for all capital schemes with sanctioned cost of ₹ 5 crore and above and should be submitted to the sanctioning authority. However, the Post Completion Report in respect of Universal Rail Mill was yet to be finalised (January 2026).

Management/Ministry replied (March 2022/November 2022) that Post Completion Report for the Mill would be finalized after Final Acceptance Test Certificate and contract closure. Management added (February 2026) that no dues certificate was awaited from the contractor and subsequently the contract closure would be completed.

The reply may be seen in the light of the fact that timely finalisation of Post Completion Report is essential to assess the overall accomplishment of project objectives and to carry forward the lessons learnt from the implementation of the project. Management may expedite the process of contract closure and finalisation of Post Completion report.

B Rail & Structural Mill of Bhilai Steel Plant

Rail & Structural Mill was commissioned in October 1960 and produces rails and structural. Alongwith the Universal Rail Mill, it majorly contributes to meeting the rail demand from Indian Railways. Audit noted the following:

a) During the period 2018-2024, Rail & Structural Mill achieved 79 *per cent* of the Annual Business Plan/Perspective and 83 *per cent* of the rated capacity. 34 *per cent* of available mill hours remained unutilised due to mechanical breakdowns, roll changing delays, non-availability of blooms, and other operational disruptions.

b) 8.82 lakh tonnes of blooms, an input material for rails, were sold during 2018-24, although the contribution per tonne of rails was consistently higher than that of blooms. Potential loss of contribution due to shortfall in production vis-à-vis ABP was ₹1,534.25 crore.

c) Out of 37.39 lakh tonnes of rails produced, 7.38 lakh tonnes (20 *per cent*) were downgraded/rejected at finishing stage for which no norms were fixed. Of this, 5.06 lakh tonnes were downgraded rails, leading to substantial value erosion. Moreover, the yield[8] norms were also not achieved due to scale formation, cobbles and scrap generation beyond acceptable process limits. The magnitude of finishing-stage downgrades indicates deficiency in rolling precision resulting in potential loss of opportunity to earn revenue of ₹1583.32 crore[9] during 2018-24.

d. Non-implementation of critical modernisation projects: In Rail & Structural Mill, Blooms are rolled from Roughing, Intermediate and Finishing stands to shape them as per the dimension required by the Indian Railways. Timely completion of following projects would have helped in improving the production performance of the mill:

- **Walking beam furnace**

Center for Engineering and Technology submitted feasibility reports (March 2018 and August 2020) for replacing the pusher-type reheating furnace on which no action was taken by Management. The existing pusher type Reheating furnace was not modernised to meet the stringent norms and requirement of rails and structural.

- **Replacement of Non Destructive Testing facilities**

Existing Non Destructive Testing facility (commissioned August 2004) suffered from ageing electronics and wear and tear. Feasibility report (July 2021) projected ₹11.22 crore annual gross margin. Stage I approval was obtained (July 2022), but tender was cancelled.

[8] ***Yield is the amount of final products formed per ton of input material. It is calculated by dividing finished product weight to that of its charged weight and expressed in percent.***

[9] ***Net Sales Realisation of prime rails minus Net Sales Realisation of downgraded rails x 5,05,705 tonne***

Given that 100 *per cent* of long rails require NDT clearance, non-replacement of the testing facility constrained quality assurance capability.

Inability to modernise furnace and NDT infrastructure led to persistent high rejection rates, sub-optimal yield and under-utilisation of installed rolling capacity.

Management replied (August 2024) that generation of scales, rejects, scraps, cobbles and down-gradation occur as a part of the process. Walking Beam Furnace project and replacement of NDT facilities has been kept in abeyance, in view of the projected requirement of Indian Railways for Head hardened rail. Ministry replied (January 2025) that though Rail & Structural Mill had the capacity to achieve Annual Business Plan target, production was controlled due to less order of short rail from Indian Railways. It further added that several steps were initiated to improve the yield and performance of the mill.

Reply may be viewed in the light of the fact that as cited in in para 6.1.3.1(A3) above, SAIL could fulfil only between 60.42 *per cent* (2018-19) and 93.25 *per cent* (2022-23) of the total indent from Indian Railways during the period 2016-17 to 2023-24.

C Plate Mill of Bhilai Steel Plant

Plate Mill achieved 83 *per cent* of the Annual Business Plan and 76 *per cent* of the rated capacity during 2018-24. Audit noted the following:

- The mill could not utilise 22 *per cent* of the available hours during 2018-24 mainly due to shortage in supply of slabs and gases, mechanical reasons, delays due to roll change etc.

- The existing furnaces of the Plate mill could not be operated beyond 60/70 tonne per hour (tph) due to deteriorated conditions and low average slab weight, high specific fuel consumption (0.56 Gcal/t against 0.30 Gcal/t in modern Walking Beam Furnace) resulting in non-uniform heating of slabs, high scale losses, skid marks and the risk of sticking of slabs. Installation of 140 tph Reheating Furnace was included in the Modernisation & Expansion Plan of SAIL/Bhilai Steel Plant (June 2008) but the package was not taken up.

  Subsequently, due to extinction of old furnaces and advantages of the walking beam furnace, the efforts for the installation of the walking beam furnace were restarted (September 2012), when CET submitted the first feasibility report. CET submitted (February 2023) the seventh (final) feasibility report. The walking beam furnace was not installed (January 2025) even after a lapse of more than twelve years since first feasibility report in 2012. BSP continues to incur the potential loss of annual gross margin of ₹27.86 crore in the absence of installation of Reheating Furnace.

  Management replied (August 2024) that the project was revisited as the competitors in the plate market increased alongwith their better product quality but was taken up later as a technical necessity. Ministry replied (January 2025) that Notice Inviting Tender was issued on 7 October 2023 and offers received were under technical scrutiny.

Replies may be seen in the light of the fact that it is silent about the reasons for the delay in finalisation of feasibility report during 2012 to 2023.

- Out of the total production of 58.92 lakh tonne of Plates during 2018-24, 6.18 lakh tonne (10 *per cent*) were Not Covered in Order (NCO)[10] plates, mainly due to non-availability of slab weighing machine and led to deformity in the size of plates which led to potential loss of opportunity to earn revenue of ₹149.30 crore[11]. The machine was surveyed off in 2006 but continued to be used thereafter till 2013 and the new machine was installed in March 2024. 1100 tonne of NCO products lay unsold at Bhilai Steel Plant (March 2024) since more than four years.

  Ministry replied (January 2025) that a new slab weighing machine had been commissioned (April 2024). Reply may be viewed in the light of the fact that the existing machine was surveyed off in 2006 but continued in use till 2013. It further took 11 years (2013 to 2024) to install the slab weighing machine which resulted in incurring losses on account of generation of NCO products.

- **S**labs, which are an essential input for plate production were also directly sold instead of conversion of the same into plates. Plates yield a higher contribution margin as compared to slab and moreover, their utilisation in the Mill would also have mitigated production delays attributed to non-availability of input material. During 2020-24, the effective order for plates was 20.82 lakh tonnes, against which actual production was 17.50 lakh tonnes, resulting in a shortfall of 3.33 lakh tonnes. This shortfall would have required 3.66 lakh tonnes of slabs as input material. During 2020-24, 2.12 lakh tonnes of slabs was sold. The diversion of the input of slabs resulted in potential loss of contribution of ₹1690.39 crore during 2020-24.

  Management (August 2024) stated that both production and demand were adversely impacted due to COVID-19 and that lower market demand for plates resulted in reduced conversion of slabs, necessitating sale of slabs to maintain production continuity and manage logistics.

  The reply may be seen in the light of the fact that had the plant achieved the ordered quantity of plates, the requirement for disposal of slabs externally along with the associated logistical handling implications would likely not have arisen.

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[10] ***Finished products which do not meet the technical delivery conditions and thus did not meet the requirement of customers due to some defect owing to mill/steel are termed as Not covered in order.***

[11] ***Calculated considering the total NCO generation multiplied with difference of Net Sales Realisation of Plate and Net Sales Realisation of NCO plates sold.***

D Merchant Mill, Bhilai Steel Plant

The Merchant Mill achieved 87 *per cent* of the production of Annual Business Plan and 109 *per cent* of the rated capacity during 2018-24. Non achievement of Annual Business Plan production target was mainly on account of non-availability of input materials including gas, roll change delays, mechanical delays etc, non-replacement of Analogue thyristor etc. Audit noted that:

- Analogue Thyristor converters[12] of 1D to 12D of the Merchant mill became obsolete which resulted in the failing of components, frequent breakdown, stoppage of the mill and consequent loss of production. The equipment was surveyed off in February 2013 but the project for replacement of analogue drive thyristor system by a digital Direct Current drive system was yet to be implemented (January 2026).

- Further, the mill could not achieve the norms for yield during 2021-23 due to generation of 25,149 tonne of scales, 18,869 tonne of reject materials and 1,90,874 tonne of arisings[13] at the finishing stage during 2018-24 for which no norms were fixed (except rejects). The net sales realisation from the arisings was considerably lower than that of the Merchant mill products with the difference ranging between ₹ 6,352 per tonne to ₹ 10,798 per tonne during 2018-2024. The generation of arisings therefore resulted in potential loss of opportunity to earn revenue of ₹ 158.74 crore[14].

Management replied (August 2024) that there was continuous effort for the replacement of drives. Scale generation was mostly due to old technology of pusher type of furnaces. Ministry replied (January 2025) that target and production was higher than its capacity. It further added that tender specification for replacement of the existing transformers was under process.

Reply of the Management/Ministry may be viewed in the light of the fact that though the production of Merchant Mill was more than its capacity, it could achieve only 87 *per cent* of the target. Further, generation of arisings have increased from 4.69 *per cent* in 2018-19 to 7.21 *per cent* in 2023-24.

6.1.3.2 Bokaro Steel Plant

Bokaro Steel Plant manufactures Hot Rolled Coils, Plates, Sheets, Cold Rolled Coils, Galvanised Plain and Corrugated Sheets from its four rolling mills. Rated capacity, Annual Business Plan target and production from the Rolling Mills during 2018-24 was as below:

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[12] ***There are twelve stands which are utilised in different combinations to roll out channels, angles, rounds and TMTs. These have analogue DC drives to control DC motors.***

[13] ***Arising-Arisings are rolled bars of less than 6 metre length.***

[14] ***Net Sales Realisation of Merchant Mill Products minus Net Sales Realisation of Arisings* 1,90,874 tonne***

Table 6.3: Production Performance of Rolling Mills of Bokaro Steel Plant during 2018-24

(Qty in million tonne)

Rolling Mills of Bokaro Steel Plant	Month of commissioning	Input Material	Output Material	Rated Capacity (2018-24)	Annual Business Plan (2018-24)	Production (2018-24)	Percentage of Achievement wrt Annual Business Plan
Hot Strip Mill	October 1975	Slab	Hot Rolled Coils	27.00 .	25.20	22.17	87.98
Hot Rolled Coil Finishing Line	January 1976	Hot Rolled Coil	Hot Rolled Plate/Sheet	7.20	3.29	2.98	90.58
Cold Rolling Mill -I & II	December 1976	Hot Rolled Coil	Cold Roll Saleable	9.96	4.94	2.87	58.10
Cold Rolling Mill-III	August 2015	Hot Rolled Coil	Cold Roll Saleable	7.20	5.32	3.33	62.59
				51.36	**38.75**	**31.35**	**80.90**

Source: Data furnished by Management and Annual Business Plan and Annual Statistics

Some of the issues noted in respect of rolling mills of Bhilai Steel Plant are discussed in subsequent paras.

A Hot Strip Mill of Bokaro Steel Plant

Hot Strip Mill in Bokaro Steel Plant could not utilise 27 *per cent* of the available hours and could achieve 87.96 *per cent* of the targeted production as envisaged in the Annual Business Plan during the period 2018-2024 mainly due to delay in roll change, mechanical, electrical, operational reasons, shortage of gas etc. In this regard, Audit noted the following:

- Bokaro Steel Plant requires approx 4.66 million tonnes of slab to produce HR Coils as per the rated capacity of 4.5 million tonne. However, it produced on an average 3.86 million tonnes of slabs during 2018-2024. Also, the plant sold 12.10 million tonne of Hot Rolled coil[15] (48.88 *per cent to* 57.45 *per cent* of production of Hot Rolled Coil) produced from Hot Strip Mill during the above period, while Hot Rolled Coil Finishing Line, Cold Rolling Mill I&II, and Cold Rolling Mill-III were underutilised for want of desired quantity of input. Shortage of input materials led to short production of products like colour-coated steel products, Cold rolled products which had a higher contribution.

- Yield from the mill was below the norm during 2018-2024. Out of 22.17 million tonne of production, 0.81 million tonne of defective/downgraded products was produced which resulted in potential loss of opportunity to earn revenue of ₹327.55 crore during 2018-2024.

[15] ***HR coil can be sold as such and processed further as well.***

- The inability to achieve the production as per the Annual Business Plan, resulted in potential loss of contribution of ₹4,504.07 crore[16] during the period 2018-2024.

Management replied (August 2024) that less production of Slabs was the major reason for less production of Hot Rolled Coils from Hot Strip Mill. Hot Strip Mill had initiated action to mitigate constraints contributing towards lower rolling. Ministry replied (January 2025) that lower rolling hours were due to automation issues, shortages of backup rolls, and power breakout. Direct Hot Rolled coil selling plans were around 50 *per cent*, with another 50 *per cent* for plate sheet and Cold Rolled production.

Reply may be viewed in the light of the fact that availability of slabs had been consistently low and availability of slabs needed to be ensured to achieve the planned production of Hot Rolled Coils and thereby also ensure availability of required input of coils for the other mills. Higher supply of coils to downstream mills would restrict the loss of production at the mills due to shortage of input materials.

Recommendation 16: The Company may put in efforts to address the operational issues hampering the production of Hot Strip Mill which also starves the other mills dependent on the Hot Strip Mill for input, to optimise its revenue from the sale of finished steel products like Hot Rolled Coils/Plates/Sheets and Cold Rolled products.

B Cold Rolling Mill-III of Bokaro Steel Plant

Cold Rolling Mill-III with rated capacity of 1.2 million tonne was installed at Bokaro Steel Plant to produce uncoated automotive grade/high strength steel coils and hot dip galvanized coils. The mill produced 62.59 *per cent* of the Annual Business Plan quantity during 2018-24 The mill could not utilise 42.71 *per cent* of available hours mainly due to non-availability of input materials apart from the delays due to operational, mechanical, electrical and technical reasons. Audit observed that:

- The mill did not achieve the yield norm and out of 3.33 million tonne, there was production of 0.21 million tonne of downgraded products (6.30 *per cent)* resulting in potential loss of revenue of ₹ 152.39 crore. Generation of pup coil[17] was between 2.39 and 3.97 *per cent* during 2018-24 against the norm of 2.2 *per cent* fixed by the management. Generation of pup coil above the norm has resulted in potential loss of opportunity to earn revenue of ₹ 5.67 crore.

- Pickling line & Tandem Cold mill (PLTCM) of Cold Rolling Mill-III was commissioned (July 2015) for ₹694.31 crore. Due to numerous defects in the operation of laser welder facility, strips of coil were frequently broken and the production process was switched to manual welding against the operation procedures as specified in the

[16] ***Contribution loss has been calculated based on year wise shortfall in production with respect to ABP multiplied by contribution margin.***

[17] ***A small coil usually containing defects that are unacceptable to the average customer.***

technical contract manual of PLTCM facility. Poor performance of welding machine involved higher entry cycle time and mill was not operated continuously at uniform and rated speed and automation mode. Production of CR coil was hampered for 1099 hours during last five years resulting in loss of production of 1.35 lakh tonnes of CR products. Further ₹2.19 crore was incurred extra on manual welding during 2018-24.

- Hot Dip Galvanising line, a unit of CRM-III was commissioned (June 2018) with a capacity of 3.60 lakh tonne per year for zinc coating to manufacture galvanized/galvannealed coils. Pressure drop inside the furnace was detected (August 2018) resulting in forced stoppage of Hot Dip Galvanising line from 12 August 2018 to 25 January 2020 (12,792 hours). Analysis of the premature failing of radiant tube revealed that the available mixed gas was not suitable for the installed radiant tubes and that a change of material was required for the available mixed gas. As the delay in commissioning was attributed to Bokaro steel plant and the defect liability period had ended (May 2018), the defects were liquidated by the company by incurring ₹1.52 crore. Production from Hot Dip Galvanising line started (January 2020). However, the line was down for 12 months, with a gap of three or four months due to high Oxygen content in Nitrogen gas resulting in poor coating/rejection. Audit noted that the use of unsuitable gas resulted in damaging of radiant tube and less production of galvanized products/ auto grade steel resulting in inability to meet 35 *per cent* of the orders available during 2018-24.

- Lower production than the Annual Business Perspective resulted in potential loss of contribution of ₹3,181.43 crore [18]during the period 2018-2024.

Management replied (August 2024) that measures had been taken to improve yield, reduce down-gradation of products and improve input material. It further stated that it was unable to manufacture auto grade steel due to lack of input which could be achieved through the new Steel Melting Shop proposed. Ministry replied (January 2025) that the production from CRM-III was increasing and that an Annual Maintenance Contract was under process to resolve laser welder issues. The Hot Dip Galvanising line production had increased over previous one year.

The reply may be viewed in the light of the fact that the problem with the laser welder was yet (March 2024) to be resolved. Further proposal for brownfield expansion of Bokaro Steel Plant was under approval stage (Stage I approval by Board in January 2025, but final project approval was pending (October 2025)) and three to four years would be required for implementation even after approval of the project.

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[18] ***Calculated on the basis of year-wise shortfall in production with respect to ABP multiplied by the contribution margin.***

6.1.3.3 Rourkela Steel Plant

Rourkela Steel Plant is a major producer of hot and cold rolled flat products from its eight rolling mills. Rated capacity, Annual Business Plan target and production of the Rolling Mills of Rourkela Steel Plant during the period 2018-2024 are as below:

Table 6.4: Production Performance of Rolling Mills of Rourkela Steel Plant during 2018-19 to 2023-24

(Qty in million tonne)

Rolling Mills of Rourkela Steel Plant	Month of commissioning	Input Material	Output Material	Rated Capacity (2018-24)	Annual Business Plan (2018-24)	Production (2018-24)	Percentage achievement wrt Annual Business Plan
Hot Steel Mill-I	February 1961	Slabs	Hot rolled coils, plates & sheets	9.90	6.67	7.47	111.99
Hot Strip Mill-II	March 2022	Slabs	Hot rolled coils	17.64	4.68	4.14	88.46
Plate Mill	Sept. 1960	Slabs	Plates	2.04	2.95	2.72	92.20
New Plate Mill	Nov. 2016	Slabs	Plates	5.52	5.43	5.20	95.76
Cold Rolling Mill	June 1961	HR Coil	Galvanized coil/sheet	0.96	0.86	0.58	67.44
Silicon Steel Mill	October 1984	HR Coil	Cold rolled coils	0.42	0.35	0.29	82.86
Electric Resistance Welded Pipe Plant	October 1960	HR Coil	ERW pipes	0.48	0.26	0.20	76.92
Spiral Welded Pipe Plant	June 1976	HR Coil	Spiral welded Pipes	0.36	0.15	0.14	93.33
TOTAL				**37.32**	**21.33**	**20.75**	**97.28**

Source: Data furnished by Management and Annual Business Plan and Annual Statistics

Audit observed that the main reason for lower production than plan from the finishing mills like Cold Rolling Mill, Silicon Steel Mill and Pipe Plants of Rourkela Steel Plant was lower supply of input material i.e. Hot Rolled coil. Audit noted that 9.19 mt of HR coil produced (68 and 83 *per cent*) from Hot Strip Mill- I & II was sold during 2018-24. The contribution of finished products (Galvanised Product/Galvanised Corrugated sheet, Cold Rolled Non Oriented, Electric Resisted Welded Pipes, Spiral Welded Pipes) was intermittently higher than that of contribution on HR coil. Therefore, Hot Rolled coils should have been made available to the finishing mills in desired quantity to fulfil the Annual Business Plan target.

Management/Ministry (August 2024/January 2025) noted the audit observation for implementation.

A New Plate Mill

New Plate Mill of Rourkela Steel Plant was commissioned (November 2016) without normalizing facility. Normalized plates[19] have higher Net Sales Realisation and more demand in the market due to its better ductility and impact toughness. Normalising facility was envisaged under Phase II expansion of the Plant. But in the light of the good saleability of normalized plates in the market it was taken up before the Phase II expansion Audit noted the following:

- Center for Engineering & Technology took five years (January 2015 to February 2020) to submit feasibility report after five revisions[20], for the project due to reviews and suggestions relating to installation of separate shot blasting facilities, leveler capacity, cost and techno-economics.

- SAIL Board accorded Stage I approval (April 2021) to install Normalizing Facility in New Plate Mill at an estimated cost of ₹ 314.21 crore with a gross margin of ₹ 70.16 crore per annum. Global tender issued in May 2021 was cancelled in June 2022 since both the bidders did not fulfill the commercial terms and conditions.

- Center for Engineering and Technology subsequently revised (January 2023) the feasibility report, Technical Specification and eligibility criteria with scheduled completion period revised from 23 months to 28 months and the estimated cost revised to ₹412.26 crore. The project was retendered in January 2023 in which the same bidders submitted their bids. While the Stage-I approval was given at an indicative cost of ₹314.21 crore, the final capital cost based on the L1 quote was almost double that of Stage I cost. Committee of Directors while deliberating on the proposal noted the time lapse and the increase in cost and advised that the project be taken up with future Brownfield/ Greenfield expansion plan of Rourkela Steel Plant.

- Delays in approval of the project led to foregoing of the envisaged annual gross margin of ₹70.16 crore during 2021-24. The company was also not able to supply normalised plates as envisaged despite demand for normalized plates in the market.

Management/Ministry replied (August 2024/January 2025) that it was decided to align the installation of the Normalising facility with future expansion plan of New Plate Mill.

Reply may be viewed in the light of the fact that delay in finalising the feasibility report and the tender had resulted in increase in price which was also noted (September 2023) with concern by the Committee of Directors.

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19 ***Normalised plates have better ductility and impact toughness which are most suitable for boilers and pressure vessels etc.***

20 ***1st Feasibility Report in May 2015, 2nd in June 2015, 3rd in March 2017, 4th in January 2020, 5th in February 2020.***

B Cold Rolling Mill

Cold Rolling Mill of Rourkela Steel Plant was commissioned (June 1961) to produce Galvanized coils/sheet. During the period 2018-2024, the mill could produce only 67.44 *per cent* of the planned production and the shortfall was mainly to non-availability of input material. In this regard, Audit noted following:

- 8.26 *per cent* (47,970 tonne) of the total production from the Mill was of downgraded and rejected products. After its commissioning in June 1961, the last expansion was taken up (February 1968). Due to technological obsolescence and ageing of machinery there was poor availability of spares and the mill was not able to achieve the planned production and produced more downgraded and rejected products. resulting in loss of revenue of ₹73.05 crore during 2018-2024.

- In the absence of automation, the mills were being operated in manual mode. CET, SAIL was assigned (February 2016) the job of preparation of Feasibility Report for new Cold Rolling Mill and up-gradation of Cold Rolling Mill. CET, SAIL recommended (October 2016) to install a new Cold Rolling Mill complex to enrich the product mix with value-added components and product quality to sustain and enhance the market share of Cold Rolling Mill products. Central Marketing Organisation, SAIL was assigned (July 2022) to study the market to envisage the product mix and the capacity of the proposed new Cold Rolling Mill, which submitted (September 2022) the report for Color Coated products. Based on the report, CET was appointed (March 2023) for preparing Feasibility Report and submitted (October 2023) the draft feasibility report. The draft feasibility report was under scrutiny (January 2025).

Ministry replied (January 2025) that Feasibility Report for new Cold Rolling Mill was under finalisation.

The reply may be seen in the light of the fact that though the CET recommended the setting up of new Cold Rolling Mill complex (October 2016), the proposal was not finalized January 2025) even after a lapse of nine years.

6.1.3.4 Durgapur Steel Plant

Durgapur Steel Plant produces long products i.e Thermo Mechanically Treated bars (TMT), Channel, Angles and it is also manufacturing and supplying the forged and machined Railway Wheels & Axle to Indian Railways from its four rolling/finishing mills. Annual Business Plan target, rated capacity and production of the rolling mills of Durgapur Steel Plant during the period 2018-24 is given below:

Table 6.5: Production Performance of Rolling Mills of Durgapur Steel Plant during 2018-24

(Qty in million tonne)

Rolling Mills of Durgapur Steel Plant	Month of commissioning	Input Material	Output Products	Rated Capacity p.a.	Annual Business Plan (2018-24)	Production (2018-24)	Percentage of Achievement wrt Annual Business Plan
Merchant Mill	May 1961	Billets	TMT Bars	2.16	2.22	2.19	98.65
Section Mill	Feb 1961	Blooms	Angles, channels & joists	1.26	0.78	0.78	100
Wheel & Axle Plant	Jan 1962 Nov 1961	Round Blooms	Wheel & Axle	0.18	0.18	0.14	77.78
Medium Structural Mill	Not yet*	Blooms	Angles, beams & channels	6.00.00	2.73	2.12	77.66
Total	-	-	-	**9.60**	**5.91**	**5.23**	**88.49**

**Production started from January 2016.*

Source: Data furnished by Management and Annual Business Plan and Annual Statistics

Audit noted that though the contribution of finished steel was higher than the semis (Blooms & Billets), Durgapur Steel Plant sold more semis than finished steel during 2018-24. Sale of semis was more than 58.82 *per cent* of total sales of the plant. SAIL Board had also advised (July 2020) to reduce semis and produce more value added products.

Audit noted that despite the direction of the SAIL Board, the sale of semis was higher than the finished steel during 2018-2024. The proposal of Durgapur Steel Plant (October 2014) for installation of a 0.6 mtpa capacity New Merchant Mill (a type of bar mill) to increase the conversion of semis into finished steel was revised thrice during 2016-2019. Stage-I approval was accorded (September 2021) with expected annual gross margin of ₹ 698.25 crore. The contract for 1 mtpa bar mill was placed (October 2024) and tender was issued for another 0.4 mtpa bar mill (November 2024). The projects were yet to be operationalized (January 2026) and SAIL continued to forego the expected annual gross margin.

Management replied (August 2024) that after implementation and stabilisation of both the mills together with the existing Merchant Mill, Durgapur Steel Plant would be positioned to achieve complete semis utilisation.

The reply may be seen in light of the fact that the proposals to install new Bar Mill though envisaged in October 2014 was yet (January 2026) to be installed. Early operationalisation of these projects would lead to better utilisation of semis and ensure accrual of the envisaged higher gross margin.

A Wheel & Axle Plant of Durgapur Steel Plant

Wheel & Axle Plant can produce annually 70,000 wheels and 12,000 axles. The mill produces forged and machined wheels and axles which include wheels for Locomotives, Brake Gangwayed (BG) coaches and Electric Multiple Unit (EMU) Coaches. Durgapur Steel Plant was manufacturing (2020-21) wheels for Linke Hofmann Busch (LHB) coaches and Metro Coaches. Audit noted the following:

- Wheel plant and Axle Plant could not utilize 38 *per cent* and 84 *per cent* respectively of the available hours due to operational, mechanical, and electrical reasons, ageing of the mill, mill defects, steel defects and high rejection during Ultrasonic Testing.

- Rejections in the Wheel & Axle Plant was more than the norms at the machining and finishing stage. Against the yield norm of 60 *per cent*, the yield of the wheels was between 44 and 51 *per cent* whereas, the yield was between 42.20 and 55.50 *per cent* in case of axle during 2018-24. This resulted in less output of 32,236 tonne of wheels and 2,336 tonne of axle leading to potential loss of contribution of ₹475.62 crore. High scale of rejections was due to ageing of the plant, Press & Rolling Mill defect and defects in steel quality. The yield of the plant was also affected due to changes in specifications by Railways, introduction of new types of wheels etc.

- A Bloom-cum-Round Caster was commissioned (October 2015) to feed blooms to the Medium Structural Mill and rounds to the Wheel & Axle Plant. Though the caster could cast rounds of 1.37 lakh tonne annually, production was between 2 *per cent* and 25 *per cent* of the installed capacity during 2018-24. Due to underutilisation of Bloom-cum-Round Caster, Management continued to meet the round requirements for wheel making through bottom pouring route which was costlier than the Bloom-cum-Round Caster rounds. There was extra expenditure of ₹16,141 per tonne of finished wheel as assessed by the Management and also resulted in delay in production process and increase in cost of production by ₹186.48 crore[21] during 2018-24.

- Machining of wheels in Durgapur Steel Plant was carried out through Computerized Numeric Control Vertical Turning cum Boring (CNC VTB) machines, as the existing CNC machines were not capable to provide accurate tolerances required for the job due to wear and tear over the years. Durgapur Steel Plant had to outsource major part of machining of Loco Wheels[22] supplied to the Indian Railways. To reduce the dependence on outside agency for machining of wheels, Durgapur Steel Plant decided (December 2013) to augment its in-house machining capability and decided to install

[21] ***Calculated considering differential cost of wheel block produced through BRC route and bottom pouring route multiplied by wheel produced through bottom pouring route during 2018-24.***

[22] ***Loco wheel is fitted on a locomotive (engine) of the train. It is part of the locomotive's running gear and is responsible for supporting the weight of the engine, allowing it to move on the tracks,*** *and* ***transmitting the power from the traction motors or engine to the rails.***

two CNC VTB machines and one CNC inclined oil hole drilling machine[23] in the existing wheel machine shop. Accordingly, a contract was awarded for 'Augmentation of Wheel Machining facilities at Wheel Machining Shop, W&A Plant-Installation of CNC Machines' in January 2014 for ₹37.50 crore. The project was to be completed by July 2015.

As per the Tender Specification, probes[24] were to be installed in the CNC machines to assess whether the excess material in the black wheels[25], that were to be machined by the CNC machines, were within the contractual limits or not. Anticipating that probing black wheels may result in excessive rejection hampering the production, both the CNC machines were commissioned in July 2016 without probes. Production was started for machining BG Coach wheel[26] without conducting any Performance Guarantee Test. Vertical Turning Lathe (VTL)-2 met with an accident after one month of commissioning, when a BG Coach wheel being machined got dislodged, owing to high eccentricity and damaged all four chuck jaws[27] (16 August 2016). VTL-1 was also damaged in the Automatic Tool Changer unit during machining of wheels on 14 November 2016.

Audit observed that Durgapur Steel Plant could not maintain the desired eccentricity of the black wheels used for machining in absence of the probes which resulted in the accident. Further, Commissioning Certificate was issued (July 2016) without machining Loco wheel which was compulsory for the Performance Guarantee test of the project. Durgapur Steel Plant incurred ₹29.04 crore on the Project and ₹0.59 crore on repair of the two CNC machines but could not achieve the envisaged benefits as only 29,309 wheels were machined during 2018-24 in comparison to the capacity of machining 1,36,080 wheels. Further, due to non-integration of Oil Hole Drilling Machine with the CNC machine in-house machining of the Loco Wheels could not be conducted and Durgapur Steel Plant had to spent ₹30.56 crore[28] on machining of Loco Wheels from outside agencies during 2018-24.

Management replied (August 2024) that in absence of facility for drilling holes, wheels cannot be machined fully in the new facilities. Due to aging of Wheel Press and Mill, some eccentricity in Black wheels was noticed. Input weight of blocks was kept on higher side to reduce washout /rejection during machining. Ministry replied (January 2025) that the contractor had assured to make the Oil Hole Drill unit operational and make the integration of the same with Vertical Turning Lathes machine.

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23 ***CNC inclined Oil Hole Drilling Machine is used for drilling and tapping of holes in Loco Wheels.***

24 ***Probe is a machine to measure the eccentricity of wheel***

25 ***Black Wheel is the unfinished wheel after rolling and forging, and yet to be machined.***

26 ***Coach wheel is fitted on a passenger coach or wagon of a train unlike locomotive wheels, coach wheels are not powered—they simply roll as the train is pulled or pushed.***

27 ***Chuck jaws holds the wheels during machining***

28 ***Year wise difference between capacity of CNC machine and outside wheels machined multipled by year wise outside machining cost of per wheel.***

The replies may be viewed in the light of the fact that there was provision for installation of CNC inclined Oil Hole Drilling Machine in the Project but the same was not integrated which resulted in non-machining of Loco Wheels. Further, the rejections could not be reduced and during 2023-24, the rejection at machining stage was 16.72 *per cent,* as against the norm of 10 *per cent*.

- Production from the mill was around 78 *per cent* of the Annual Business Plan target during 2018-24 which has resulted in potential loss of contribution of ₹393.30 crore[29]. Less production from the mill was on account of lower yield and old technology.

Management replied (August 2024) that Bloom-cum-Round Caster, for R34 grades, 370 mm round casting was introduced (2020). Ministry replied (January 2025) that yield of the Wheel Plant was affected due to inconsistent performance of the Wheel Mill, non-uniform heating of wheels in furnaces and manual operation of the heat treatment process, supply of feed material through bottom pouring route. Axle yield was less because of process of hammering installed (1961) was obsolete. It also stated that steps were being taken to improve the yield.

The reply may be viewed in the light of the fact that the operational and logistic constraints needed to be addressed by upgrading the plant and even after four years of installation of 370 mm round casting, the facility could not be stabilised compelling the use costlier Bottom Pouring route.

B Medium Structural Mill of Durgapur Steel Plant

Medium Structural Mill at Durgapur Steel Plant was envisaged during the Modernisation and Expansion Plan of SAIL to produce beams, channels and angles. The mill was yet to be commissioned (March 2025) even after lapse of more than 12 years of the scheduled completion (September 2012) and the mill was being operated with a very low capacity. Commissioning test was carried out (June 2019) but production did not meet the commissioning criteria. Though commercial operation has been started from the mill, Commissioning Certificate had not yet (March 2024) been issued due to disagreement about the commercially accepted production, design defects and delay hours. The company had spent ₹610.67 crore on the project. The matter is under arbitration (January 2026).

- As against the rated capacity of one mtpa, the Annual Business Plan target was fixed for 2.73 million tonne during 2018-24 which was only 45.50 *per cent* of the rated capacity. Production from the mill was 77.73 *per cent* of the Annual Business Plan and 35.33 *per cent* of the rated capacity. The mill could achieve the Annual Business Plan target only in 2020-21 in last six years when the planned production was only 27 *per cent* of the rated capacity. The Mill could not utilise 61 *per cent* of the available hours during 2018-24 due to non-availability of input materials and delay in roll changing.

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29 ***Contribution loss has been calculated based on year wise shortfall in production with respect to ABP multiplied by contribution margin***

Thus, non-achievement of Annual business Plan has resulted in potential loss of contribution of ₹713.96 crore.

- Due to deficiencies in design and operation of the mill, Management could not meet the yield norm during 2018-23 which ranged between 92 *per cent* and 93 *per cent* and there was an excess generation of scrap amounting to ₹40.51 crore[30]. However, the actual yield met the norm in 2023-24.

Management/Ministry replied (August 2024/January 2025) that various steps had been taken to overcome design deficiencies and improve production. The production had consistently increased to 79.5 *per cent* of Annual Business Plan and 52 *per cent* of the rated capacity during 2018-2024. The case regarding commissioning of the mill was under arbitration in International Court.

The reply may be viewed in the light of the fact that even after lapse of 10 years since start of operations (August 2015), the mill was not stabilized and design deficiencies could not be rectified. As per the Techno Commercial Assessment Report by IDBI Capital[31] (July 2023), the Plant layout was compact and had no room to carry out major modifications. To take the capacity of the mill to one mtpa, a new mill of 0.28 mtpa needed to be set up at a cost of around ₹ 266 crore. Further, the arbitration case was filed by the supplier due to non-fulfilment of contractual obligation by Durgapur Steel Plant.

Recommendation 17: Management may take efforts to reduce semis to earn higher contributions from selling of finished steel. The plant may expedite installation of Bar Mill, stabilisation of Medium Structural Mill and take up projects to maximize production from Wheel & Axle Plant and Medium Structural Mill.

6.1.3.5 Loss due to premature breakdown of rolls

Rolls refer to a cylindrical metal casting of iron or steel base used in various types of rolling mills to shape and deform metal materials into desired forms. Audit noted that more than 23 *per cent* of the rolls brokedown prematurely during 2018-24 in rolling mills of steel plants of SAIL. As per the guarantee clause of Purchase Orders for procurement of rolls, "if rolls breakdown within the 0-10 *per cent* of guaranteed life, supplier should replace the roll free of cost. In case, a roll breakdown at more than 10 *per cent* but less than the guaranteed life, pro-rata compensation for the non-performed life shall be recovered from the supplier."

As per the performance data of rolls, out of 2,172 rolls that broke down prematurely during 2018-24, 2001 rolls broke down on account of SAIL due to various operational reasons like neck broken, instances of cracks occurring during operation, metal pickup, spalling

30 ***Net Sales Realisation of prime product minus scrap price x quantity of scrap generated due to lower yield***
31 ***IDBI Capital Markets and Securities Limited***

and band fire cracks, bearing seizure, operation of mounting-dismounting work via cranes or other machines resulting in damage to the neck of the rolls and choke, non-operation of the mill under the required conditions due to the operator's neglect on the shop floor, section problem, roll damage during handling/servicing, collaring in roll and so on. These reasons attributable to the premature breakdown could be restricted through better operational measures. Due to the premature breakdown, the mounted rolls could not achieve their scrap diameters and breakdown early due to operational reasons attributable to the steel plants.

The company suffered a loss of ₹137.23 crore during 2018-24, on account of premature breakdown of rolls. Around 68.69 *per cent* of the extra expenditure on account of premature breakdown of rolls pertains to Bokaro Steel Plant alone. Further ₹ 1.22 crore out of ₹4.28 crore, that was to be recovered in respect of 171 rolls broke down prematurely on account of suppliers was yet (March 2024) to be recovered from the suppliers.

Management replied (August 2024) that in Bhilai Steel Plant, rail was a difficult section to roll and tolerances were very stringent, hence to achieve desired tolerances, sometimes premature roll changing occurred. Steps had been taken by Bokaro Steel Plant to control incidences of premature breakdown of rolls. Specific roll consumption had reduced in Durgapur Steel Plant. Rolls broke down prematurely due to process related issues in few cases in Salem Steel Plant. Ministry had noted (January 2025) the suggestion of audit for compliance.

The reply of the Management may be seen in the light of the fact that in respect of Bhilai Steel Plant, audit observation does not include instances of premature changing of rolls and only includes instances of premature breakdown of rolls. Though the specific roll consumption had reduced in Durgapur Steel Plant, roll breakdown in Medium Structural Mill was higher.

6.1.3.6 Consumption of Services:

A Excess consumption of power

Specific power consumption for the Rolling Mills was fixed in the Annual Business Plan/Perspective of each plant. Audit noted that the consumption of power by the Rolling Mills was more than the norms. As against envisaged consumption of 5,699.56 million unit (MU) of power in eight steel plants during 2018-24, power consumed was 6,495.87 MU. Thus, there was excess consumption of 796.31 MU power resulting in avoidable extra expenditure of ₹488.09 crore[32].

[32] ***Bokaro Steel Plant (₹125.99 crore), Bhilai Steel Plant (₹ 128.25 crore), IISCO Steel Plant (₹78.69 crore), Rourkela Steel Plant (₹99.06 crore), Salem Steel Plant (₹29.58 crore), Durgapur Steel Plant (₹ 23.65 crore), Alloy Steels Plant (₹1.37 crore) and VISP (₹1.50 crore)***

Audit observed that except some mills[33] where power consumption was within the norm intermittently, there was excess consumption of power in all the rolling mills of SAIL during the period 2018-24. In 10 mills[34] consumption of power was even more than 20 *per cent* of the norm. Power consumption at Axle Plant, Wheel Plant of Durgapur Steel Plant and Universal Section Mill of IISCO Steel Plant was 387 *per cent*, 53 *per cent* and *59 per cent* above the norm respectively.

The excess consumption of power was due to old equipment and machinery, old technology, less production, delay/non-implementation of addition, modification & replacement (AMR) projects, less input material, underutilisation of Rotary Hearth Furnace, keeping the slab inside the Reheating Furnace for more time to ensure better heat transfer, intermittent operation of mills due to paucity of orders, frequent change of roll/section etc., as per the data furnished by Management. The excess consumption due to operational reasons and project related issues could have been mitigated by better operational measures and timely implementation of AMR projects.

Management replied (August 2024) that power consumption was higher in Medium Structural Mill and Section mill at Durgapur Steel Plant mainly on account of lower productivity, fixation of lower plan respectively. In CRM I & II of Bokaro Steel Plant power consumption was high due to inconsistent operation of the mill etc. Specific power consumption in IISCO Steel Plant improved with rise in production and also improved at Rourkela Steel Plant. Salem Steel Plant carried out modifications like replacement of machines to improve power consumption at Mill. Measures had also been taken up by VISP, Bhadravati to pool the order quantity and maximize production to reduce power consumption. Ministry stated (January 2025) that with stabilisation and increasing productivity of mills, average specific power consumption had gone down.

The reply may be seen in the light of the fact that higher power consumption was mainly on account of lower utilisation of mill and could be overcome by optimum utilisation of mills.

B Excess consumption of heat in Rolling mills

Norms for consumption of heat per tonne of charged weight fed into the rolling mills was fixed for different Rolling Mills by the steel plants from time to time. Audit noted that the consumption of heat exceeded the norms in 24 out of 31 rolling mills[35] of SAIL during the

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33 ***Hot Strip Mill, Hot Rolled Coil Finishing Line, Cold Rolling Mill I&II of Bokaro Steel Plant; Merchant Mill, Plate Mill of Bhilai Steel Plant; New Plate Mill, Hot Strip Mill I&II, Plate Mill, Spiral Welded Pipe Plant of Rourkela Steel Plant, Merchant Mill, Medium Structure Mill of Durgapur Steel Plant; Bar Mill and Universal Section Mill of IISCO Steel Plant, Blooming & Billet Mill of Alloy Steels Plant.***

34 ***Bar & Rod mill of Bhilai Steel Plant, CRM-I&II of Bokaro Steel Plant, Cold Rolling Mill and Spiral welded Pipe Plant of Rourkela Steel Plant, Wheel & Axle plant of Durgapur Steel Plant, Universal Section Mill, Bar Mill & Wire Rod Mill of IISCO Steel Plant, and Primary mill of VISP***

35 ***Except Primary mill & Bar mill of VISP; Hot Rolling Mill & Cold Rolling Mill of Salem Steel Plant; Cold Rolling Mill, Silicon Steel Mill, Electric Resistance Welded Pipe Plant & Spiral***

period 2018-24 except few rolling mills where consumption was within the norm intermittently. As against envisaged consumption of 2,05,84,844 G cal of heat in six steel plants[36] (out of its five integrated and three special steel plants) during 2018-24, heat consumed was 2,34,48,379 G cal.

Reasons for excess consumption of heat were on account of less production, old technology, delay/non-implementation of addition, modification & replacement projects, Gas quality/availability, non-availability of uninterrupted fuel supply with healthy pressure, inconsistent availability of rollable materials, premature breakdown of units etc., as per the information furnished by Management. Audit observed that due to not addressing reasons mentioned above, there was excess consumption of 28,63,535 G cal of heat resulting in avoidable extra expenditure of ₹341.01 crore[37].

Management replied (August 2024) that specific heat was higher than the norms mainly due to lower production or mill stabilisation and would improve with furnace upgradation. Ministry replied (January 2025) that with the increase in productivity, improvement measures and upgradation of rolling mills, specific consumption of heat had a decreasing trend.

Management/Ministry reply may be viewed in the light of the fact that excess consumption of heat leads to avoidable excess expenditure. Since the norms for heat consumption were fixed considering the operational aspects and may be strived to be adhered.

Recommendation 18: The Company may ensure adherence to the norms for consumption of power and heat in the Rolling mills to maximize the profitable operations of the mills.

6.1.3.7 Safety issues

It was noted that in Bhilai Steel Plant, 15 Fire detection & Alarm systems and 25 Fire extinguishers were not installed despite its requirement. Ten fire extinguisher and six fire hydrant systems were not installed in Durgapur Steel Plant. Further, number of firefighting system units required for the plants was not assessed in IISCO Steel Plant.

Management replied (August 2024) that in Bhilai Steel Plant, available fire extinguishers were sufficient enough to tackle incipient fires at mills. Action had been initiated by Durgapur Steel Plant for installation of additional Fire Hydrant points along with new Fire Fighting Pump House for augmentation of water pressure at Wheel & Axle Plant. Suitable fire fighting facilities were installed in Rourkela Steel Plant. Ministry added (January 2025)

Welded Pipe Plant of Rourkela Steel Plant and Hot Rolled Coil Finishing Line of Bokaro Steel Plant.

36 ***Except Salem Steel Plant and VISP, Bhadravati where electric arc furnace is in use***

37 ***Bhilai Steel Plant (₹ 114.37 crore), Bokaro Steel Plant (₹ 97.56 crore), Durgapur Steel Plant (₹ 97.09 crore), IISCO Steel Plant (₹ 19.80 crore), Rourkela Steel Plant (₹ 6.34 crore) and Alloy Steels Plant (₹ 5.85 crore).***

that in case of IISCO Steel Plant, proposal for revival of identified deficiencies in fire detection and fire suppression system had been initiated.

Reply of the Management may be viewed in the light of the fact that immediate steps need to be initiated to install the required numbers of fire extinguishers, Fire detection and Alarm system, fire hydrant systems in various locations of the plants so that the safety of men and machines is ensured.

A Collapsing of roof truss at CRM, BSL due to lack of preventive measures.

Cold Rolling Mill I&II of Bokaro Steel Plant has two Acid Regeneration plant (ARP 1 & 2) to cater to the acid requirement of pickling lines 1 & 2. Hydrochloric acid is used to remove iron oxide from the surface of Hot Rolled Coil in pickling lines. ARP 1 & 2 process waste pickle liquor received from pickling line 1 & 2 proceed in Regenerated acid which is sent back to pickling lines for HR coil processing. Exhauster of the pickling line 2 was not working since 2020.

Structural Inspection and Geodetic Survey, Bokaro Steel Plant inspected (August 2018) the Structure of CRM I & II and reported status of roof trusses under category A (to be repaired within one month) which was subsequently (September 2020) classified under category B (to be repaired within six months). The structure was further classified under category A in December 2021. Safety Department of Bokaro Steel Plant observed (August 2021) that the roof sheets as well as supporting structures of HK Bay were badly rusted and damaged. The pickling line 2 exhauster was not working since 2020. The trusses collapsed at HK bay on 12 July 2022 and 16 July 2022, due to which some more structural members of roof truss in adjacent area were found to be buckled/distorted, which were already weakened/thinned out due to acidic fumes.

Audit observed that due to non-compliance of recommendations of Structural Inspection and Geodetic Survey and Safety Department has resulted in collapse of roof truss in July 2022. Moreover, production from CRM I & II was stopped between 13 July 2022 and 30 September 2022 due to above incident.

Management replied (August 2024) that repair work for the collapsed roof structures had been carried out by a contract finalized in August 2022. Procurement process of a new exhauster for Pickling Line 2 was under process. Ministry replied (January 2025) that due to high investment, installation of a new exhauster for Pickling Line 2 has been put on hold.

Replies may be seen in the light of the fact that repair of the collapsed roof structures was carried out after the incident. However, the proposal to replace exhauster was initiated during 2018 was kept on hold. Replies are silent on inability of the Management in overlooking the preventive measures which led to collapse of roof truss at CRM.

6.1.4 Conclusion

In an integrated Steel Plant, the rolling mills roll the crude steel in the form of billets, blooms and slabs into rolled out products like plate, sheet, strip, coil, structures, rails, bars and rods. Thus, these mills play a crucial role in ensuring the availability of finished steel products in the market. There are 32 rolling/finishing mills in SAIL of which 30 were operational as of March 2024. The rolling mills at various Steel plants faced operational and mechanical constraints besides non-availability of required quantity of inputs, that hampered the production of finished steel as per the Annual Business Perspective. The percentage of achievement of production vis-à-vis the Annual Business Plan ranged between 58.10 *per cent* and 111.99 *per cent* during the period 2018-19 to 2023-24 in all the operational rolling mills. Less production of rails at Universal Rail Mill than the Annual Business Plan has resulted in potential loss of contribution of ₹ 1461.30 crore during the period 2019-20 to 2023-24. SAIL could not supply rails to the Indian Railways as per the requirement. Modernisation projects like setting up new mills, installation of new furnaces, facilities like normalizing facilities etc. are at different stages of implementation. Timely completion of these projects could enhance the performance of rolling mills of SAIL.

SAIL also suffered loss of ₹137.23 crore during 2018-24 on account of premature breakdown of rolls due to various operational reasons. The rolling mills had consumed excess power and heat than the stipulated norms. Deficiencies were also noted with respect to the safety issues at the rolling mills like inadequate fire extinguishers, fire detection and alarm systems, alarm systems etc. SAIL may address the specific issues and constraints affecting operations of the rolling mills to achieve maximum production of finished steel products and avoid potential loss of contribution margin due to sale of semis.

6.2 Installation and working of Steel Melting Shop-III at Bhilai Steel Plant

6.2.1 Introduction

Bhilai Steel Plant (BSP) was commissioned in 1959 with one Steel Melting Shop (SMS-I) with crude steel capacity of one million tonne. The capacity was increased to four million tonne by modification of SMS-I (phased out in March 2020) and addition of SMS-II during 1984-85. SAIL Board accorded (April 2007) in-principle approval for Modernisation and Expansion Plan of Bhilai Steel Plant to seven million tonne per annum crude steel including installation of SMS-III with production capacity of four million tonne per annum. SMS-III was commissioned (March 2018) and started production (March 2018) with one converter and other units and envisaged facilities joined in phases till July 2023.

Out of 35 contracts awarded under the Modernisation and Expansion Plan for SMS-III, 31 contracts were commissioned with delays ranging from 154 days to 4,445 days and 4 contracts were yet to be completed/commissioned (August 2025). Records relating to installation of SMS-III and its associated units and production and performance records for seven years from 2018-19 to 2024-25 were examined and the issues noticed are given below.

6.2.2 Production performance of SMS-III during 2018 to 2025

Production in SMS-III showed an increasing trend over the years, since its installation in March 2018, as seen in table below:

Table 6.6: Production performance of SMS-III at Bhilai Steel Plant during 2018-2025

(Qty. in million tonne)

Year	ABP	Actual Production	Difference between ABP and Actual Production	Percentage of ABP to Rated Capacity	Percentage of Actual Production to Rated Capacity	Percentage of Actual Production to ABP
2018-19	1.56	0.21	1.35	39.00	5.25	13.46
2019-20	2.00	1.14	0.86	50.00	28.50	57.00
2020-21	2.43	2.21	0.22	60.75	55.25	90.95
2021-22	3.05	2.73	0.32	76.25	68.25	89.51
2022-23	3.20	3.06	0.14	80.00	76.50	95.63
2023-24	3.55	3.44	0.11	88.75	86.00	96.90
2024-25	3.75	3.57	0.18	93.75	89.25	95.20
Total	**19.54**	**16.36**	**3.18**			

The Annual Business Plan (ABP) was consistently fixed lower than rated capacity and the actual production did not meet the ABP in any of the years during 2018-2025. Due to shortfall in production, Management was not able to fulfill the demand of mill section (Universal Rail Mill, Rail & Structural Mill, Merchant Mill, Wire & Rod Mill and Bar & Rod Mill). During the period 2018 to 2023 the gap[38] between the demand and supply of user plants ranged between 1.99 *per cent* (2022-23) and 98.05 *per cent* (2018-19.

6.2.3 Audit Findings

6.2.3.1 Delay in commissioning of major units of SMS-III:

The SMS-III project included installation of three Basic Oxygen Furnace (BOF) under Package 25 and four casters in Continuous Casting Plant (CCP) under Package 26. Global tenders were floated in June/July 2007. Contract was awarded in (October 2008/ April 2009) with scheduled completion as August/December 2011 respectively for Package 25 and Package 26. The SMS-III started its commercial operations in March 2018 after a delay of more than six years incurring additional expenditure of ₹2,292.60 crore[39] with respect to the completion of the main packages as detailed below:

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[38] ***The details of demand during 2023-2025 was not maintained separately by Management.***

[39] ***Package 25 and 26 were awarded for ₹1,335.72 crore and ₹780.02 crore and the actual capitalised cost was ₹3,170.86 crore and ₹1,237.48 crore respectively.***

A Delays in commissioning of Basic Oxygen Furnaces

Global tenders were floated (June/July 2007) and the supply order of Basic Oxygen Furnace was placed on M/s. Siemens VAI (now Primetals Technologies Austria GmbH) (October 2008) at a total cost of ₹1,335.72 crore with scheduled completion upto August 2011. The delay in commissioning of the three Basic Oxygen Furnaces in SMS-III is given below:

Table 6.7: Scheduled Vs Actual Commissioning dates for Basic Oxygen Furnaces

Facility	Scheduled Commissioning Date	Actual Commissioning Date
BOF 1	9.05.2011	28.05.2019
BOF 2	24.06.2011	6.11.2019
BOF 3	8.08.2011	9.05.2020

As seen in the table, the commissioning of the three Basic Oxygen Furnaces were delayed by more than eight years. As against the scheduled commissioning in 2011, the BOFs were commissioned during 2019/2020.

The delay in completion of BOFs was attributable to delay in handing over of erection fronts by Management, very limited front for erection of equipment, retendering of civil works, structural works and equipment erection, short closure of contracts, delay in installation of cranes, Air conditioning, ventilation system, change order etc.

B Delays in commissioning of Continuous Casting Plant

Supply order for Continuous Casting Plant was also placed on same party M/s. Siemens VAI (now Primetals Technologies Austria GmbH) (April 2009) at a total cost of ₹780.02 crore with scheduled completion upto December 2011. The delay in the commissioning of the four Continuous casters in SMS-III is detailed in table below:

Table 6.8: Scheduled Vs Actual Commissioning dates for casters in Continuous Casting Plant

Facility	Scheduled Commissioning Date	Actual Commissioning Date
Caster Unit 1	18.10.2011	5.05.2020
Caster Unit 2	18.11.2011	28.01.2020
Caster Unit 3	18.12.2011	25.10.2019
Caster Unit 4	18.12.2011	1.07.2023

As seen in the table, the commissioning of the four Continuous casters were delayed by more than eleven years. As against the scheduled commissioning in 2011, the casters were commissioned during 2019/2023.

Audit noted that the contract for civil work for CCP (Package 26) was awarded (February 2013) after more than a year of its scheduled completion period of December 2011. This contract was awarded on Risk Purchase Notice basis after termination of two previous contracts. The civil work was finally completed (November 2021). Similarly, contract for structural work was awarded between August 2017 and July 2019 and completed up to December 2021. The installation of all four casters under Continuous Casting Plant was finally completed in June 2023 after a delay of more than 11 years.

The last of the casters CV2, was initially envisaged to produce beam blanks for the newly proposed Universal Beam Mill. But the project of Universal Beam Mill was deferred (2009) and it was only after lapse of seven years that it was decided (January 2016) to convert it into bloom cum beam blank caster (combi caster) to meet the demand of rails from the new Universal Rail Mill. The Stage-II approval was given (June 2021) after a delay of nearly five years. The delay was mainly due to delay in tender finalisation of the project and also due to priority of remaining three casters to start steel production. The contract was awarded (23 July 2021) with scheduled completion period of two years *i.e.,* by 23 July 2023. The project was commissioned (July 2023).

The delays in the installation of the major packages of SMS-III led to potential loss of production of four million tonne per annum of crude steel during 2011 to 2018[40]. As per delay analysis examined by the committee constituted by BSP, repeated tendering, change of contractor for civil package, very limited front for erection of equipment, short closure of contracts, delay in installation of cranes, Air conditioning, ventilation system etc. were the main reasons for the delay. These delays were not attributable to contractors and no liquidated damages were levied on the contractor. With proper control over project planning and implementation, Management could control its lapses in inability to provide front timely and ensure adherence to the time schedule for commissioning of BOF and CCP.

Management/Ministry replied (June 2024/February 2025) that it was not able to provide parallel fronts for equipment erection on all three converters and in respect of Continuous Casting Plant delay in award and execution of the allied packages had resulted in delay of the package. In respect of CV2, Management in its reply has stated the chronology of events after Centre for Engineering and Technology, SAIL submitted the feasibility report in 2016. Ministry added (February 2025) that delays were due to evolving project specifications, market conditions and cost optimisation necessitating careful consideration to ensure project viability.

Reply of Management/Ministry may be viewed in the light of the fact that as delays were not attributed to the Contractors in the delay analysis, BSP could through better planning for the project, ensure availability of the front, timely finalisation of tenders and award of contracts and better project implementation to control the delays and thereby, the potential loss of production could have been restricted.

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40 ***Production from SMS-III started after the issuance of Preliminary Acceptance Certificate for different components since March 2018.***

6.2.3.2 Delay in commissioning of other packages related to SMS-III:

A Delay in installation of cranes

BSP awarded contracts for installation of cranes in SMS-III. There was delay ranging between 64 and 118 months in completion of the cranes as tabulated below:

Table 6.9: Details of installation of cranes in SMS-III

Sl. No.	Description of job	Date of award	Name of contractor	Contract Value (₹ in crore)	Schedule completion	Actual Completion	Delay in Months
1	Installations of seven cranes for BOF and CCP	29 June 2009	Heavy Engineering Corporation (HEC)	146.10	28 June 2011	04 March 2021	118 (3537 days)
2	Installation of double Girder Electrically Operated Overhead Crane Travelling cranes for BOF &CCP complex (Package 029B1)	19 June 2015	Mukund India Limited, Pune	176.08	18 December 2016	07 April 2022	64 (1936 days)
3	Installation of EOT cranes, repair trolleys & under slung cranes for BOF & CCP of SMS-III (Package 029B2)	8 August 2012		60.09	07 February 2014	04 May 2022	99 (3008 days)

Order for installation of seven cranes was placed on HEC in 2009. Audit observed that HEC supplied materials for cranes upto March 2012 but BSP could not provide site for installation of cranes resulting in prolonged storage of the supplied materials. Instances of theft of materials valuing ₹5.53 crore supplied by HEC were noticed (2018) i.e. after six years from its purchase in 2012 but could not be recovered from insurance company. Finally, BSP provided the lost material for the installation of the cranes.

In case of contract awarded to Mukund India Limited, Pune, the delay was due to delay by BSP in approval of drawings, delay in supply of mechanical and electrical equipment, delay in handing over sites etc.

Management replied (June 2024) that recoveries on account of theft cases would be taken up with HEC during closure of contract and delays on account of party also had not been finalized. Ministry added (February 2025) that BSP had allocated on-site storage areas for materials to HEC and the contractor was responsible for security and custody. Insurance claims were not feasible due to prolonged storage duration.

Management/Ministry's reply may be seen in the light of the fact that delay in installation of cranes not only affected the completion of the project as a whole but also the storage of material for long resulted in loss due to theft which could not be recovered through insurance claim as well. Further Management/Ministry is silent regarding the delay in supply from Mukund India Limited, Pune.

B Delay in completion of Hot Metal Desulphurisation Complex

Hot Metal De-Sulphurisation unit at SMS-III was a technology related project to produce special grades of steel which require low content of Sulphur. Company awarded (6 October 2008) contract to a consortium of a foreign and an Indian company at a price of USD 27,75,000 and ₹29.11 crore with a completion by 05 March 2011.

Audit noted that the progress of the project was very slow from the initial stage mainly due to delay by Bhilai Steel Plant for over nine years till December 2018 in providing civil fronts. The Consortium, refused (February 2020) to execute the balance works at the price levels of 2008 due to delay. The contract completion period was extended upto 31 May 2021 and the project finally commenced operations (December 2022) with a delay of more than 11 years. The cost of project increased by ₹10.13 crore.

Management stated (June 2024) that due to delay in handing over site, pace could not be maintained by Contractor in activities like submission of drawings and supply of items. Ministry stated (February 2025) that a number of compounding issues, including site readiness, changed project objectives, and operational difficulties, contributed to the delay in finishing the Hot Metal Desulphurisation complex. As a result, the Consortium was paid for delayed commercial charges.

Management/Ministry reply may be seen in view of the fact that delays in completion of civil and structural fronts show lapses in planning on the part of Management, which led to delay and additional cost.

6.2.3.3 Losses due to delays in commissioning/operation of SMS-III

A Payment of additional Insurance charges:

As per clause 36.1.15 of General Conditions of contracts for BOF and CCP, if the delay in completion of the contract was not attributable to the contractor, the additional expenditure incurred by contractor for additional insurance premium towards extension of insurance policy was to be reimbursed by BSP to the Contractor.

Audit noted that due to delay in commissioning of BOF and CCP, BSP had to incur additional expenditure of ₹19.15 crore towards insurance premium charges (₹10.86 crore for the period January 2013 to January 2020 in respect of BOF and ₹8.29 crore in respect of CCP for the period September 2014 to February 2022).

Management/Ministry (June 2024/ February 2025) replied that delay in the award and execution of the allied packages had resulted in delay of the SMS-III as a whole and insurance charges were reimbursed to the contractor as per the contract clause.

Reply of the Management/Ministry may be seen in the light of the fact that expenditure on reimbursement of insurance charges was avoidable if the time schedule for the project was adhered to.

B Loss due to prolonged storage of electrical items

The contracts for installation of BOF and CCP in SMS-III were awarded (October 2008 and April 2009 respectively) and under these contracts, the Contractor supplied electrical items during 2010 to 2013. The contracts were finally completed in May 2020/July 2023 respectively. When the panels/equipment were tested some electrical components were found damaged/not-operational on account of various factors mainly abnormal delay in commissioning of BOF and CCP. The Contractor did not agree to replace these items citing reasons that the items were damaged due to prolonged storage.

Based on the reports (25 September 2017 and 30 April 2018) of a Committee that was constituted to find causes and recommend remedial measures, Bhilai Steel Plant procured (21 June 2018) electrical panels and various panels of converter and caster by incurring additional expenditure of ₹4.89 crore. Audit observed that Bhilai Steel Plant did not align the delivery of the items with the commissioning of the project and consequently delay in commissioning of the project resulted in damage to the already delivered items and incurring of extra expenditure of ₹4.89 crore on procurement of the same.

Management replied (June 2024) that payments were made on supply of the item as per the contract price schedule and approved billing schedule. Ministry added (February 2025) that delays arose due to factors outside SAIL’s immediate control and procurement of replacement components, as advised by the committee, was necessary to ensure operational integrity at commissioning, thereby preventing further delays.

Reply of Management/Ministry may be seen in the light of the fact that alignment of delivery schedule of items with the actual commissioning of the project could have avoided such extra expenditure.

C Avoidable expenditure towards additional supervision charges

Clause 7.9.1 of General condition of contract of BOF stipulated that the Contractor shall depute at site its Foreign Experts and Indian Experts from various disciplines for the supervision of erection, trial run, commissioning and performance guarantee tests of the Plant and Equipment including supervision of design & manufacture of Plant & Equipment, under its scope of supply. As per price schedule of the contract, additional man days, if required for reasons not attributable to the contractor shall be paid extra by BSP.

As per terms of contract for installation of BOF, Contractor was allowed to deploy Indian experts to supervise for 9,308 man days at the rate of ₹13,000 with total value of ₹12.10 crore. Audit noted that up to January 2014 only 619 man-days valuing ₹0.80 crore was consumed. Due to delay in completion of the project, the rates for the supervision charges were revised (August 2018, July 2019 and February 2020). Contractor deployed additional 5,942 man days at revised rates resulting in additional expenditure of ₹11.38 crore.

The contract for Continuous Casting Plant envisaged that foreign and Indian supervision required for erection, testing and commissioning of the project would be 2,600 and 7,800 man days respectively. Due to prolonged delay, BSP revised (August 2017) the rates of supervision charges and incurred additional cost of ₹12.62 crore on supervision charges.

Thus, better adherence to the time schedule for implementation of contracts could have led to regulating the additional cost incurred on account of supervision charges.

Management in its reply (June 2024) stated that it was not able to provide parallel fronts for equipment erection on all three converters. In addition, the deployment of supervisors necessarily got enhanced on account of insufficient skilled/trained manpower and incomplete infrastructure. In respect of CCP contract, Management stated that delay in the award and execution of the allied packages resulted in delay of CCP package as a whole. Considering the criticality of the project, the increase in the supervision charges was accepted. Ministry replied (February 2025) that the additional supervision was integral to maintaining adherence to contractual stipulations under challenging circumstances. Management's actions aimed to align supervision costs with actual project needs.

Reply of the Management/Ministry may be viewed in the light of the fact that the prolonged delays in the project resulted in these additional supervision costs. The requirement of skilled/trained manpower needed to be taken care of as the part of project management.

6.2.3.4 Additional expenditure on alternative interim arrangements for components in SMS-III

A Avoidable recurring expenditure on transfer of blooms

Blooms from the caster (CV1) are lifted by bloom lifting device to transfer the blooms[41] to walking beam cooling bed before stacking for dispatch. Cooling bed, transfer table (TRT) was having problem in shifting of blooms and blooms since inception and trailers were deployed on contract basis for the shifting. The discharge roller table became non-functional in May 2020 and the defect liability period had expired in March 2020. CET submitted (20 September 2021) feasibility report for replacement of cooling bed of caster CV1 along with other facilities for transferring blooms. However, BSP did not proceed with the proposal as the proposal involved shutdown of 55 days. BSP installed (November 2022) one transfer car of 80T capacity for inter bay transfer of blooms to reduce cost of transportation of blooms by trailers. The expenditure on trailers for inter-bay transfer was approx. ₹2.49 crore per year. CET proposed (July 2023) to install two transfer cars for

[41] ***Transfer of blooms: - Blooms are lifted by 'cross bloom lifting device' and transferred to 'walking beam cooling bed'. Later the blooms are transferred from the cooling bed to 'Transfer Roller Table (TRT)' by hydraulically operated pusher device. TRT takes it for further processing e.g. rolling.***

caster CV1 at estimated cost of ₹7.32 crore. With new facilities, expenditure of ₹2.49 crore per annum on transfer of blooms by trailers would stop completely. However, the proposal was yet to be implemented by BSP (November 2025).

Management replied (June 2024) that BSP was in the process of taking suitable steps to address the logistic issues of evacuation of blooms from SMS-III. Ministry added (February 2025) that "Installation of two transfer cars for caster CV1 of SMS-III, BSP" was placed in September 2024. Bottleneck in evacuation existed due to enhanced volume of production which was overcome by transferring the blooms through trailers.

Management/Ministry's reply may be viewed in the light of the fact that BSP has been unable to overcome the bottleneck even after lapse of more than seven years since commissioning of SMS-III in March 2018 and continues to incur recurring expenditure of ₹2.49 crore per annum on inter-bay transfer of blooms till the transfer cars are installed.

B Delay in installation of dewatering pumps:

Each caster of SMS-III consists of cooling bed where the cast products are laid before their despatch. For cooling there is severe ingress of water and as such bottom of cooling bed is subject to accumulated water. BSP initiated a proposal for supply and installation of dewatering pumps in October 2018 at estimated cost of ₹3.23 crore to pump out accumulated water in SMS-III premises. First tender (1 January 2019) was cancelled on account of higher L1 price and the work was retendered. After retendering (July 2021), the work was awarded (29 August 2022) after a lapse of more than a year to a contractor for ₹2.91 crore with completion period of 9 months. Dewatering pump was finally installed (August 2023), more than five years after commissioning of SMS-III.

Audit observed that dewatering system was envisaged as per Technical Specifications and should have been installed simultaneously with SMS-III. Due to the delay in installation of dewatering pumps, BSP procured portable submersible pumps on emergency basis for ₹0.10 crore. Further, to pump out accumulated water in SMS-III, BSP awarded three contracts[42] (January to April 2022) to a contractor incurring an avoidable expenditure of ₹1.92 crore.

Management/Ministry stated (June 2024/February 2025) that BSP has not been able to provide parallel fronts for equipment erection on all three converters and casters. As soon as the activity paced up in the above areas, the tendering of dewatering package was initiated.

Replies may be seen in the light of the fact that as the dewatering system was envisaged in the project specification, Management should have ensured timely award and

[42] ***Three contracts were issued for taking up urgent work of rectification of water seepage and water clogging in the casters of SMS-III and associated cable tunnels.***

implementation of the project to avoid expenditure of ₹1.92 crore incurred on pumping out accumulated water through contractor.

C Avoidable expenditure on marking and labelling of blooms/billets

Guidelines of Ministry of Steel (March 2023) regarding "Made in India-Branding of Steel products" mandatorily required all major steel producers to have standard label size, QR code as finalized by Quality Council of India for each product. Marker machines were installed (February 2024) in SMS-III by BSP to avoid mixing of billets/blooms and incorrect shipment of products to internal and external customers. However, the engraving done by the machine was not legible. Project Department of BSP suggested that further rectification for improving legibility was not possible. To resolve the issue, four purchase orders for tagging/labelling on hot blooms/billets valid for the period November 2021 to June 2026 were issued and BSP incurred expenditure of ₹32.92 crore on this account. Also, there was no proposal for installation of marker machine upto October 2023.

Management/Ministry (June 2024/February 2025) replied that the marker machine was installed in each caster of SMS-III, but these machines were not operational and were of outdated technology. Purchase orders for marking were issued due to market demand to ensure identification and traceability of the product and also to ensure compliance to the Ministry guidelines.

Management/Ministry reply may be viewed in the light of the fact that the marking and labelling as per the market demand was to be taken into consideration while installation of Marking machine. Moreover, as there was no proposal to install the Marking and Labelling machine, the Company would continue to incur recurring expenditure on marking and labelling through the outsourced contract.

6.2.3.5 Other issues

A Safety lapses led to fatal accident

Safety Policy and Safety Manual of SAIL envisage zero accident. SAIL is committed to safety of its employees and the people associated with it including those living in the neighbourhood of its Plants, mines and units.

In SMS-III, semi-portal cranes are used for charging metal scrap in the converter during the blow with the scrap boxes. Frequent movement of the semi-portal cranes and EOT cranes in the bay makes the shop floor highly hazardous. According to Para 3.7.1.1 of Safety Guidelines of Ministry of Steel for Iron and Steel Sector 2019, no person should be allowed to stand at footrest or sit on the loaded material of the vehicle. On 08 March 2022, a semi portal crane collided with a truck parked in an unsafe area resulting in a fatal accident. As per the Study report of the accident conducted by the Management, the accident location was not covered in any of the cameras and although two corner switches were provided to stop the crane in emergency situations, there was no proper marking displayed on the switches and the working personnel were not aware of the switches. Safety guidelines of Ministry of Steel that no person should be allowed to sit on the loaded truck/ heavy vehicle was not followed.

The inability of Management to follow the safety guidelines issued by the Ministry of Steel for Iron and Steel Sector regarding sitting on loaded truck inside shop floor and unsafe parking led to the fatal accident.

Management/Ministry stated (June 2024/February 2025) that there were lapses on the logistics movement leading to the accident and it was an isolated case. Ministry further added (February 2025) that following the tragic event, BSP implemented a number of harsh measures, such as suspending the accountable authorities, enforcing the committee's recommendations to prevent similar incidents, limiting the admission of vehicles and personnel without authorisation etc.

Replies may be seen in view of the fact that Company was unable to ensure adherence to safety guidelines of Ministry of Steel which ultimately resulted in the fatal accident.

B Lack of fire protection system

The Factories Act, 1948 categorized integrated steel industry as hazardous process industry. Section 38 of the Act stipulates that in every factory, all measures be taken to prevent outbreak of fire and its spread.

The contract for the installation of "Fire Protection system for Basic Oxygen Furnace & Continuous Casting Plant in SMS-III of Bhilai Steel Plant" was awarded (2 April 2013) to a contractor for ₹11.37 crore with completion schedule of 12 months from the date of signing of the agreement i.e. by 01 April 2014. The progress of work was very slow but the Management did not take any action against Contractor to install the fire protection system in time. BSP issued (December 2018) Risk Purchase Notice to the Contractor who, in response, expressed inability to perform the balance work due to acute shortage of fund. The balance work was retendered (October 2019) and it was performed by another contractor. The initial contractor was referred (March 2019) to NCLT. Finally, the fire protection system was installed (16 May 2023) after a delay of more than nine years.

Audit noted that 22 fire incidents took place since operation of SMS-III in March 2018. One of the major fire incidents took place on 7 October 2022 wherein conveyor belt valuing ₹1 crore (approximately) was affected. The committee investigating the incident recommended that a fire-fighting system be envisaged near vertical conveyor belt.

Management stated (June 2024) that there was no loss on account of fire accidents and more care would be taken in future to address all safety related issues. Ministry replied (February 2025) that risk purchase notice was issued against the party to whom work was initially awarded in December 2018 as the party expressed inability to perform the work.

Subsequently, the contract was terminated, re-tendered and awarded to another contractor and the commissioning certificate was issued in May 2023.

The replies may be viewed in the light of the fact that timely installation of fire protection systems is key to ensure safe operations and needs to be prioritised by Management to prevent incidents of fire accidents and consequent losses in future projects as well.

C Non closure of completed/commissioned contracts in violation of Manual for Project Contract Management System of SAIL

As per clause 15.2 of Manual for Project Contract Management System (PCMS) of SAIL (December 2000), the contract should be closed within three months of issue of Final Acceptance Certificate (FAC).

Audit noted that in SMS-III, out of 35 contracts awarded under the Modernisation and Expansion Plan for SMS-III, 31 contracts were commissioned. FAC was issued in respect of 13 completed contracts of which five contracts were not closed (upto August 2025) in violation of the stipulations of PCMS.

Management replied (June 2024) that delay in submission of statutory documents like IR clearance, royalty clearance by the contractors after issue of FAC, led to delay in closure of the Contracts. Ministry added (February 2025) that apart from external unforeseen factors, the delays were compounded by operational challenges during the Modernisation and Expansion Plan, which included adjustments in design and site allocation.

Replies may be seen in the light of the fact that good project Management necessitates completion of all procedures and final closure of contracts in a time bound manner. Such delays could impact any counter claims of the Company on the contractors as well.

6.2.4 Conclusion

SAIL Board accorded (April 2007) in-principle approval for installation of SMS-III with production capacity of four million tonne per annum under Modernisation and Expansion Plan to achieve total production capacity of seven million tonne per annum crude steel in Bhilai Steel Plant. SMS-III included installation of three Basic Oxygen Furnaces and four casters in Continuous Casting Plant. Contract for Basic Oxygen Furnaces and Casters were placed in October 2008/April 2009 with completion schedule of August 2011/ December 2011. However, SMS-III started commercial operation in March 2018 after delay of more than six years resulting in potential loss of production of four million tonne per annum of crude steel during 2011 to 2018.

Reasons for delay was attributable to delays in handing over of front to the contractors, in finalisation of contracts, in completion of civil and structural package, deferment of Universal Beam Mill, delays in commissioning of allied packages etc. Besides potential loss of production, BSP also incurred additional supervision charges (₹24 crore), reimbursement of insurance premium to the contractor (₹19.15 crore) for delayed period, replacement of damaged items (₹4.89 crore) and theft of material (₹5.53 crore) and additional expenditure on alternative interim arrangements for components in SMS-III. Management was unable to ensure safety of operations as the fire protection system was installed after a delay of nine years and was also unable to adhere to the stipulated safety guidelines.

The installation and working of SMS-III highlights several operational lapses on various fronts throughout the planning as well as the implementation stages of the Project.

Recommendation 19: Management may focus on the issues that affected the timely implementation of the SMS-III project to prevent the recurrence of such lapses in future. It may also take steps to curtail the recurring expenditure being incurred on alternative arrangements in SMS-III. Strict compliance to Safety guidelines needs to be prioritised in all future projects to ensure safe operations in the Plants.

6.3 Performance of Distributor Scheme of CMO/SAIL

6.3.1 Introduction

The marketing of steel products manufactured by the five Integrated Steel Plants of Steel Authority of India Limited (SAIL or the Company) was administered by the Central Marketing Organisation (CMO) at Kolkata, through its dealer network till November 2016. These dealers marketed products like TMT bars/coils and Galvanized Corrugated Sheets etc. to end users. Considering the changes in the business scenario and drawbacks of the then dealership scheme, CMO introduced (November 2016) a 'Two-tier Distributor Scheme'. Boston Consulting Group (BCG)[43] also recommended (October 2017) shifting to the retail paradigm under a modified scheme. Under the two-tier distributor scheme, CMO was to appoint a distributor in an identified cluster and the distributors were responsible to appoint dealers within their territorial jurisdiction ensuring supply of products to the dealers and provide support in services, value addition, sales and marketing efforts of SAIL for meeting the requirement of end customers. The distributor was entitled to a discount, in percentage terms on the Maximum Retail Price as fixed by SAIL from time to time. The distributors were appointed for a period of five years, extendable at SAIL's option by upto two years.

The key objectives of the scheme were to:

- Reach out to the end customer in the retail sector through efficient distribution channels.

[43] ***Consultant appointed for preparation of study report on Comprehensive Turnaround Roadmap of the Company.***

- Deliver higher value to the customers through value addition in products, delivery, services and through brand building.

- Improve the market share and Net Sales Realisation of SAIL in the identified market segments and locations**.**

Audit reviewed the records related to retail sales through two tier distributors for the period 2019-20 to 2023-24 at the office of Executive Director (Sales & International Trade Division), all four Regional Offices (ROs) and ten selected Branch Sales Offices out of thirty seven. Out of 50 two-tier distributors operational during the audit period, contract files of 20 distributors (40 *per cent*) were also reviewed. Further, premises of 11 two-tier distributors *(22 per cent)* were also visited for assessment of adequacy of infrastructure and other services envisaged to be offered as per the contracts.

6.3.2 Audit Findings:

The two-tier distribution channel consisted of the SAIL distributor and a number of SAIL dealers, attached to the distributor in an identified geographical area. BCG in its report (October 2017) indicated that SAIL lagged behind its key competitors in reach as far as the retail segment was concerned. SAIL framed a roadmap to increase its retail sales up to one million tonne in the short term and two million tonne in the long term in the ABP 2021-22. Audit analysed the performance of the distributorship scheme and the findings are discussed in the following paras:

6.3.2.1 Performance under Distributor scheme

Audit reviewed the target set under the Annual Business Perspective (ABP) by the Company for retail segment and its achievement during 2019-20 to 2023-24 and noted that, the target was never achieved during five years as seen in table below:

Table 6.10: Target vis-à-vis actual sales of TMT and sale through retail network during 2020-24

(Figures in million tonne)

Year	TMT available for Home Sales[44]	Annual quantity agreed by distributors	ABP for retail channel	Actual Sales		Achievement (in %)		Closing Stock
				Total sales[45]	Through Distributors	Of ABP	Of quantity agreed by distributor	
(1)	(2)	(3)	(4)	(5)	(6)	(7)=5/4*100	(8)=6/3*100	(9)
2019-20	2.72	0.28	1.00	0.55	0.28	55	100	0.20
2020-21	2.04	0.51	0.70	0.46	0.39	66	76	0.09
2021-22	2.63	0.54	1.00	0.59	0.54	59	100	0.05
2022-23	2.57	0.56	1.00	0.72	0.65	72	116	0.17
2023-24	3.06	0.72	1.00	0.95	0.85	95	118	0.22

Source: Information provided by Management.

44 ***ABP for home sales includes projected sales through retail segment and outside retail segments i.e., projects, defence, consumers etc.***

45 ***Total sales in retail channel includes sales to Distributor under two-tier distributorship and to dealers under direct control of SAIL.***

- As seen from the above table, during 2019-20 to 2023-24, the total sales in the retail segment was 0.55 million tonne to 0.95 million tonnes as against the Annual Business Perspective (ABP) which was one million tonne for four out of five of these years. The achievement vis-à-vis the ABP ranged between 55 *per cent* to 95 *per cent*. This was despite the Company having enough stock at the end of each year.

- It can also be seen in the table above that sales growth was directly proportional to the appointment of distributors in identified clusters. As the annual quantity agreed with the distributors increased from 0.28 million tonne to 0.72 million tonne, the actual sales through distributor channel also increased from 0.55 million tonne to 0.95 million tonne during 2019-20 to 2023-24.

SAIL's performance under the Distributor scheme was restricted due to slow development of Distributor network, inadequate availability of TMT in lower diameter (8-12 mm), inactive dealers etc. Inability of the Company to address these bottlenecks resulted in loss of market share to other primary and secondary producers besides loss of higher net sales realisation in the retail channel which is discussed in subsequent paras.

Management/Ministry in its reply (May 2025/ January 2026) stated that, with the experience gained during the last few years, the desired policy changes and with the improvement of size-mix, share of retail in overall TMT sales would be much higher in the years to come. The Company was trying to maximise the availability of lower diameter of TMT through Wet Leasing Agents and through its Steel Processing Units. SAIL was able to achieve 45 *per cent* of its sales of TMT through tier-II Distributor model as of 31 March 2025 and for 2025-26, it had an ambitious target of 2.28 million tonnes of TMT with percentage rise from 45 *per cent* to 65 *per cent*.

Management/Ministry reply may be seen in the light of the fact that, even after a lapse of more than seven years since the introduction of the Scheme, SAIL was unable to appoint distributors in each of the identified clusters as discussed in *para 2.2.1* below. Also, SAIL was not able to ensure availability of required quantity of lower diameter TMT either by suitably utilizing the External Processing agents[46] or through its Steel Processing Units. Also, semis were continued to be sold to other private customers during this period.

6.3.2.2 Implementation of the Distributor Scheme

A Slow development of Distributor and Dealer network

SAIL had appointed Distributors in 32 of the 47 identified clusters as on 31 March 2020. The number of clusters identified increased to 71 (June 2023) against which 50 distributors

[46] ***As SAIL had limitations in capacity for production of lower diameter TMT at its Plants, the same was arranged through External Processing Agents (Conversion Agent/ Wet Leasing Agent).***

were appointed (March 2024) in 48 clusters. 23 clusters were therefore left without dedicated distributors.

With the increase in the number of identified clusters, the number of active dealers also increased from 975 to 2,297 during 2019-2024. However, the major share of sales (more than 46 *per cent*) was concentrated to limited dealers (4.91 *per cent*) of total dealers.

Audit noted that during 2019-20 to 2023-24, domestic market consumption of bars and rods increased from 39.33 million tonnes to 57.34 million tonnes (18.01 *per cent*)[47]. The Company was unable to increase its share proportionately. Company sold 29 *per cent* to 32 *per cent* of total TMT sale[48] through retail segment. However, its share in bar and rods segment ranged between 5.5 *per cent* and 6.7 *per cent* (1.2 *per cent* increase) during 2019-20 to 2023-24. Delay in appointment of distributors impacted the market share in those clusters where the retail channel was not operated through dedicated distributors.

Management/Ministry replied (May 2025/ January 2026) that there was a well defined online open tender process by which the Distributors were selected. Further, there were 64 Distributors in place (October 2025) covering 65 clusters with monthly commitment quantity of 1,14,000 tonnes. In view of the potential of the cluster, additional distributors were also being appointed through open tender process.

The reply may be seen in the light of the fact that as seen in Table 1 above, sales growth was proportional to the appointment of distributors. Yet, SAIL had been unable to appoint Distributor in each of its identified clusters. Also, although the sales had improved, it was concentrated in limited number of dealers.

B Delay in deduction for non-fulfilment of monthly commitment by two-tier distributor

The monthly committed quantity of a distributor under the scheme was fixed on the basis of the sales potential of the territory. In the event of not achieving the committed quantity as per contract, distributor's remuneration was to be reduced by 10 *per cent*. Distributors were allowed a business development period of three calendar months from the date of letter of appointment for developing dealer network, training of sales team etc. and would be exempt from achieving the minimum requirement in terms of volumes, number of dealers etc. during that period. However, the distributor would be expected to make up the shortfall in quantity of the first three months by apportioning such quantity equally in the remaining nine months, so that over the first twelve months of his appointment, the yearly commitment for the first year of operations was achieved. Achievement of monthly committed quantities of sales to dealers was to be calculated on the basis of completing the

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47 ***Source: Report of Market Analyst Group of CMO/SAIL.***

48 ***Mainly includes Rounds/TMT, Wire Rod (TMT) and Wire Rod Coil. Almost of 70 per cent of the Bar & Rod segment in SAIL relates to TMT.***

same on an average for a calendar quarter. The scheme however, did not stipulate a time limit for the adjustment of the penalty.

Audit noted that, there was shortfall in lifting in 1,102 out of 2,120 operated months during 2019-2024 and almost all the appointed distributors did not lift their committed quantity in more than one months. Further, although the annual commitments were met in four out of five years during 2019-24, it was noted that as the monthly commitments were stipulated, penalty should ideally have been adjusted from the bill from the end of the calendar quarter. The delay in adjustment of penalty ranged between 1-9 months from the supply month during the period May 2020 to May 2024. Management did not adjust 10 *per cent* remuneration (₹42.34 lakh) from eight distributors in subsequent month of the default and adjusted belatedly after 1-9 months by end of calendar quarter. Penalty (₹9.68 lakh) from a distributor in Jalpaiguri, for non-fulfilment of monthly commitment in eight months between September 2018 and March 2020 was recovered (March 2025) after five years. No such case of delayed deduction was noticed in respect of other distributors.

Management replied (May 2025) that the sales through retail channel was improving as the channel set-up was improving and maturing with the appointment of new distributors. Ministry replied (January 2026) that the channel set-up was improving and maturing with the appointment of new Distributors. Necessary instructions were issued to branch to ensure timely issuance of credit and debit notes for adjustment of remuneration.

Replies may be seen in the light of the fact that the policy was implemented in 2016 and even after lapse of seven years, the adjustments of debit/credit notes was not streamlined.

C Underutilisation of accrued promotional budget on retail segment

Promotional activities have an important role in increasing sales of Company which was acknowledged by the Board in its 469th Meeting (14 February 2020), when it suggested hiring of a consultant to improve customer reach, increase market penetration, improve advertising and brand image etc., with an aim to sell more.

As per the Distributor Scheme, the distributors were made responsible for developing market for the Company products through promotional activities, maintaining sales force for procuring orders and extending services to dealers, educating end users and assisting the Company in brand building efforts. Company reimbursed ₹100 per tonne of quantity sold to two-tier distributor. Additional ₹200 per tonne was also earmarked for promotional campaign to be carried out by the Company on retail channel.

Audit noted that as against the accrued promotional budget of ₹66.73 crore during 2019-20 to 2023-24, only ₹34.76 crore[49] was utilised. Further, Company was also not able to appoint

[49] ***Except the details of RO, NR (2019-20 to 2021-22) and RO, SR (2019-20) in respect of which information was not made available.***

a consultant as suggested by the Board to increase its market share with a uniform impactful advertisement and branding.

Management/Ministry accepted (May 2025/ January 2026) the views of the Audit and stated that the actual utilisation on promotional activities was far below the accruals and efforts were being made to streamline the process. Company had floated an open tender for empanelment of social media management agency for SAIL for formulating and implementing promotional strategies/digital marketing for improving e-sales.

Replies may be seen in the light of the fact that promotional activities are key to ensure success of the scheme and to achieve the end result of increasing sales and market share. Better utilisation of the allocated promotional budget would have enhanced the visibility of the Company's product and its brand name.

D Non-uniformity in preparation of departmental estimates

Two-tier distributor schemes provide remuneration to the distributors in form of distributor discount (in *per cent*) on the maximum retail price fixed by SAIL from time to time. Bidders applying for distributor license quoted the distributor discount and accordingly, the bidder was granted license in a particular territory. For the finalisation of tender, the Company identified various cost components[50] to be considered for the preparation of departmental estimates.

Audit reviewed the departmental estimation prepared for empanelment of 20 distributors and noted that uniform format was not provided to branch offices. In absence of uniform format, different branches under the control of different Regional Offices of CMO had adopted different components. The cost components like cost of gate, stacking area development, networking cost, bending cost etc. varied across distributors without suitable justification on records.

Management replied (May 2025) that guidelines on the cost components/factors to be considered were well defined. Standardisation in preparation of uniform estimates including depreciation rates was under process. Ministry stated (January 2026) that the issue had been addressed in the revised policy guidelines of Tier-2 Distributorship.

6.3.2.3 Monitoring

As per the scheme, the distributor was responsible for appointing dealers in consultation with SAIL in their identified territorial jurisdiction to cover maximum district/talukas/blocks etc., providing materials to the appointed dealers in the territory

[50] ***Cost of capital employed, transportation charges, additional expenses over and above pre-determined rates for de-coiling/ straightening/ cutting/ bundling, expenses towards bending/ re-bundling/ repackaging, tagging, strapping, weighment, handling charges, appointment, training and maintenance of sales force, cost of specified software for IT integration with SAIL and dealers, miscellaneous expenses etc. and profit margin.***

identified by SAIL for the distributor, monitoring the activities of the dealers to ensure that the dealer roles/responsibilities were properly discharged, provide suitable storage including covered space for stock keeping of SAIL products for servicing the requirement of dealers.

In this regard, Audit observed the following:

- Company implemented (October 2018) 'Bandhan' software at a cost of ₹21.08 lakh. Annual maintenance of the software was ₹3.07 lakh since March 2021. The software was to enable tracking of the detailed size-wise inventory at premises of the distributor and the dealers, real time track of invoices issued by distributor to dealers and dealer to end customer and auto generating requisition when inventory fell below a specified level.

  Company was able to implement the software in 1,981 out of 4,492 dealers empanelled under 50 distributors (October 2024). 22 distributors were not able to configure the Bandhan software in 1,818 dealers out of their total empanelled 2,628 dealers. In absence of configuring of the software with all dealers the monitoring mechanisms envisaged through the software could not be achieved. Audit noted that the district-wise sales report could not be captured during 2019-20 to 2021-22. The district-wise sales report was captured since 2022-23, but the district details were blank in respect of 86 *per cent* and 24 *per cent* of sales during 2022-23 and 2023-24 respectively. Management was therefore unable to monitor the violation of territorial jurisdiction by some distributors. In 33 districts, more than one distributors operated during 2022-24, although territorial jurisdiction for distributors was distinctly defined in terms of districts to be covered. The contract, however, did not incorporate any penalty thereof on the erring distributor.

  Management intimated (May 2025) that the 'Bandhan' software was not mapping the 'ship to' data. Corrective actions had been taken and details of both 'bill to' and 'ship to' were now being mapped. Dealers were using other accounting software and did not want to share their data. Ministry replied (January 2026) that vendor for Bandhan was valid up to June 2026 and Company was finalising improvements required and suitable changes would be incorporated in the next tender.

  The reply of the Management/Ministry may be seen in the light of the fact that the software was installed in 2018 and Management had been unable to gainfully utilise it to its full extent. The capturing of district details had improved from 14 *per cent* to 76 *per cent* during 2022-24 for the configured dealers.

- To ensure continuity in sales to retail customers, the policy stipulated that the distributors were to maintain a minimum inventory level of 10 days equivalent of sales in each size of monthly committed quantity per month. The dealers would in turn maintain 15 days minimum inventory level. Company considered estimated finance cost for 10 days stock holding while deriving distributor discount. Audit reviewed the performance evaluation report of 24 out of 50 (48 *per cent*) distributors on random sampling basis and noted that, the minimum inventory was not maintained by the distributors. Also, 17 (2022-23) to 27 (2020-21)[51] distributors did not lift their annual committed quantity and thus maintaining of minimum inventory could not be ensured. Consequently, the occurrence of potential stock out situation could not be ruled out.

Management in its reply (May 2025) stated that, stock holding of 10 days for distributor was included as an ideal condition in line with the industry norms. Ministry replied (January 2026) that TMT was a campaign item and occasionally, the campaign could occur after a delay of over 30 days or Plants could skip rolling a certain size due to technical problems at the Plant level. Consequently, the replenishment period in these cases could surpass 30 days.

The reply of the Management/Ministry may be viewed in the light of the fact that as the Company was aware that TMT was a campaign item and replenishment cycle from steel Plants would be around 30 days, it was all the more important to ensure that the distributors lifted their committed quantities. Both the distributors and dealers needed to maintain the desired stock levels, to prevent possible stock out situations during the gap in between two campaigns.

- Distributors were responsible for providing SAIL with inputs on activities of competitors, market intelligence etc., in its territorial jurisdiction from time to time as per the prescribed format. However, Audit observed that the same was collected by the branch executives verbally or telephonically. In absence of systematic documented inputs, the envisaged utilisation of the information for decision making was not likely to be achieved.

  Distributors were also required to visit their dealers regularly. Audit noted that the dealers meet was not conducted regularly. Although the cost of annual award function for dealers was included in the distributor discount, annual award functions was conducted in seven out of 48 identified clusters only.

  Further, Branch used to communicate the monthly performance of distributor through a Performance Evaluation Report where performance of the distributor against the targets was to be cited. Audit noted that Performance evaluation report was not maintained in uniform format.

  Management in its reply (May 2025) assured to frame uniform performance evaluation report covering all the roles of distributor. Ministry replied (January 2026) that the Performance Evaluation template covering all their roles/responsibilities was introduced and evaluation would be done on a monthly basis.

51 During 2019-20 (20 distributors), 2021-22 (22 distributors), 2023-24 (20 distributors) did not lift their annual committed quantity.

- As per the scheme, distributors were responsible for marketing exclusively SAIL products only and were not to deal with steel material of any other producers in the same premises. Audit however noted that the distributors kept stock of other producers' products in the same premises assigned to SAIL. Management in its reply (May 2025) stated that necessary instructions were issued for acting as per the guidelines of the agreement. Ministry replied (January 2026) that one distributor had kept local brands as SAIL was not supplying TMT coils. Reply may be seen in the light of the fact that distributors had violated terms of contract and such action needed to be strictly prohibited.

6.3.3 Conclusion

The distributor scheme which envisaged to improve the outreach of SAIL in the retail sector to its end customers was not fully implemented by the Company even after a lapse of seven years since its adoption. The inability of the Company to appoint the required distributors in the identified clusters, effective management of the contracts with the distributors and close monitoring of the implementation of the scheme through the distributors and the attached dealers thereto etc. restricted the market growth of SAIL in the retail segment.

Recommendation 20: The Company may take proactive steps to appoint distributors in all the identified clusters and review the performance of the identified clusters periodically.
Recommendation 21: A Standard Operating Procedure may be adopted to ensure close monitoring of the scheme and its implementation through the distributors and dealers to increase the visibility of SAIL products in retail sector.

6.4 Delay in Installation of New Oxygen Plant at Durgapur Steel Plant

Delay in award of contract for Oxygen Plant (1250 TPD) in Durgapur Steel Plant resulted in extension of existing contract for oxygen supply and additional financial burden of ₹172.33 crore on SAIL.

Durgapur Steel Plant (DSP) of Steel Authority of India Limited (SAIL) meets its oxygen requirement through two captive plants (710 tonne per day each) installed in 1992-93 and a 700 tonne per day (TPD) oxygen plant operated by a contractor under a Build-Own-Operate (BOO) agreement valid till October 2023. The captive plants had outlived their useful lives and were being operated at reduced capacity of 650 tonnes per day. In view of the above, SAIL Board approved a proposal (June 2021) to install a new Oxygen plant of 1250 TPD capacity on BOO basis to meet its oxygen requirement upon expiry of the existing contract.

The SAIL Board approved (August 2021) the proposal of DSP for allotment of 5.56 acres of its land on lease required for the installation of the new BOO Oxygen Plant, for a period of 23 years and 2 months, with a provision for a five-year renewal. SAIL sought (September 2021) permission from the Ministry of Steel for the project but the Ministry directed

(November 2021) the Company to finalise the lease terms and conditions before further processing of the proposal. Consequently, SAIL Board approved (March 2022) the revised modalities and terms for allotment of land to the successful bidder and conveyed (May 2022) the same to the Ministry. After approval of the proposal by the Ministry (May 2023), the SAIL Board accorded (August 2023) Stage II approval.

The project for the new Oxygen plant on BOO basis was awarded (August 2023) to another Contractor with a completion schedule of 26 months. However, due to delay in finalisation of the new agreement, DSP renewed (July 2023) its existing BOO contract for five years till October 2028 with modified terms to prevent shortage of oxygen and maintain continuity in production.

In respect of the above Audit observed the following:

(i) During approval of the project at SAIL Corporate office, the Committee of Directors (November 2020) had observed that the actual project implementation could go beyond three years from Stage I approval, whereas the existing BOO contract would expire in October 2023. It accordingly advised Durgapur Steel Plant to ensure adherence to all timelines and obtain land clearances and other approvals prior to seeking final approval for the new plant to meet the project schedule. However, DSP submitted (September 2021) the proposal to Ministry of Steel without finalising the modalities for lease of the required land. Ministry returned the proposal (November 2021) with instructions to finalise the lease terms and conditions before further processing of the proposal.

(ii) The SAIL Board approved (March 2022) the terms and conditions of the lease based on a land valuation report dated November 2021, which was valid for one year. By the time the revised proposal was submitted to the Ministry (January 2023) the initial land valuation had expired and Ministry directed (March 2023) for a fresh valuation. Ministry approval was finally conveyed (May 2023) after submission of revised valuation and other clarifications by SAIL and Stage-II approval of the project was accorded (August 2023), two years after Stage-I approval.

(iii) Delay in the land lease approval process led to delay in the finalisation of the new Build-Own-Operate (BOO) contract which was awarded (August 2023), two months prior to expiry of the existing agreement, although price bids were available since 2021[52]. This delay compelled the Management to renew its existing agreement for five years till October 2028 with revised terms to ensure operational continuity.

(iv) The monthly fixed facility charges as well as the variable gas price payable under the extended agreement was higher than that compared to the rates of the new agreement. The monthly fixed facility charges was higher by ₹0.78 crore resulting in additional

52 ***Global Tender Enquiry was floated (17 June 2021); Initial bid from M/s AWIPL (October 2021) was valid till May 2022 which was extended on the request of SAIL to remain valid till August 2023.***

financial liability of ₹46.80 crore[53] over the five year extension period (October 2023 to October 2028). The difference in the gas prices resulted in additional financial liability of ₹125.53 crore[54] (approximately) over the five year extension period.

Thus, the delay in installation of new oxygen plant at Durgapur Steel Plant on account of delay in finalising the terms and conditions of land lease and the consequent extension of existing agreement resulted in additional financial burden of ₹172.33 crore approximately on SAIL over the five year extension period.

Management/Ministry replied (September 2024/ February 2025) that SAIL Board approved (August 2021) the allotment of land, but the approval process experienced delays due to issues in finalising the terms and conditions of the land lease and obtaining necessary approval from Ministry of Steel. The letter seeking Ministry approval was initially sent (September 2021), but was returned (November 2021) with requests for clarification and after several rounds of communication, the permission was received in May 2023. This adversely impacted the timeline for the project. As a result of these delays, the non-renewal of the BOO contract was no longer feasible and thus, it became imperative to extend the existing contract for additional five years till October 2028. Construction for the new plant was actively progressing and every effort was being made to ensure its timely completion.

The reply may be viewed in the light of the fact that the Committee of Directors had highlighted (November 2020) that Durgapur Steel Plant should ensure adherence to all project timelines as the existing contract was due to expire in October 2023. Also, it advised regarding obtaining land clearances before submitting the proposal for Stage-II approval. Despite this, Management submitted the proposal to the Ministry without the finalisation of the terms and conditions of land lease resulting in delays due to return of the proposal by the Ministry.

Thus, aligning the contract for new Oxygen plant with the expiry of the existing BOO contract, and ensuring timely obtaining of necessary clearances and approvals, could have ensured the timely award and thereby completion of the project and avoided the additional financial burden of ₹172.33 crore (approximately) on SAIL due to extension of the existing agreement.

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[53] ***₹0.78 crore * 5years = ₹46.80 crore.***

[54] ***Considering the average consumption of gases (Oxygen, Nitrogen and Argon) in the last three years (2020-21 to 2022-23) and the actual gas charges paid to Praxair by SAIL in 2023.***

CHAPTER VII: MINISTRY OF TOURISM

India Tourism Development Corporation

7.1 Management of Estates by ITDC

7.1.1 Introduction

Indian Tourism Development Corporation (ITDC), incorporated in October 1966, is under the administrative control of the Ministry of Tourism. ITDC runs hotels and restaurants at various places for tourism activities. ITDC has a network of three Ashok group of hotels, one joint venture hotel, one restaurant, five Ashoka Travels and Tours units, and 14 duty free shops at seaports. ITDC is a listed company and its shares are listed on National Stock Exchange and Bombay Stock Exchange. The authorised capital of ITDC was ₹150 crore and the paid-up capital as on 31 March 2024 was ₹85.77 crore. The Government of India held 87.03 *per cent* of the shares of ITDC as on 31 March 2024.

There are 16 properties in possession of ITDC or its joint venture companies as mentioned in **Annexure-X**.

7.1.2 Audit Findings

Audit of Estate Management in ITDC Limited was conducted and the audit findings are discussed in succeeding paragraphs.

7.1.2.1 Non-availability of ownership documents, encroachment and legal disputes

Audit of ITDC's Estate department revealed deficiencies in the availability and management of property-related documents. These issues raise concerns on the Company's ability to establish legal ownership, protect its assets from encroachment and resolve ongoing legal disputes, as discussed below:

(A) Absence of critical property-related documents

Audit observed deficiencies in the availability of critical property-related documents for the Company's hotels and other land holdings. It was observed that:

- Original property documents were available with ITDC only in respect of five properties viz. Ashok Hotel, New Delhi; DDA flats; Hotel Kalinga Ashok, Bhubaneshwar; Hotel Jammu Ashok, Jammu; and Hotel Nilachal Ashok (Utkal Ashok), Puri
- In case of 11 out of 16 properties, original documents were not available with ITDC.

- In case of four properties, ITDC did not have any documents related to ownership of land.

Inadequate property documentation shall expose the Company to legal and financial risks including ownership disputes, financial losses and difficulties in future transactions. The details of availability of property documents with ITDC are shown in **Annexure XI**, along with the response of ITDC in each case and further audit observations.

(B) Encroachment of properties

Despite repeated reminders[1], ITDC did not provide complete records/information pertaining to encroachment of the properties and the details of properties having legal issues. Audit observed from the limited records/information provided by the ITDC that out of 16 properties, there were three instances of encroachment and legal issues with respect to the Company's property holdings as discussed below**:**

(i) Tennis Court, Qutub Institutional Area, New Delhi

ITDC has 1,964 square meters of land having Tennis Court at the Qutub Institutional Area in New Delhi which had been in possession of Department of Science and Technology (DST), GoI and DST had claimed the ownership of the land. Further, DST was also claiming the ownership of land measuring 1,382 square meters of Ashok Institute of Hospitality and Travel Management (AIH&TM) at the Qutub Institutional Area. ITDC did not possess any documents related to these lands. During 2007, ITDC proposed to construct a building on the Tennis Court area for extending the operations of AIH&TM as well as to add a floor to the existing building of AIH&TM. However, it could not utilise these lands as these were not in possession of ITDC. The primary reason contributing to the claim and encroachment by DST was the absence of land records related to ownership of the land with ITDC.

The Management replied (April 2025) that the documents relating to ownership of Tennis Court were very old and were not traceable. Efforts were being made to trace the documents from old records.

The reply confirms that ITDC did not maintain essential ownership records leading to encroachment and loss of control over its property.

(ii) Pondicherry Ashok Hotel Corporation

Pondicherry Ashok Hotel Corporation is a subsidiary company of ITDC. Audit observed that 0.95 hectares (9,500 square meters) of its land was under encroachment by the local villagers. The nature of encroachment was residential and 37 temporary/semi-pucca structures had been constructed on the land. Further, two burial ground sheds had also been

[1] ***19 April 2024, 29 May 2024 and 3 July 2024***

made on the land by the Government of Puducherry over the last 10 years. The local Municipality has also laid cement roads in the area.

The Management replied (April 2025) that the encroachment of land by the local villagers and burial ground existed since 1999 and Government of Pondicherry had constructed a crematorium and a concrete road on the southern side of the hotel property. Necessary follow-ups were being made by ITDC in this regard.

The reply confirms that encroachment on the hotel property was persistent for over 25 years. Further, the Company did not provide details of the outcomes of follow-up actions.

(iii) Land at Gwalior

A plot of land at Gwalior measuring 6 Bighas and 23 Biswas (7,971 square meters) was transferred (July 1982) to ITDC by the Ministry of Tourism. During inspection of the site by ITDC (January 2006), it was observed that boundary fencings had been removed and there was huge accumulation of garbage on the land. The Inspection Committee of ITDC recommended that there was an urgent need for demarcation, fencing and deployment of security guards for protecting the land from unauthorised encroachment. The work for protecting the land from encroachment was awarded in November 2006 and a total of ₹1.22 crore had been incurred towards watch and ward of the property till March 2024. Despite this, there was encroachment on the land, which was communicated (January 2012) to ITDC by the Tehsildar, Gwalior. There were about 17 squatters on 9,990 square feet of land for which proceedings for eviction were going in the Court of Estate Officer[2] of ITDC for more than 11 years.

The Management replied (April 2025) that the matter was sub-judice with the Estate Officer.

The reply needs to be viewed in light of the fact that the case related to encroachments was pending in the Estate Officer's Court of ITDC for more than a decade without any conclusive outcome.

(C) Legal issues

ITDC has a Garage-cum-Workshop at Naraina, New Delhi having an area of 8,566 square yards. Records relating to the property were not provided by ITDC.

Audit observed from the Annual Report of ITDC that the land was leased out to Maruti Udyog Limited, now Maruti Suzuki India Limited (MSIL). However, MSIL carried out additional construction in the said premises and in the process, the Workshop-cum-depot that had been let out was demolished and rendered extinct which was neither envisaged nor

[2] ***The Estate Officers of Public Sector Undertakings exercise certain powers under the Public Premises (Eviction of Unauthorised Occupants) Act, 1971, to ensure efficient management and optimum utilisation of Public Premises***

intended in the lease agreement. The matter was sub-judice and the property was under the possession of Maruti Udyog Ltd. However, ITDC did not have any records relating to the property.

The Management replied (April 2025) that Maruti Udyog Ltd. through email had requested ITDC for taking possession of the land on 4 December 2024.

The fact remains that ITDC not able to safeguard its property, resulting in demolition of the workshop-cum-depot and loss of the original asset, contrary to the lease terms. Further, ITDC did not provide details of the action taken by ITDC on the request of Maruti Udyog Ltd. for taking possession of the land.

7.1.2.2 Non-payment of Government dues for properties

The Land and Development Office (L&DO)[3] had allotted (August 1963) land to ITDC for construction of five-star hotels at Chanakya Puri, New Delhi. Audit observed that ITDC was liable to pay an amount of ₹94.07 crore towards ground rent, misuse charges and damage charge in respect of these hotels, as detailed below:

(A) Non-payment of Government dues relating to Ashok Hotel, New Delhi

A perpetual lease agreement was executed (August 1963) between Ashoka Hotel Ltd. and L&DO for allotment of a plot measuring 21.155 acres on lease to Ashok Hotel. As per the perpetual lease deed, Ashok Hotel was not entitled to make any alteration or addition to the buildings erected on the said premises without the previous consent of L&DO. Further, the lessee (Ashok Hotel) was not permitted to use the said premises for any purpose other than as a hotel.

Audit observed that L&DO inspected (May 2012) the Ashok Hotel premises and issued (January 2013) demand letter for an amount of ₹14.94 crore on account of misuse charges, damages charges, ground rent and interest thereon (up to July 2013). As per L&DO letter, there were several misuses in Ashok Hotel such as misuse by Porsche car showroom, Kendriya Bhandar, Delhi Mumbai Industrial Corridor Development Corporation Ltd (DMICDC), etc. L&DO had also asked for damages charges for unauthorised constructions such as milk booth, pucca construction near garage, pucca construction used by Porsche, etc.

L&DO issued (October 2017) a reminder requesting to deposit the Government dues amounting to ₹14.94 crore along with interest at the rate of 10 *per cent*. Audit observed from the records provided by ITDC that the Hotel Ashok/ITDC did not carry out any physical inspection to verify the misuses and unauthorised constructions pointed out by L&DO. L&DO issued (December 2021) another reminder for payment of outstanding dues amounting to ₹14.94 crore towards temporary regularisation of breaches of unauthorised

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[3] ***An attached office under the Ministry of Housing and Urban Affairs (MoHUA)***

construction and misuse in respect of the Hotel Ashok. L&DO asked ITDC to pay the dues within 15 days, failing which action would be taken under the terms and conditions of the lease. It was further stated that a second revision of ground rent was due with effect from January 2015.

A joint inspection of the Hotel was conducted (October 2023) by the Audit team along with the officials of ITDC, wherein it was observed that the misuses and unauthorised constructions as claimed by L&DO were still continuing. Some of the instances have been shown below:

Picture 7.1: Misuses and unauthorised constructions

Unauthorised construction of Milk Booth

Misuse as Kendriya Bhandar

Hotel Ashok made payment of ₹14.67 lakh in January 2022 and ₹5.55 lakh in November 2024 towards ground rent (including interest).

Thus, ITDC/Hotel Ashok did not take any action to remove the breaches pointed out by L&DO and had a liability for payment of Government dues amounting to ₹14.74 crore[4]. Due to non-payment of dues, ITDC was also liable to pay interest (at the rate of 10 *per cent* per annum) amounting to ₹17.57 crore from February 2013 to December 2024 on the outstanding dues.

The Management replied (April 2025) that ITDC officials from time-to-time contacted L&DO officials in this context. To resolve the issues, a meeting was held in L&DO Office in April 2013. On non-receipt of clarifications, reminders were written to L&DO officials in October 2017, February 2018 and October 2024. Further efforts were being made to conduct meetings with L&DO officials to discuss and resolve the issue.

The reply needs to be viewed in light of the fact that as the issues pertaining to damage charges, misuse charges, and accrued interest had remained unresolved for a long period. ITDC did not escalate the matter to the higher authorities within the Ministry or L&DO.

[4] ***Dues of ₹14.94 crore minus amount paid ₹0.20 crore***

The persistent accumulation of dues and interest, without any substantial progress towards resolution, indicates lack of proactive and effective engagement on part of ITDC.

(B) Non-payment of Government dues relating to Samrat Hotel, New Delhi

L&DO allotted (February 1981) a plot measuring 3.195 acres to ITDC for construction of five-star hotels at Diplomatic Enclave (Chanakyapuri) to meet the requirement of hotel accommodation for Asian Games, 1982. ITDC was required to execute a license deed on satisfactory completion of the building.

Audit observed that ITDC constructed the Hotel (Hotel Samrat) but did not take any action to execute the license deed. It was also observed that the L&DO had sent (August 2001) demand notice of ₹1.38 crore towards misuse charges, damage charges and interest thereon on delayed payment. As per the notice served (December 2011) by L&DO to remedy the breaches before exercising re-entry powers, there were misuses of land[5], unauthorised constructions[6] and encroachment. The last demand letter was issued (August 2019) by L&DO for an amount of ₹40.06 crore followed by a reminder (December 2021) stating that ITDC was required to pay the outstanding amount within 15 days failing which action would be taken under the terms and conditions of allotment letter. It further intimated that the revision of ground rent was due with effect from January 2011.

ITDC did not take any action to remove the breaches as pointed out by L&DO and also did not pay the Government dues amounting to ₹40.06 crore. Due to non-payment of dues, ITDC was liable to pay interest (at the rate of 10 *per cent*) amounting to ₹21.70 crore with effect from August 2019 to December 2024.

The Management replied (April 2025) that:

- Allocation of guest rooms in Hotel Samrat to Government agencies was also considered as misuse by L&DO. However, the same was done under directions from the Police authorities due to national security concerns, and should therefore not be treated as misuse.

- Most of the alleged unauthorised constructions were already regularised by New Delhi Municipal Corporation (NDMC) in 2001 and 2007 with completion certificates issued. For remaining structures, removal or regularisation was in process.

- Encroachments cited by L&DO had already been removed, and completion plans were shared with L&DO.

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[5] ***Lower ground floor was being used as showroom and servicing space by Exclusive Motors, Lower ground floor was being used as servicing space by Performance Motors, Lower ground floor was being used as flower and tent decorator shop etc.***

[6] ***Lower ground floor level pucca sheds were constructed in open space, lower ground floor porta cabin toilet was constructed in open space etc.***

- ITDC had repeatedly requested L&DO to provide the detailed breakup of the charges, but the same were not provided by L&DO.

- As ITDC was compelled to rent out guest rooms to Government offices due to national security concerns, L&DO had been requested not to impose interest on belated payments.

- Ground rent had been paid regularly, and the latest payment was credited in November 2011. L&DO had been requested for reconciliation of any further dues.

The reply needs to be viewed in light of the fact that ITDC did not seek formal regularisation/exemption from L&DO for allocation of guest rooms to Government offices due to the stated national security concerns. Further, ITDC did not furnish documentary evidence establishing the removal or regularisation of all unauthorised constructions. Also, claim of ITDC that most of the alleged unauthorised constructions had already been regularised by NDMC with completion certificates issued was not borne by facts as the completion plans and certificates had not yet been obtained by ITDC.

7.1.2.3 Non-utilisation of properties and non-allotment of staff quarters

Audit observed non-utilisation of two properties namely, Hotel Kalinga Ashok, Bhubaneswar and a plot of land at Gwalior. Further, there was non-allotment of staff quarters in case of Hotel Ashok, Delhi. The three cases are detailed below:

(A) Non-utilisation of rooms of Hotel Kalinga Ashok

Hotel Kalinga Ashok, Bhubaneshwar has two building blocks with total 64 rooms – the old block was inaugurated with 28 rooms in 1980 and the new block with 36 rooms was inaugurated in 1987. Audit observed that:

(i) In the year 2000, ITDC decided to renovate all 28 rooms of the old block with modern amenities. However, the renovation work was stopped in between, and all 28 rooms were closed and remained unserviceable since the year 2000.

(ii) The General Manager (Hotel) had noted (October 2014) that it was decided by the Managing Director that ITDC shall explore the possibility of using the old block as a budget Hotel and renovate the rooms to an economy standard and run it as low-cost Hotel. Accordingly, the file was sent to the Engineering Division for necessary action.

(iii) As of June 2023, ITDC neither renovated these rooms nor took any action to use the old block as a budget Hotel. The rooms in the old block were in dilapidated condition as of June 2023 as shown below:

Picture 7.2: 28 rooms of Hotel Kalinga Ashok, Bhubaneshwar remaining unserviceable

The prolonged period of non-utilisation of hotel rooms has resulted in substantial loss of revenue. Total potential loss of revenue calculated by Audit based on the information provided by ITDC amounts to ₹20.25 crore[7] till December 2024.

The Management replied (April 2025) that the Board in its meeting held on 4 April 2024 opined that ITDC should move a proposal to the Inter-Ministerial Group (IMG) for giving the entire Hotel Kalinga Ashok on Operational & Management contract. A proposal for renovating Hotel Kalinga Ashok and running by ITDC itself is also under way for putting up with the IMG.

The reply needs to be viewed in light of the fact that the decision to explore renovation/conversion of the old block into budget hotel was taken way back in the year 2000 and reiterated in 2014, yet no action has been taken. Mere consideration of proposals in 2024, after more than two decades of inaction, does not address the fact that valuable hotel infrastructure has remained idle and unproductive for a long period.

(B) Non-utilisation of Land at Gwalior

The land at Gwalior measuring 14,152 square metre was transferred (February 1969) to ITDC by the Ministry of Tourism. The Ministry asked (February 1987) ITDC to transfer the land to the Government of Madhya Pradesh immediately for construction of Yatri Niwas at Gwalior as ITDC had not been able to make any use of this site. ITDC intimated (July 1987) to the Ministry that the plot of land would be utilised by ITDC as and when funds were available for taking up the project.

A feasibility study was conducted (June 1990) by ITDC for building of a Yatri Niwas. However, ITDC did not take any initiative to build the same. ITDC again conducted (March 1996) market survey for taking up the Hotel project. The CMD, ITDC suggested (April 1996) to review the position after one year. However, ITDC did not review the same.

[7] ***The potential loss of revenue in respect of 28 rooms is calculated based on occupancy percentage and revenue generated from 36 rooms (under new block) at Hotel Kalinga Ashok for the period April 2000 to December 2024.***

ITDC released (May 2003) an advertisement for establishing and running business on revenue sharing basis on the land at Gwalior. Two parties offered a return of ₹19.62 crore and ₹19.64 crore for transfer of property on lease for a period of 30 years. Subsequently, ITDC decided (December 2003) to sell the land and invited (February 2004) bids for selling the land without waiting for permission from the Ministry. After opening of the bids (March 2004) the highest bidder quoted a bid of ₹11 crore. The Ministry directed (March 2004) ITDC to hold all further proceedings till the matter was examined in the Ministry.

Thus, ITDC kept changing its own decisions and explored various options for utilising the land but none of the options was brought to logical conclusion. This indecision resulted in unproductive holding of a prime government asset, avoidable expenditure of ₹1.22 crore on watch and ward, and prolonged exposure to encroachment and litigation.

The Management replied (April 2025) that ITDC was exploring various options to utilise the vacant land. ITDC was trying to dispose of the cases lying in the Estate Office regarding this property.

The reply needs to be viewed in light of the fact that ITDC has held the land idle for over five decades. Mere assurance of exploring options does not justify prolonged indecision, avoidable expenditure of ₹1.22 crore on watch and ward and exposure to encroachment.

(C) Non-allotment of staff quarters in Hotel Ashok

ITDC provided facilities for residential accommodation to the employees of Hotel Ashok. There were 228 staff quarters of different categories in the premises of Hotel Ashok.

ITDC planned (July 2012) to construct a Convention Center by demolishing Staff quarters and other structures situated on the premises of the Hotel Ashok. Subsequently, the project was held up as the staff residing in the staff quarters could not be relocated to another place.

Audit observed that ITDC issued (October 2014) orders for stopping new allotment at Ashok Hotel with immediate effect and did not issue any further orders for re-allotment of staff quarters to the employees. This resulted in continued vacancy of these quarters. It was observed that out of the 228 quarters, 24 quarters were occupied, 140 quarters were vacant and 64 quarters were being used as record rooms and for other purposes, as of December 2024.

Audit also conducted (October 2023) joint physical inspection of the Staff quarters along with the officers of ITDC and found that most of the quarters were vacant. It was observed that these staff quarters were not being maintained by ITDC and the quarters were in a dilapidated state as is evident from the photographs below:

Picture 7.3: Dilapidated condition of staff quarters in Hotel Ashok

Thus, ITDC had neither been able to set up the Convention Center as envisaged nor took any action to renovate the staff quarters and restart the allotments. Thus, inaction on part of ITDC resulted in a significant number of staff quarters remaining unutilised and vacant. Further, non-maintenance of these staff quarters by ITDC posed safety risk to the employees who were residing there.

The Management replied (April 2025) that under the ongoing monetisation of Hotel Ashok, staff quarters had also been included. The process was underway.

7.1.2.4 Expenditure incurred on closed hotels

ITDC manages 4 hotels and 2 restaurants under its exclusive control. Further, 4 hotels are under joint venture. The status of all the 10 properties is given in the following table:

Sl. No.	Name of the hotel (including joint venture)	Status (Operational/ Closed/ Incomplete)
1	Ashok Hotel, New Delhi	Operational
2	Hotel Samrat, New Delhi	Operational
3	Hotel Kalinga Ashok, Bhubaneswar	Operational
4	Hotel Pondicherry Ashok (under joint venture)	Operational
5	Hotel Jammu Ashok, Jammu	Closed
6	Hotel Punjab Ashok (under joint venture)	Incomplete
7	Hotel Nilachal Ashok, Puri (under joint venture)	Closed
8	Hotel Ranchi Ashok (under joint venture)	Closed
9	Taj Restaurant Agra	Operational
10	Kosi Restaurant, Mathura (Uttar Pradesh)	Closed

It can be seen from the above table that four out of eight hotels and one out of two restaurants were closed. Audit findings in respect of one closed restaurant (Kosi) and three closed hotels (Hotel Punjab Ashok, Hotel Jammu Ashok and Hotel Nilachal Ashok) have been discussed below:

(A) Indecision regarding operationalisation/transfer of Kosi Restaurant

A Restaurant/Cafeteria was operationalized (September 1972) by ITDC at Kosi Kalan near Mathura in Uttar Pradesh (UP) which was funded by the Ministry of Tourism. In this regard, 12.16 acres of land was handed over by the UP Government to the Government of India which was further handed over (July 1976) to ITDC. Six cottages were further added and commissioned (June 1988) in Kosi Kalan Restaurant Complex.

The Kosi Unit had been a loss-making unit since the commencement of its operations. Therefore, ITDC closed its commercial operations with effect from October 2017 and it was decided to hand over the land and building to the Ministry. Further, it was also decided that till the time handing over process was completed, ITDC would continue to deploy contractual security guards to safeguard the property from encroachment. ITDC requested (November 2017) the Ministry to take back the land and building at Kosi, followed by several reminders[8].

The State Government of UP sent (January 2021) a notice to ITDC and stated that ITDC did not have any rights on the land and the Department of Irrigation, Mathura was the owner of the land. It also asked ITDC to remove the unauthorised occupation. ITDC wrote (October 2021) a letter to the Ministry and stated that the ownership of land was claimed by the State Government of UP and no supporting lease document pertaining to the land was available either with ITDC or the Ministry. It requested the Ministry to initiate necessary action for surrendering back the land to State Government as ITDC was incurring regular expenditure towards security without any returns.

Audit observed that ITDC was incurring regular expenditure on power, insurance, upkeep, services etc. and amount of ₹79.94 lakh had been incurred after the closure of the Unit *i.e.* from November 2017 to December 2024. It was also observed that critical land records including lease deeds/ title deeds which were vital for establishing ownership were not available either with the Ministry or ITDC.

Thus, the property at Kosi Kalan has remained closed for the last eight years. Despite several reminders by ITDC, the Ministry neither took over the land nor handed it over to the State Government. This led to avoidable expenditure of ₹79.94 lakh towards power, upkeep and security services for the closed Kosi Unit.

The Management replied (April 2025) that as per the decision of the Board, ITDC requested (September 2024) the Ministry to take over the land and thereafter handover the property to the U.P. Irrigation Department.

The fact remains that no final action has yet been taken regarding the transfer or operationalisation of the Kosi property. Despite prolonged correspondence, the matter has

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[8] ***23 November 2017, 18 December 2017, 11 January 2018, 9 February 2018, 2 November 2018, 25 June 2019, 2 August 2022 and 18 January 2023***

remained unresolved. Consequently, ITDC continues to incur recurring expenditure on security, maintenance, and power for a non-operational unit. Further, the reply also does not address the issue of absence of land/title records.

(B) Delay in handing over of Hotel Jammu Ashok, Jammu

The land for Hotel Jammu Ashok, Jammu was allotted (January 1970) for a period of 40 years and it started its operations in September 1972. The lease period expired in January 2010. ITDC repeatedly requested for renewal of lease. But the State Government of Jammu & Kashmir (J&K) did not agree (March 2020) to the request for renewal of lease.

ITDC Board in its meeting (minutes circulated in June 2020) noted that Hotel Jammu Ashok was a loss-making property for the last many years and, therefore, approved immediate closure of its operations and requested the Government of J&K to take back the property along with building, plant and machinery and pay appropriate valuation amount. Accordingly, the operation of the hotel was closed (June 2020) by ITDC.

The valuation of ₹11.10 crore for transfer of assets of Hotel Jammu Ashok was agreed by both the parties (ITDC and J&K Government) and approved (September 2022) by the Inter-Ministerial Group.

Audit noticed that for the valuation of the Hotel, ITDC appointed the valuer in July 2021 i.e., after 13 months from the date of closure of the Hotel. The Memorandum of Understanding (MoU) for transfer of the Hotel was signed (February 2023) between ITDC and Department of Tourism (Government of J&K) and a draft note for approval of the Cabinet Committee on Economic Affairs (CCEA) was submitted in February 2023 i.e., after two years and eight months from the closure of the hotel. The said MoU was valid till 31 March 2023 only and was not renewed. Audit further observed that after submission (February 2023) of note for approval to CCEA, no reminder or request was made by ITDC to the Ministry to speed up handing over process and obtain the approval of the CCEA. ITDC had to incur expenditure of ₹1.84 crore on upkeep (including security services), power and fuel, insurance etc. from the date of closure (June 2020) of the hotel till December 2024.

Thus, due to considerable time taken in the handing over process and non-following up of the matter by ITDC, avoidable expenditure of ₹1.84 crore has been incurred on the property (December 2024). Prolonged closure also poses a risk to the physical condition of the hotel property.

The Management replied (April 2025) that the Ministry of Tourism had circulated the CCEA Note for approval of transfer of Hotel Jammu Ashok to the Govt. of J&K. A letter had been sent (February 2023) from MD, ITDC to the Secretary (Tourism) for expediting the CCEA approval. As directed by the Ministry, Note for Alternative Mechanism (AM) had been sent in respect of the property.

The fact remains that there was considerable delay and lack of follow-up for handing over the hotel property despite the closure of Hotel Jammu Ashok in June 2020, resulting in avoidable recurring expenditure.

(C) Incomplete project at Anandpur Sahib, Punjab

ITDC and Punjab Tourism Development Corporation (PTDC) formed (July 1998) a joint venture company (JVC) namely Punjab Ashok Hotel Corporation Ltd (PAHCL) for construction and operation of a hotel at Anandpur Sahib (Punjab). It was decided to construct a 20-room 3-star hotel at a total cost of ₹3.50 crore. Out of this, ₹2.50 crore was the equity contribution to be made by ITDC and PTDC, and ₹1 crore was to be raised as loans from the financial institutions.

The construction of the hotel was undertaken (1998) by ITDC but it was abandoned (December 2000) due to paucity of funds. The structural work of the hotel was completed but external development, interiors and furnishing work was incomplete.

Audit observed that:

(i) ITDC did not conduct any feasibility study before execution of the project. Further, it did not ensure availability of funds before the execution of the project resulting in non-completion of the work due to paucity of funds. In the PAHCL Board meeting (December 2000), it was informed that the only viable alternative left was to foreclose the contract.

(ii) The financial condition of both ITDC and PTDC was not good enough to contribute funds for the joint venture project. Further, no Bank/Financial institution was ready to provide a loan because of the unviability of the project.

(iii) The hotel structure has remained incomplete since December 2000 till date. Audit observed that ITDC and the Ministry took considerable time of nine years in taking (June 2009) a decision to conduct the valuation of the property so that the decision to transfer the same to PTDC could be taken. Eventually, the Inter-Ministerial Group (IMG) decided (November 2018) to handover the incomplete project to Government of Punjab and approved (September 2022) the valuation of ₹79.40 lakh for transfer of 51 *per cent* equity of ITDC in PAHCL to the PTDC/Government of Punjab. Draft CCEA Note was sent (February 2023) to the Ministry of Tourism for further action.

(iv) The incomplete hotel project has not been handed over to the State Government till date even after a lapse of 24 years of the abandonment of the project. ITDC incurred expenditure amounting to ₹90.18 lakh (till December 2024) on watch and ward and other expenses on the incomplete hotel structure.

Thus, implementing the project without conducting feasibility study and without ensuring availability of sufficient funds and considerable time taken by ITDC in bringing the incomplete project to its logical conclusion resulted in avoidable expenditure of ₹90.18 lakh.

The Management replied (April 2025) that CCEA Note for approval of transfer of incomplete project to the Punjab Government was circulated by the Ministry for inter-ministerial consultations. The Note for Alternative Mechanism had been sent to the Ministry on 28 March 2024.

The reply merely reiterates the facts brought out in the audit observation without addressing the accountability for not taking concrete action in a timely and efficient manner.

(D) Absence of any productive use of Hotel Nilachal Ashok, Puri

A joint venture company (JVC) named 'Hotel Nilachal Ashok' was established (November 1983) between ITDC Limited and Utkal Ashok Hotel Corporation Limited (UAHCL) with the objective of establishing and running hotels in the State of Odisha at Puri. The land measuring 8 acres was leased out by the Government of Odisha for ninety-nine years lease to UAHCL for construction of hotel.

The Hotel was running into losses and the JVC closed down (31 March 2004) the operations of the Hotel. To settle various outstanding loans, salaries of the employees and outstanding statutory dues (PF and ESI), UAHCL decided (June 2005) to lease out the operation and management of the Hotel for a period of 30 years. The proposal for disinvestment of the Hotel was presented (May 2022) before the Inter-Ministerial Group.

In this regard, Audit observed the following:

(i) The Board of UAHCL approved (March 2011) the Voluntary Retirement Scheme (VRS) scheme for its employees. The Company did not take any initiative to introduce the same for seven years after the closure (March 2004) of the Hotel. Consequently, the Company continued to incur expenses related to their wages and salaries and statutory dues without corresponding work being performed. The Company had to pay Salary amounting to ₹3.22 crore to the employees from December 2003 to October 2010.

(ii) After the closure (March 2004) of the Hotel, the UAHCL Board decided (June 2005) to lease out the operation and management of the Hotel to enable it to settle various outstanding loans and salaries of the employees and other statutory dues. The Supreme Court had also directed (September 2007) ITDC to lease out the property in eight weeks. However, Audit observed that no action was initiated in this direction for five years i.e. up to May 2009 when advertisement for long term lease of the hotel was published.

(iii) The expenditure incurred on the watch and ward of the hotel was called for but the same was not provided by ITDC. During physical inspection (June 2023), it was noticed that the Hotel was lying in a dilapidated condition due to closure for nearly two decades and for want of maintenance as shown below:

Picture 7.4: Dilapidated condition of Hotel Nilachal Ashok, Puri

Thus, Hotel Nilachal Ashok, despite being situated at a prime location had been closed for nearly two decades and no concrete steps have been taken by the Company to either make it operational or to explore alternative use. Further, UAHCL had to pay ₹3.22 crore towards wages and salary to the employees without any productive work as VRS option was not given to the employees immediately after the closure of the Hotel.

The Management replied (April 2025) that the matter for bringing a proposal before the Inter-Ministerial Group (IMG) for setting up 20 numbers of container cottages along with food and beverages outlet (including demolition of old building), and capex of ₹12 crore was put up before the Board in the meeting held on 2 August 2024. The Board decided to request to Odisha Government to agree for sub-leasing option for both Hotel Kalinga Ashok and Hotel Nilachal Ashok for running the property on PPP mode.

The reply needs to be viewed in light of the fact that bringing a proposal before the Board only in August 2024 i.e. nearly two decades after the closure of the hotel cannot justify the prolonged inaction and passive asset management.

7.1.3 Conclusion

Audit of the Management of Estates by ITDC revealed deficiencies as mentioned below:

- There were deficiencies in the availability and maintenance of critical property-related documents for the Company's hotels and landholdings leading to encroachment of properties and associated legal issues. Lack of documentation poses risk to the Company's ability to establish ownership and make informed decisions in respect of its assets. In the absence of the land documents, Audit could not get assurance of how ITDC safeguards its estates.

- ITDC was liable to pay ₹94.07 crore towards ground rent and breaches in respect of Ashok Hotel and Samrat Hotel to Land and Development Office (L&DO). ITDC neither responded promptly to L&DO regarding the removal of the breaches, nor paid the outstanding dues. Further, the outstanding dues were likely to increase substantially in respect of ground rent, misuse charges and damages charges based on the revised rates.

- The entire old block of Hotel Kalinga Ashok had been closed since February 2000 and ITDC did not make any concerted efforts to reopen this block. Lack of planning and ineffective decision-making on part of the Management of ITDC resulted in non-utilisation of almost half of the property for the last 24 years and consequential potential loss of revenue amounting to ₹20.25 crore to ITDC. Further, ITDC did not have any future action plan for renovating or reopening of these rooms for effective utilisation of the hotel's assets.

- ITDC had held a substantial tract of land at Gwalior for the past 54 years without any productive use, development or revenue generation. The non-utilisation of land for prolonged period resulted in cropping up of legal issues and encroachment. Instead of generating revenue by effective utilisation of the land, ITDC had to incur expenditure for watch and ward.

- ITDC's decision to hold up the allotment of staff quarters in view of the construction of the Convention Center in the premises of Hotel Ashok, Delhi (which was later suspended) led to significant number of staff quarters at Hotel Ashok remaining unutilised and vacant since October 2014. Non-maintenance of staff quarters also posed safety risk for the employees.

- The property at Kosi Kalan had remained closed for the last five and half years. ITDC did not make efforts since October 2021 to explore the possibilities for making the property at Kosi operational. Due to lack of coordination between the Ministry and ITDC, avoidable expenditure towards power, upkeep and security services was being incurred for the closed Kosi Unit.

- ITDC implemented the project at Anandpur Sahib, Punjab without assessing the ground realities. It decided to construct the hotel without conducting feasibility study and ensuring availability of funds. Due to deficient planning, the incomplete project has been lying idle for the past 24 years. Further, ITDC also incurred avoidable expenditure of ₹90.18 lakh on watch and ward and other expenses of the property.

- ITDC did not take timely decision to make Hotel Nilachal Ashok, Puri operational, nor explored any alternative use due to which the hotel has been closed for nearly two decades. The indecision on part of ITDC led to the deterioration of the building and its associated assets and was likely to result in a decrease in its potential value.

Thus, there was a lack of planning and effective decision-making in the management of its estates by ITDC, for which the responsibility and accountability needs to be fixed.

The para was issued to the Ministry in October 2025; their reply was awaited (April 2026).

CHAPTER VIII: MINISTRY OF ROAD TRANSPORT AND HIGHWAYS

National Highways Authority of India

8.1 Loss of revenue due to non-collection and delay in collection of user fee

The procedural delays and subsequently bad road condition of National Highway stretches contributed to the non-collection of user fee at Perali toll plaza in Perambalur district and delay in collection of user fee at Keezhkuppam toll plaza and U. Ponnalagaram toll plaza in Tamil Nadu. Consequently, NHAI could not earn toll revenue of ₹68.72 crore.

As per the notification no. S.O. 1401 (E) dated 31 May 2013 of Ministry of Road Transport and Highways (Ministry/MoRTH), Central Government directed Government of Tamil Nadu (GoTN) to exercise functions to execute the works pertaining to the Cuddalore - Vridhachalam – Salem stretch of NH 532 (from Km 0/800 to Km 51/000 and from Km 57/800 to Km 110/942) and the Perambalur-Thanjavur stretch of NH 226/ New NH no. 135 (from Km 0/000 - Km 66/200). The project work including construction of toll plazas at Keezhkuppam (Km 97/500) and U. Ponnalagaram (Km 45/200) on NH 532 stretch and at Perali (Km 7/600) on NH 226/ New NH no. 135 was completed on 12 October 2016, 9 November 2017 and 21 February 2018 respectively.

The National Highways Fee (Determination of Rates and Collection) Rules, 2008, stipulated that collection of user fee should commence within 45 days from the date of completion of the section of the Highway in case of a public funded project. Therefore, user fee collection should have commenced by 26 November 2016, 24 December 2017 and 7 April 2018 at Keezhkuppam, U. Ponnalagaram and Perali (Km 7/600) toll plaza respectively. However, the toll collection commenced on 15 March 2022 and 20 August 2022 after a delay of 1,935 days and 1,700 days at Keezhkuppam toll plaza and U. Ponnalagaram toll plaza respectively. The user fee collection commenced on 24 July 2021 at Perali toll plaza but the toll collection could not be continued and was stopped on 25 July 2021 due to protest from the local people since the road was damaged and not in traffic worthy condition. The toll collection at Perali toll plaza was yet to be commenced (September 2025).

In this regard, Audit noted following delays in various actions:

- **Delay in handing over the toll plaza and issuance of fee notification-** Instructions for handing over the Keezhkuppam, U. Ponnalagaram and Perali toll plazas to NHAI were issued (5 November and 5 December 2019)[1] by the Ministry after 1,119 days,

[1] ***Keezhkuppam and U. Ponnalagaram toll plazas - 5 November 2019; Perali toll plaza–5 December 2019***

726 days and 652 days respectively from the date of completion of the project work. The fee notifications for the Keezhkuppam, U. Ponnalagaram and Perali toll plazas were published on 15 September 2020, 7 January 2020 and 11 September 2020 after 1,434 days, 789 days and 933 days from the date of completion of the project work.

- **Implementation of Electronic Toll Collection (ETC)** - NHAI issued (June 2017) guidelines to incorporate the provision for ETC system in all the lanes of toll plazas in Detailed Project Report stage itself. Further, MoRTH mandated (March 2019) the provision of ETC infrastructure in all user fee lanes of the user fee plazas constructed either through State Government, or through National Highways and Infrastructure Development Corporation Ltd., or directly by the PIUs of the Ministry. Ministry directed (November 2019) NHAI to take over the Keezhkuppam and U. Ponnalagaram toll plaza for user fee collection and provide estimate for making the Plazas ETC compliant. The work relating to ETC infrastructure at both the toll plazas was completed by NHAI in December 2021 after 25 months from the date of issue of directions by the Ministry. The work relating to ETC infrastructure at the Perali toll plaza was completed in March 2021 after 15 months from the date of issue of directions by the Ministry.

- **Appointment of user fee collection agency -** As per NHAI's circular dated 30 September 2003, selection of fee collecting agency must be done preferably within 90 days prior to the anticipated completion date. For appointment of user fee collection agency, APC had to be calculated based on the data from traffic survey. However, NHAI RO Chennai submitted the APC data to NHAI HQ in July and August 2021 for U. Ponnalagaram toll plaza and Keezhkuppam toll plaza respectively. Thus, there was a delay of 20 months from the date of issue of directions by the Ministry in submission of APC for engagement of user fee collection agencies. The work for user fee collection at Keezhkuppam toll plaza and U. Ponnalagaram toll plaza was awarded (23 November 2021 and 25 November 2021) to M/s Karnataka Commercial and Industrial Corporation Private Limited. Hence, NHAI took 749 days to finalize the user fee collection agency from the date of handing over of the toll plazas by the Ministry. However, the work for user fee collection at U. Ponnalagaram toll plaza was later re-awarded[2] (27 June 2022) to M/s Jai Kamtanath and Company. The work for toll collection at Perali toll plaza was initially awarded to M/s Ridhi and Sidhi Associates (August 2020) and subsequently to M/s Md. Yousuf Ali (April 2021). However, toll collection could not be commenced due to non-availability of ETC System. Finally, the work for toll collection was awarded (July 2021) to M/s Sri Sai Enterprises. Hence, NHAI took 917 days to finalise the user fee collection agency for Perali toll plaza from the date of completion of the project.

[2] ***Due to expiry of the Bid validity of 120 days, LoA issued (November 2021) to M/s KCIC for collection of toll at Ponnalagaram toll plaza was withdrawn on 27June 2022.***

The above delays and consequently bad road condition of the NH stretch contributed to the non-collection of user fees from the road users at Keezhkuppam toll plaza and U. Ponnalagaram toll plaza till 15 March 2022 and 20 August 2022 respectively. Toll collection at Perali toll plaza was yet to re-commence (September 2025).

Non-commencement of toll at Perali toll plaza resulted in a loss of revenue of ₹59.44 crore to NHAI for 1,528 days from 26 July 2021 to 30 September 2025. NHAI also suffered loss of revenue of ₹9.28 crore till commencement of toll on 15 March 2022 and 20 August 2022 at Keezhkuppam toll plaza and U. Ponnalagaram toll plaza respectively even after appointment of toll collection agencies. Detail of revenue loss calculation is given in **Annexure XII**.

Reply of the Management and the Ministry:

- In respect of Perali toll plaza, NHAI replied (December 2024) that the collection of user fee at Perali toll plaza could not materialize due to various reasons including COVID-19 pandemic restrictions, enforcing of model code of conduct for Tamil Nadu legislative assembly elections 2021 and damage of roofing of toll plaza due to cyclone (June 2022). Despite all constraints, the user fee collection commenced from 24 July 2021. The toll collection could not be continued and was stopped on 25 July 2021 since the road was damaged and not in traffic worthy condition. NHAI requested (November 2024) Ministry to issue directions to NH Wing, Trichy (GoTN) for taking over the stretch along with toll plaza in light of the entrustment of the stretch to State NH Wing by the Ministry in March 2022. Ministry, while endorsing the views of the Management replied (July 2025) that a Peace Committee meeting was held to address public concerns about the Perali toll plaza, including lack of infrastructure and safety features. However, the public's demands were not met and they refused to allow toll plaza to operate. Toll plaza suffered damage from a storm in June 2022, and public protests continued due to road conditions. NHAI took over the stretch from the State NH Wing in April 2025 and approved a proposal to strengthen and overlay the road. A contract was signed to complete the work within nine months. Once the re-establishment of road riding quality and the Perali toll plaza is completed, commencement of user fee collection will be ensured immediately thereafter.

- In respect of Keezhkuppam toll plaza and U. Ponnalagaram toll plaza, NHAI replied (March 2025) that handing over of toll plazas to NHAI took place on 17 December 2021 after completion of work by the State NH wing of GoTN. The toll plazas were constructed without the provisions of ETC infrastructure. There was a delay in finalization of APC due to COVID-19 pandemic. The traffic survey was conducted in September 2020 for the toll plazas. Accordingly, the APC calculation was submitted. Contract for the ETC work[3] at both toll plazas was signed (July 2021) and work was completed on 24 December 2021. Toll collection system was ready to start user fee

[3] ***In line with the Policy circular no.10.1.20/2019 dated 18 October 2019***

collection on 24 December 2021 but the same was not started due to the public agitation on account of the bad condition of the road and local election. Ministry endorsed (July 2025) the views of NHAI.

Reply of the Management and the Ministry in respect of Perali toll plaza, Keezhkuppam toll plaza and U. Ponnalagaram toll plaza may be viewed in light of the fact that:

- the COVID-19, State legislative assembly election and cyclone were much after the completion of the project on NH 226/ New NH no. 135 stretch including Perali toll plaza in February 2018. No reply was given for avoidable procedural delays in handing over toll plaza, issuance of fee notification, implementation of ETC system in toll plaza, appointment of user fee collection agency. NHAI did not take timely action to implement ETC infrastructure in the toll plaza. Further, no undertaking from GoTN was obtained for their support in the toll collection. Reply of Ministry confirms that the toll collection at Perali toll plaza was delayed and yet to be commenced (September 2025).

- Ministry directed (November 2019) NHAI to initiate action for ETC compliance and to commence the toll collection on Keezhkuppam and U. Ponnalagaram toll plaza. However, the user fee collection agencies were appointed and the work relating to ETC was completed in November 2021 and December 2021 respectively resulting in delayed commencement of toll at both the toll plazas. Hence, the procedural delays of fee notification, appointment of user fee agency and ETC compliance were avoidable by timely action by NHAI. Further, while road was in use since 2016, overlay work on the stretch was not carried out which subsequently resulted in bad condition of the road. Thus, non-commencement of toll collection due to election and public agitation could have been avoided by maintaining the road in traffic worthy condition.

Thus, NHAI suffered loss of toll revenue of ₹68.72 crore due to non-commencement of toll collection at Perali toll plaza and delay in toll collection at Keezhkuppam toll plaza and U. Ponnalagaram toll plaza.

CHAPTER IX: RECOVERIES AND CORRECTIONS/RECTIFICATIONS BY CPSEs AT THE INSTANCE OF AUDIT

9.1 Recoveries at the instance of Audit

In 15 cases pertaining to 11 CPSEs, the Management had recovered an amount of ₹60.02 crore at the instance of Audit during 2024-25 as detailed in **Annexure XIII**.

9.2 Corrections/rectifications at the instance of Audit

During test check, cases relating to violation of rules/regulations and deficiencies in the system were observed and brought to the notice of Management. Details of five cases by three CPSEs where corrective action was taken or changes were made by the Management at the instance of Audit is given in **Annexure XIV**

CHAPTER X

10.1 Follow-up on Audit Reports (Commercial)

Audit Reports of the CAG represent the culmination of the process of scrutiny of accounts and records maintained in various offices and departments of PSUs. It is, therefore, necessary that appropriate and timely response is elicited from the executive on the audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on various paragraphs/appraisals contained in the Audit Reports (Commercial) of the CAG as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Sector Undertakings (CoPU) for detailed examination. The CoPU in its Second Report (1998-99-Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- Setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);

- Setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and

- Submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up ATNs duly vetted by Audit in respect of all Reports of the CAG presented to Parliament.

Similarly, Committee on Public Undertakings (CoPU) in its 11th Report (18th Lok Sabha) on "Reviewing timely submission of ATNs on C&AG Paragraphs/Reports (Commercial) by Ministries/Departments", which was laid in the Parliament on 27 March 2025, mandated that irrespective of the fact that the Audit Report/Paragraph been/not been selected by the Committee for examination, the CPSE through the Administrative Ministry/Department is mandated to submit ATNs on the Audit Report/Paragraph to C&AG. The timeline of six months from the date of presentation of the relevant Audit Report for submitting duly vetted ATNs to the Committee was reiterated.

Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Departments. Monitoring cells have also been set up within the concerned Ministries for submission of

ATNs on various Reports (Commercial) of the CAG. A dedicated CPSEs Audit Para Monitoring System (CAPMS) Portal has also been developed by DPE with the help of Department of Expenditure, Ministry of Finance for CoPU.

A review in Audit revealed that despite reminders, the remedial/corrective ATNs on twenty (20) Compliance Audit Paragraphs and two Performance Audit Reports contained in the last five years' Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in **Annexure XV**, were not received by Audit for vetting.

New Delhi
Dated: 04 August 2026

(Anand Mohan Bajaj)
Deputy Comptroller and Auditor General (Commercial & RC) and Chairman, Audit Board

Countersigned

New Delhi
Dated: 04 August 2026

(K. Sanjay Murthy)
Comptroller and Auditor General of India

Annexure-I

(Referred to in Preface)

Economic and Service Ministries/Departments under Commercial Wing

Sl. No.	Name of the Ministry
1	Civil Aviation
2	Coal
3	Commerce & Industries
4	Corporate Affairs
5	Heavy Industries
6	Housing & Urban Affairs
7	Micro, Small and Medium Enterprises
8	Mines
9	Petroleum & Natural Gas
10	Ports, Shipping and Waterways
11	Power
12	Road Transport & Highways
13	Steel
14	Textiles
15	Tourism
	Departments under Ministry of Chemicals and Fertilizers
1	Department of Chemicals & Petrochemicals
	Departments under Ministry of Finance
2	Department of Financial Services
3	Department of Investment and Public Asset Management
4	Department of Public Enterprises

Annexure-II

[Referred to in Para 1.3.5.6.(ii)]

Modifications in initial Contracts (Packages) for project work

Loss Due to Dispatch of (-) 250 mm size of Coal instead of Dispatching (-) 100 mm size of Coal to Power Plants by Gevra OC					
Period of Supply (F.Y.)		2021-22	2022-23	2023-24	**TOTAL**
Qty Dispatched (-) 250 mm size by Gevra OC (in Te.)	1	84,70,000	21,20,000	4,00,000	**1,09,90,000**
Crushing Capacity (-) 100 mm size at Gevra OC (in Te.)	2	79,21,000	1,44,91,000	1,30,66,000	**3,54,78,000**
Utilised Capacity (-) 100 mm size at Gevra OC (in Te.)	3	16,20,000	32,05,000	29,10,000	**77,35,000**
Under utilised Capacity (-) 100 mm size at Gevra OC (in Te.)	4	63,01,000	1,12,86,000	1,01,56,000	**2,77,43,000**
Rate payable (87-56-10.16)	8	20.84	20.84	20.84	
Loss due non Supply of (-) 100 mm size by Gevra OC (in ₹)	**9 = [(1 or 4 Whichever is lower) X (8)]**	**13,13,12,840**	**4,41,80,800**	**83,36,000**	**18,38,29,640**

Loss Due to Dispatch of (-) 250 mm size of Coal instead of Dispatching (-) 100 mm size of Coal to Power Plants by Kusmunda OC					
Period of Supply (F.Y.)		2021-22	2022-23	2023-24	**TOTAL**
Qty Dispatched (-) 250 mm size by Kusmunda OC (in Te.)	1	89,60,000	21,60,000	46,00,000	**1,57,20,000**
Crushing Capacity (-) 100 mm size at Kusmunda OC (in Te.)	2	43,80,000	1,95,28,000	1,66,53,000	**4,05,61,000**
Utilised Capacity (-) 100 mm size at Kusmunda OC (in Te.)	3	28,08,000	88,21,000	93,11,000	**2,09,40,000**
Under utilised Capacity (-) 100 mm size at Kusmunda OC (in Te.)	4	15,72,000	1,07,07,000	73,42,000	**1,96,21,000**
Rate payable (87-56-10.16)	8	20.84	20.84	20.84	
Loss due non Supply of (-) 100 mm size by Kusmunda OC (in ₹)	**9 = [(1 or 4 Whichever is lower) X (8)]**	**3,27,60,480**	**450,14,400**	**9,58,64,000**	**17,36,38,880**
Total Loss (Gevra OC + Kusmunda OC)		**16,40,73,320**	**8,91,95,200**	**10,42,00,000**	**35,74,68,520**

Annexure-III

[Referred to in Para 4.1.3.3]

Financial Position of ASREC (India) Limited

(₹ in crore)

Particulars	Year			
	2020-21	2021-22	2022-23	2023-24
EQUITY				
Equity Share Capital	98.00	98.00	98.00	98.00
Other Equity	67.70	88.95	107.37	128.21
LIABILITIES				
Financial Liabilities				
Derivative Financial Instruments	1.00	-	-	-
Trade Payables	0.65	0.79	1.21	0.68
Borrowings (other than debt securities)	74.06	32.14	51.69	27.08
Other Financial Liabilities	55.29	41.74	15.98	8.12
Non-Financial Liabilities				
Current Tax liabilities	0.02	-	1.09	2.48
Provisions	0.33	0.35	0.36	0.58
Other non-financial liabilities	2.40	2.50	2.71	2.62
Grand Total (Equity and Liabilities)	**299.44**	**264.48**	**278.41**	**267.77**
ASSETS				
Financial Assets				
Cash & cash equivalents	11.60	11.84	5.71	11.99
Bank Balances other than cash & cash equivalents	3.06	3.21	3.37	3.59
Derivative Financial Instruments	-	0.73	2.45	1.28
Receivables	4.10	3.90	3.27	3.10
Investments	262.57	226.08	244.87	227.49
Other financial assets	0.07	0.08	0.10	0.10
Non-financial assets				
Current tax assets (net)	1.77	2.16	-	-
Deferred tax assets (net)	5.92	6.02	6.31	8.06
Property, plant and equipment	9.86	10.36	12.23	12.07
Capital work in progress	0.37	-	-	-
Other non-financial assets	0.12	0.11	0.10	0.09
Grand Total	**299.44**	**264.48**	**278.41**	**267.77**

Annexure-IV

[Referred to in Para 4.1.5.1 (A.2)(i)]

Details pertaining to 38 NPA loan account acquisitions selected in sample

Sr. No.	Seller Bank/ ARC Name	Account Name	Date of Acquisition	Expected time frame for realization as per Part I of DDR	Discounting factor stated in DDR	Expected time frame for realization stated while doing valuation in DDR	Resolution period as per approved resolution plan
1.	Bank-7	Company-24	30.12.2020	Not Stated	20%	15 months ~ 1.25 years	5 years
2.	Bank-9	Company-4	30.12.2020	Not Stated	20%	1 year	5 years
3.	Bank-9	Company-25	30.12.2020	Not Stated	20%	1 year	5 years
4.	Bank-10	Company-26	31.03.2021	Not Stated	20%	2 years	5 years
5.	Bank-11	Company-27	26.03.2021	Not Stated	20%	2 years	5 years
6.	Bank-12	Company-10	26.08.2020	1 year	20%	1 year	5 years
7.	Bank-13	Company-8	25.03.2021	Not Stated	20%	1 year	5 years
8.	Bank-12	Company-9	26.08.2020	1.5 years	20%	1.5 years	5 years
9.	Bank-13	Company-7	25.03.2021	1 year	20%	1 year	5 years
10.	Bank-13	Company-6	25.03.2021	1 year	20%	1 year	5 years
11.	Bank-13	Company-5	25.03.2021	2 years	20%	1 year	5 years
12.	Bank-13	Company-3	25.03.2021	2 years	20%	2 years	5 years
13.	Bank-5	Company-15	29.12.2020	3 years	20%	18 months ~ 1.5 years	5 years
14.	Bank-12	Company-28	26.08.2020	2.5 years	20%	2.5 years	5 years
15.	ARC-3	Company-15	13.11.2020	2 years	20%	1 year	5 years
16.	Bank-12	Company-29	26.08.2020	2 years	20%	2 years	5 years
17.	Bank-12	Company-30	26.08.2020	3 years	20%	3 years	5 years
18.	ARC-1	Company-16	22.09.2020	Not Stated	15%	9 months ~ 0.75 years	5 years
19.	Bank-2	Company-22	30.03.2022	1 year	15%	9 months ~ 0.75 years	5 years
20.	Bank-13	Company-11	23.03.2022	1.5 years	20%	2 years	5 years
21.	Bank-14	Auto Rickshaw Loan Portfolio (1759 Accounts)	30.03.2022	No DDR prepared	No DDR prepared	No DDR prepared	5 years
22.	Bank-13	Company-31	23.03.2022	1.75 years	20%	1.75 years	5 years
23.	Company-2	Company-1	28.09.2021	1 year	20%	1 year	5 years
24.	Bank-3	Company-4	24.03.2023	Not Stated	20%	1 year	5 years
25.	Bank-4	Company-4	24.03.2023	Not Stated	20%	3 years	5 years
26.	Bank-1	Company-4	03.02.2023	Not Stated	20%	6 months ~0.50 year	5 years
27.	Bank-3	Company-15	29.03.2023	Not Stated	20%	3 months ~ 0.25 year	5 years
28.	Bank-15	Company-32	14.03.2023	Not Stated	20%	1.75 years	5 years

Sr. No.	Seller Bank/ ARC Name	Account Name	Date of Acquisition	Expected time frame for realization as per Part I of DDR	Discounting factor stated in DDR	Expected time frame for realization stated while doing valuation in DDR	Resolution period as per approved resolution plan
29.	ARC-2	Company-19	30.11.2022	9 months	20%	2 years	5 years
30.	Bank-16	Entity-1	30.03.2021	Not Stated	20%	1 year	5 years
31.	Bank-13	Company-12	25.03.2021	1 year	20%	1 year	5 years
32.	Bank-13	Entity-2	25.03.2021	Not stated	Not stated in DDR as unsecured account	Not Stated	5 years
33.	Bank-13	Company-13	25.03.2021	1 year	20%	1 year	5 years
34.	Bank-13	Company-14	25.03.2021	2 years	20%	1 year	5 years
35.	Bank-14	Entity-3	30.03.2022	Not Stated	20%	2 years	5 years
36.	Bank-17	Company-33	04.01.2022	2 years	20%	2 years	5 years
37.	Bank-17	Entity-4	04.01.2022	Not Stated	20%	3 years	5 years
38.	Company-34	Company-35	21.10.2022	Not Stated	20%	1 year	5 years

Annexure-V

[Referred to in Para 4.1.5.1 (A.2)(ii)]

Fixed percentage adopted for SR basis acquisition value in DDR

(₹ in crore)

Sr. No.	Name of Loan Account/ borrower	Name of seller bank/FI	Value recommended on cash basis	Value recommended on SR basis	Percentage used (rounded off to nearest percentage)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)= (5)/(4) x 100**
1.	Company-3	Bank-13	6.63	9.94	150
2.	Company-5	Bank-13	8.00	12.00	150
3.	Company-6	Bank-13	7.35	11.02	150
4.	Company-7	Bank-13	9.95	14.90	150
5.	Company-8	Bank-13	7.40	11.10	150
6.	Company-9	Bank-12	10.71	16.06	150
7.	Comapny-28	Bank-12	14.96	22.44	150
8.	Company-29	Bank-12	10.00	15.00	150
9.	Company-30	Bank-12	10.71	16.07	150
10.	Company-10	Bank-12	8.49	12.73	150
11.	Company-11	Bank-13	22.38	33.56	150
12.	Company-31	Bank-13	7.33	10.99	150
13.	Company-12	Bank-13	1.23	1.84	150
14.	Company-13	Bank-13	5.40	8.10	150
15.	Company-14	Bank-13	4.67	7.01	150
16.	Company-33	Bank-17	4.47	6.70	150
17.	Company-32	Bank-15	31.58	47.37	150
18.	Entity-1	Bank-16	0.40	0.60	150
19.	Entity-4	Bank-17	0.109	0.163	150
20.	Company-26	Bank-10	10.80	16.20	150
21.	Entity-3	Bank-14	0.92	1.38	150

Annexure-VI

[Referred to in Para 4.1.5.2 (B.1)]

Details of One Time Settlement offers

(₹ in crore)

Sr. No.	Loan Account	Acquisition Cost	No. of OTS offers made by borrower	Amount of highest OTS offer	No. of OTS offers rejected by Company	No. of OTS offers accepted Company	Amount of OTS offer accepted
1	Company-21	17.78	6	25.00	6	0	--
2	Company-19	16.00	3	17.50	2	1	17.50
3	Company-36	21.34	2	19.00	1	1	19.00
4	Company-37	3.25	3	3.25	2	1	3.25
5	Company-38	19.20	2	21.50	1	1	21.50
6	Company-39	1.81	3	2.15	2	1	2.15
7	Company-20	43.60	2	47.00	2	--	--
8	Company-32	45.01	2	55.50	1	1	55.50

Annexure-VII

(Referred to in Para 4.2.3.3)

Minimum Deposit Premium

(₹ in crore)

Year	Name of Treaty	EGNPI	Actual GNPI	Shortfall percentage	MDP	Actual Premium	Excess MDP
UIIC							
2018-19	EQ XoL	870.00	758.16	*13.00*	6.09	5.90	0.19
	Umbrella XoL	1,040.00	914.56	*12.00*	3.00	2.64	0.36
	Energy XoL	9.00	7.70	*14.00*	4.89	4.65	0.24
	Liability XoL	6.50	4.40	*32.00*	2.34	1.76	0.58
	CAT TOP XoL	870.00	758.16	*13.00*	19.81	19.18	0.63
						Sub Total	**2.00**
OIC							
2018-19	Marine XoL	237.00	204.58	*13.68*	12.15	11.66	0.49
2019-20	Marine XoL	230.00	204.71	*10.99*	13.73	13.57	0.16
	PA XoL	400.00	229.84	*42.54*	0.40	0.28	0.12
2020-21	PA XoL	300.00	208.56	*30.48*	0.34	0.30	0.04
	Motor XoL – Layer I-III	4,548.00	3,649.18	*19.76*	7.40	6.80	0.60
	Motor XoL – Layer IV	148.00	89.55	*39.49*			-
2021-22	Motor XoL – Layer I-III	4,500.00	3,339.62	*25.79*	8.03	6.85	1.18
	Motor XoL – Layer IV	135.00	104.16	*22.84*			-
	Non-Marine CAT XoL (All Perils)	950.00	839.04	*11.68*	76.27	74.84	1.43
2022-23	Non-Marine CAT XoL (All Perils)	1,045.00	924.69	*11.51*	88.17	86.68	1.49
	Non-Marine CAT XoL (EQ)	1,045.00	924.69	*11.51*	28.89	28.40	0.49
						Sub Total	**6.00**

Year	Name of Treaty	EGNPI	Actual GNPI	Shortfall percentage	MDP	Actual Premium	Excess MDP
			NIC				
2018-19	Risk XoL	485.00	304.65	*37.00*	40.51	30.98	9.53
	CAT XoL	1,235.00	964.00	*22.00*	113.43	98.41	15.02
	Marine cum Energy XoL	189.50	145.64	*23.00*	9.50	7.46	2.04
	Liability XoL	25.00	19.70	*21.00*	3.56	3.51	0.05
	Motor XoL	4,500.00	3,727.67	*17.16*	2.41	2.34	0.07
2019-20	Risk XoL	550.00	492.54	*10.00*	69.44	68.61	0.83
	CAT XoL	1,320.00	1,013.00	*23.00*	133.07	117.08	15.99
	Marine cum Energy XoL	190.00	136.37	*28.00*	9.05	6.60	2.45
	Liability XoL	27.50	16.80	*39.00*	4.00	2.87	1.13
	Motor XoL	4,875.00	3,70,027.80	*24.00*	2.35	2.10	0.25
2020-21	CAT XoL	1,390.00	1,106.00	*20.00*	108.40	101.46	6.94
	Marine cum Energy XoL	190.00	114.44	*40.00*	9.15	8.40	0.75
	Liability XoL	30.00	19.90	*34.00*	4.28	3.34	0.94
	Motor XoL	4,500.00	3,196.52	*14.00*	2.29	1.91	0.38
2021-22	CAT XoL	1,365.00	1,121.00	*18.00*	115.18	111.24	3.94
	Marine cum Energy XoL	187.00	123.92	*34.00*	9.04	7.07	1.97
	Motor XoL	4,100.00	308.25	*22.00*	3.40	2.83	0.57
2022-23	Risk XoL	700.00	576.92	*18.00*	71.66	69.36	2.30
	CAT XoL	1,330.00	1,035.00	*22.00*	120.28	110.16	10.12
	Marine cum Energy XoL	187.00	124.22	*31.00*	9.66	8.30	1.36
	Motor XoL	3,750.00	3,235.69	*23.00*	3.85	3.69	0.16
						Sub Total	**76.79**
						Total	**84.79**

Annexure-VIII

[Referred to in Para 4.2.4.1]

Delay in recovery/reconciliation of old receivable balances by New India Assurance Company Limited

Reinsurer/ Broker Name	Net balance as on 31 March 2023 (₹ in crore)	Balances Amount older than 3 years (₹ in crore)	Department with major pendency	Management Reply	Further remarks of Audit
Reins 5	3.56	3.02	Fire Facultative Reinsurance Account (Foreign)	Being pursued with the party	No progress has been reported on recovery yet.
Reins 6	14.84	14.61	Fire Facultative Reinsurance Account (Foreign)	Before 2018, there was no unified settlement [1] system. All settlements were done manually. The amount will be reconciled with amount received from broker *(Broker 1)* of ₹59.11 crore.	Irrespective of settlement system adopted, old balances need to be ultimately reconciled. Balances pending since prior to 2018 have not yet been reconciled. Non-reconciliation of broker *(Broker 1)* balances had been pointed out in Audit in Inspection Reports for 2019-20 as well.
Reins 7	9.76	9.75	Fire Facultative Reinsurance Account (Foreign)-₹9.69 crore	Engaging with the concerned Broker/Reinsurer. The Department is in the process of reconciliation.	The amounts are subject to reconciliation over long periods of over 3 years.

[1] ***In unified system, contra entries are marked by clicking settlement button in the vouchers. In Manual system, these are marked manually.***

Reinsurer/ Broker Name	Net balance as on 31 March 2023 (₹ in crore)	Balances Amount older than 3 years (₹ in crore)	Department with major pendency	Management Reply	Further remarks of Audit
Reins 8	3.46	2.35	Miscellaneous Facultative Reinsurance Accounts (Foreign) - ₹1.87 crore Fire Facultative Reinsurance Account (Foreign) - ₹1.56 crore.	Department is following up through Broker and effected part recovery. Balance as on 31.03.2024 is ₹1.18 crore as against ₹1.56 crore. Balance as on 31.03.2024 is ₹1.54 crore as against ₹1.87 crore.	The case indicated delays in recovery.
Reins 9	1.49	1.49	Miscellaneous Facultative Reinsurance Accounts (Foreign)	Not replied	Old dues are pending.
CBR 1	14.14	11.43	Treaty Ceded (Foreign)	Ministry replied that about ₹9.11 crore was pending recovery from a cross border reinsurer (*CBR 1)*, after recoveries made in 2024-25 and that efforts are being made to settle the remaining balances swiftly.	Continuing to cede business to the party without ensuring timely recovery has resulted in blocking of funds.
Total	**47.25**	**42.65**			

Annexure-IX

[Referred to in Para 4.2.4.1]

Pending dues from dissolved or under liquidation Cross Border Reinsurers

(Amount in ₹)

Sr. No	Reinsurer Name	CBRs Head office	Under Liquidation/ closure from	Receivable from	Net outstanding balances
1.	*Reins 10*	London	01 October 2020	Prior to April 2013	1,71,39,227.26
2.	*Reins 11*	Singapore	13 October 2023	April 2013 to March 2023	3,77,35,878.82
3.	*Reins 12*	Wellington	November 2018	April 2013 to March 2020	1,07,57,986.51
4.	*Reins 13*	London	23 April 2015	Prior to April 2018	1,56,73,738.01
5.	*Reins 14*	London	28 July 2015	Prior to March 2020 (₹13.06 lakh)	13,44,626.08
6.	*Reins 15*	London	30 August 2014	April 2013 to March 2022	12,10,609.82
	Grand Total				**8,38,62,066.50**

Annexure-X
(Referred to in Para 7.1.1)
Details of properties in possession of ITDC or its joint venture companies

Sl. No.	Name of the property	Area (square meters)
1	Ashok Hotel, New Delhi	86,910 (21.476 acre)
2	Hotel Samrat, New Delhi	16,487 (4.074 acre)
3	Land at Gwalior	7,971 (6 bigha, 23 biswah)
4	Office At Scope Complex, Lodhi Road, Delhi	3,182
5	Garage-cum-Workshop at Naraina, Delhi	7,162 (8,566 square yards)
6	Five DDA Flats	MIG category
7	Taj Restaurant Agra	4,438
8	Hotel Kalinga Ashok, Bhubaneswar	20,279 (5.011 acre)
9	Hotel Jammu Ashok, Jammu	30,453 (60 kanals, 4 marlas)
10	Manpower Development Centre, Delhi	1,383
11	Tennis Court Land, Delhi	1,964
12	Kosi Restaurant, Mathura (Uttar Pradesh)	49,210 (12.16 acre)
13	Hotel Punjab Ashok (under a joint venture, namely Punjab Ashok Hotel Company Limited between ITDC and Punjab Tourism Development Corporation)	20,234 (5 acre)
14	Hotel Nilachal Ashok, Puri (under a joint venture, namely Utkal Ashok Hotel Corporation Limited between ITDC and Government of Odisha)	32,375 (8 acre)
15	Hotel Ranchi Ashok (under a joint venture, namely Ranchi Ashok Bihar Hotel Corporation Limited between ITDC and Government of Jharkhand)	10,886 (2.69 acre)
16	Hotel Pondicherry Ashok (under a joint venture, namely Pondicherry Ashok Hotel Corporation Limited between ITDC and Government of Puducherry)	2,65,555 (65.62 acre)

Annexure XI
{Referred to in Para 7.1.2.1 (A)}

Availability of property documents with ITDC

Sl. No.	Name of property	Documents available	Reply of ITDC	Further audit observation
1	Hotel Samrat, New Delhi	Only photocopy of allotment letters was available.	It is proposed to discuss the matter with NDMC.	Execution of lease deed or title deed is necessary for establishing legal right over the immovable property.
2	Office At Scope Complex, Lodhi Road	Only photocopy of allotment letter was available.	Copy of the letter issued by Scope regarding deemed ownership of ITDC is available.	Formal lease deed has not been executed in favour of ITDC due to which legal right is difficult to be established.
3	Garage-cum-Workshop at Naraina	No records	Photocopy of the Title Deed is available. Some of the records are with the CBI which may be checked after their receipt.	Copy of the title deed was not available with the Company.
4	Manpower Development Centre	No records	ITDC has made efforts for checking the title of the building.	Execution of lease deed is essential for establishing legal right.
5	Tennis Court Land	No records	ITDC has made efforts to check the title of the building.	Execution of lease deed is essential for establishing legal right.
6	Kosi Restaurant	No records	Pursuant to the process of handing over of the property to ITDC by the Ministry of Tourism, it was checked and found that in the revenue records, the land is managed by Nahar Vibhag, Mathura. The Ministry has been requested (September 2024) to take over the property.	It is clear from the reply that ITDC holds no legal title, and the ownership of the property lies with Nahar Vibhag.
7	Punjab Ashok	Photocopy only	Original lease deed is being traced with JV	The reply indicates poor management of

Sl. No.	Name of property	Documents available	Reply of ITDC	Further audit observation
	Hotel Company Limited		partner. However, the property is under advanced stage of disinvestment.	documents by the Company.
8	Ranchi Ashok Bihar Hotel Corporation Limited	Photocopy only	Original lease deed is being traced with JV partner. However, the property is under advanced stage of disinvestment.	The reply indicates poor management of documents by the Company.
9	Pondicherry Ashok Hotel Corporation Limited	Photocopy only	Original Title deed is available with Hotel Pondicherry Ashok.	No documentary evidence of original title deed was enclosed with the reply.
10	Taj Restaurant Agra	Transfer Deed is in the name of ITDC.	Original Transfer document is available and was shown to Audit.	ITDC is silent on the issue of non-execution of title deed in favour of ITDC.
11	Land at Gwalior	Transfer Deed is in the name of ITDC.	Documents available in original were shown to Audit.	ITDC is silent on the issue of non-execution of title deed in favour of ITDC.

Annexure-XII

[Referred to in para 8.1)]

Loss of revenue due to non-collection of user fee at Perali toll plaza

Year	Period		Days	Loss of toll collection per day (₹)	Total loss of toll collection (Toll loss per day x days) (₹)
	From	To			
2021	26-07-2021	31-12-2021	159	3,87,999	6,32,43,837
2022 to September 2025	01-01-2022	30-09-2025	1,369		53,11,70,631
		Total	**1,528**		**59,44,14,468**

***Note:** Toll collection commenced on 24 July 2021 but stopped on 25 July 2021. Hence, loss of revenue considered from 26 July 2021.*

Loss of revenue due delay in collection of user fee at Keezhkuppam and U. Ponnalagaram toll plaza

Name of TP	Date of User fee collection Agency	Daily remittance amount (₹)	Date of Actual commencement of toll	Days of loss of revenue	Loss of revenue (₹)
Keezhkuppam	23-11-2021	2,04,000	15-03-2022	112	2,28,48,000
U. Ponnalagaram[2]	25-11-2021	2,50,000	20-08-2022	214	5,35,00,000
		3,11,151		53	1,64,91,003
					9,28,39,003

***Note:** The calculation of loss of toll revenue was calculated from the date of appointment of user fee collection agency to actual date of commencement of toll at both the toll plazas.*

[2] Due to non-commencement of toll at U. Ponnalagaram, the LoA issued to the agency was withdrawn and a new user fee agency was appointed from 27 June 2022.

Annexure -XIII

(***Referred to in Para 9.1***)

Recoveries at the instance of Audit

(₹ in lakh)

Name of the Ministry/ Department	Name of the CPSE	Audit Observation in brief	Amount recovered by the Management in FY 2024-25
Power	Bhakra Beas Management Board (BBMB), Nangal	Non recovery of outstanding Electrical Dues amounting to ₹21.50 lakh	4.19
Heavy Industries	BHEL Bhopal-IMM Division	Recovery of GST on LD against rule ₹ 6.91 lakh.	12.55
Heavy Industry	Engineering Projects (India) Limited, New Delhi	Incorrect fixation of pay of employees recruited on 'Walk-in-interview' basis which resulted in Excess payment of pay and allowances to five employees to the tune of ₹ 216.34 lakh	2.96
Housing and Urban Affairs	Delhi Metro Rail Corporation Limited, New Delhi	Non recovery of ₹6.23 lakh from the contractor (DE l0) for delay in Insurance Policy.	6.23
Housing and Urban Affairs	Central Public Works Department	Non compliance of guidelines for granting financial upgradation under MACP scheme to employees	9.62
Coal	Eastern Coalfields Limited	Delay in extension of LC resulted in late clearance of consignment leading to avoidable payment of detention charges of ₹89.72 lakh	96.7
Coal	Western Coalfields Limited	Compensation of ₹543.96 crore receivable for non-lifting/ short lifting of coal as per the terms & conditions of fuel supply agreement.	755.24
Steel	Steel Authority of India	Pending recoveries of the losses arises due to wrong/erroneous delivery from the Handling Contractors	2.73

(₹ in lakh)

Name of the Ministry/ Department	Name of the CPSE	Audit Observation in brief	Amount recovered by the Management in FY 2024-25
Road Transport & Highway	NHAI- Begusarai/Purnea	Extra expenditure of ₹24.61 crore on price escalation due to adoption of consumer price index for industrial workers for Haldia Circle in West Bengal instead of Munger-Jamalpur Circle in Bihar	398.87
Road Transport & Highways	National Highway Authority of India	Incorrect conversion of WPI from old series to new series instead of from new series to old series resulting in excess determination of project cost.	518.7
Road Transport & Highways	National Highway Authority of India	Payment of interest on balance cost arrived at considering the final completion cost instead of actual completion cost at the time of issue of PCOD and subsequent revisions resulted in excess payment of interest.	3260
Road Transport & Highways	National Highway Authority of India	Non levy of penalty for non-compliance of mandatory condition of engagement of 30 % ex-servicemen and short deployment of staff at Toll Plazas by the Toll Fee collection agencies.	49
Road Transport and Highways	NHAI-CMU Faridabad (Mathura)	Excess payment of ₹12.62 Cr to concessionaire due to extra payment on account of wrong application of price escalation in Package I and II	829.92
Department of Financial Services, Ministry of Finance	New India Assurance Company Limited	Excess payment of ₹12.49 lakh towards commission to insurance agent and insurance intermediaries in violation of IRDA Regulation	9.27
Finance	National Credit Gurantee Trusteee Company Limited	Settlement of claims in excess of the eligible principal amount leading to excess financial outgo of ₹42.89 crore	46.45
		Total	**6002.43**
		Say	**60.02 crore**

Annexure -XIV

(***Referred to in Para 9.2***)

Corrections/ rectifications at the instance of Audit

Sl. No.	Name of the Ministry	Name of the PSU	Audit observation in brief	Action taken by the Management
1.	Road Transport and Highways	National Highway Authority of India	Due to adoption of Price Index Multiple (PIM) on Independent Engineer Letter date (October 2020) instead of invoice date (September 2020), the CPI reference month has been adopted as September 2020 with index of 312 instead of June 2020 with index of 308. This has resulted in excess determination of PIM by 0.01% (i.e. 1.07 instead of 1.06) and has resulted in excess determination of project cost	The PIM has been reconciled and revised from 1.07 to 1.06. This has resulted in reduction of ₹1.40 crore in Project Completion cost.
2.	Road Transport and Highways	National Highway Authority of India	National Highways Authority of India (NHAI) awarded two different EPC contracts for two-laning of the Maheshkhunt–Saharsa–Purnea section of NH-107 (Package I and II) in Bihar. The contract's price adjustment clause mistakenly specified the Consumer Price Index for Industrial Workers (CPI-IW) of Haldia circle located in West Bengal, instead of circle located in Bihar as entire project lies in Bihar for calculation of price escalation. NHAI used CPI index of Haldia for calculation of price escalation for labour. As a result, NHAI made excess payment of ₹24.61 crore towards price escalation.	NHAI on 23 October 2024 issued a clarification which is reproduced below: In such EPC Projects with ambiguity in mismatch of Circle and States etc., the Consumer Price Index for Industrial workers is to be adopted of the nearest Circle of the State in which the project is being implemented and past payments are also to be reviewed/ adjusted.

Sl. No.	Name of the Ministry	Name of the PSU	Audit observation in brief	Action taken by the Management
3.	Road Transport and Highways	National Highways Logistics Management Limited	Ministry orders (16 February 2021) stipulated that vehicles not fitted with FASTag or without valid FASTag shall pay a fee equivalent to two times of the fee and to remit the same to the Central Government (Consolidated Fund of India) in accordance with sub-rule (1) and (2) of the Rule 7 of the National Highways Fee (Determination of Rules and Collection) Rules 2008. National Highways Logistics Management Limited (NHLML) received ₹21.22 crore towards FASTag penalty collected by a concessionaire. However, NHLML did not remit this amount to the CFI and accounted as the operating income of NHLML in financial statements. Thus, NHLML violated the Ministry's orders and did not comply the NH Fee Rules, 2008 by retaining ₹21.22 crore towards the FASTag penalty.	On being pointed out by Audit, Ministry issued directions (September 2025) to NHLML to remit the FASTag penalty to Consolidated Fund of India. Accordingly, NHLML remitted (January 2026) the entire amount of ₹21.22 crore collected as FASTag penalty till 2023-24 to Consolidated Fund of India. Earlier FASTag penalty of ₹3.41 crore pertaining to 2024-25 was remitted in July 2025.
4.	Petroleum and Natural Gas	Oil & Natural Gas Corporation	Following a 2009 MoPNG directive, ONGC fully funded and procured 23 Immediate Support Vessels (ISVs) for ₹349 crore to secure offshore assets, with the understanding that costs would be shared among all offshore E&P operators. Despite delivering the vessels to the Indian Navy in July 2015, the Ministry's failure to finalize a formal cost-sharing mechanism has resulted in	On refusal of private operators to spare the CAPEX incurred by ONGC, it was decided to seek special budgetary allocation from Ministry of Finance by formulating a Scheme-'Security Expenditure in offshore Areas'. The Scheme was proposed to include CAPEX reimbursement to ONGC and also provisioning for future maintenance of offshore security. Ministry of

Sl. No.	Name of the Ministry	Name of the PSU	Audit observation in brief	Action taken by the Management
			₹136.84 crore of ONGC's capital remaining blocked, alongside an associated interest loss of ₹15.39 crore.	Finance instructed to administrative ministry to reimburse the amount of ₹152.23 crore to ONGC on the basis of CAG para as a one-time exception and to issue directions to CPSEs not to incur expenditure in such matters without identifying the funding source.
5.	Petroleum and Natural Gas	Oil & Natural Gas Corporation	ONGC paid ₹233.13 crore as overtime to the employees of Assam Asset working on two days on/off pattern during the years 2016-17 to 2022-23 for working for same hours as their counterparts working on 14days on/off pattern. The Payment of overtime allowance is not in line with ONGC's circular dated 03 January 1992 for payment of overtime allowance to employees working on 14 days on/off pattern despite both category of employees working for same hours.	ONGC has discontinued payment of OT for employees working on 2 days on-off duty pattern w.e.f 01.02.2025. This has resulted in savings to the company to the extent approx. ₹37.02 crore on annual basis.

Annexure XV
(Referred to in Para 10.1)

Statement showing the details of Audit Reports (Commercial) for last five years for which first Action Taken Notes were pending

Sl. No.	No. & Year of Report	Name of Report	Para No.
	Ministry of Petroleum and Natural Gas		
1	2 of 2024	Compliance Audit	Chapter I
2	12 of 2024	Compliance Audit	2.1
3	18 of 2025	Compliance Audit	2.1, 2.2 & 2.3
4	39 of 2025	Compliance Audit	2.1, 2.2, 2.3 & 2.4
	Department of Investment and Public Asset Management		
5	12 of 2024	Compliance Audit	4.7
	Ministry of Coal		
6	18 of 2025	Compliance Audit	1.1,1.2 & 1.3
7	35 of 2025	Performance Audit	Entire Report
8	39 of 2025	Compliance Audit	1.1, 1.2 & 1.3
	Ministry of Heavy Industries		
9	15 of 2023	Compliance Audit	Chapter II
10	12 of 2024	Compliance Audit	5.1
11	18 of 2025	Compliance Audit	4.1
12	39 of 2025	Compliance Audit	4.1
	Department of Financial Services		
13	18 of 2025	Compliance Audit	3.1
	Ministry of Steel		
14	18 of 2025	Compliance Audit	5.1 & 5.2
15	38 of 2025	Performance Audit	Entire Report
16	39 of 2025	Compliance Audit	6.1 & 6.2
	Ministry of Civil Aviation		
17	18 of 2025	Compliance Audit	6.1
	Ministry of Ports, Shipping &Waterways		
18	18 of 2025	Compliance Audit	7.1 & 7.2

Sl. No.	No. & Year of Report	Name of Report	Para No.
	Ministry of Road Transport and Highway		
19	18 of 2025	Compliance Audit	8.1,8.2, 8.3 & 8.4
20	39 of 2025	Compliance Audit	7.1,7.2 & 7.3
	Ministry of Power		
21	39 of 2025	Compliance Audit	3.1 & 3.2
	Micro, Small, and Medium Enterprises		
22	39 of 2025	Compliance Audit	5.1

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