

ANDHRA PRADESH LEGISLATURE  
(ELEVENTH LEGISLATIVE ASSEMBLY)

13th REPORT

OF

THE COMMITTEE ON PUBLIC  
UNDERTAKINGS

(2000-2001)

ON

THE AUDIT PARAGRAPHS  
APPEARED IN THE REPORT OF THE  
COMPTROLLER AND AUDITOR  
GENERAL OF INDIA

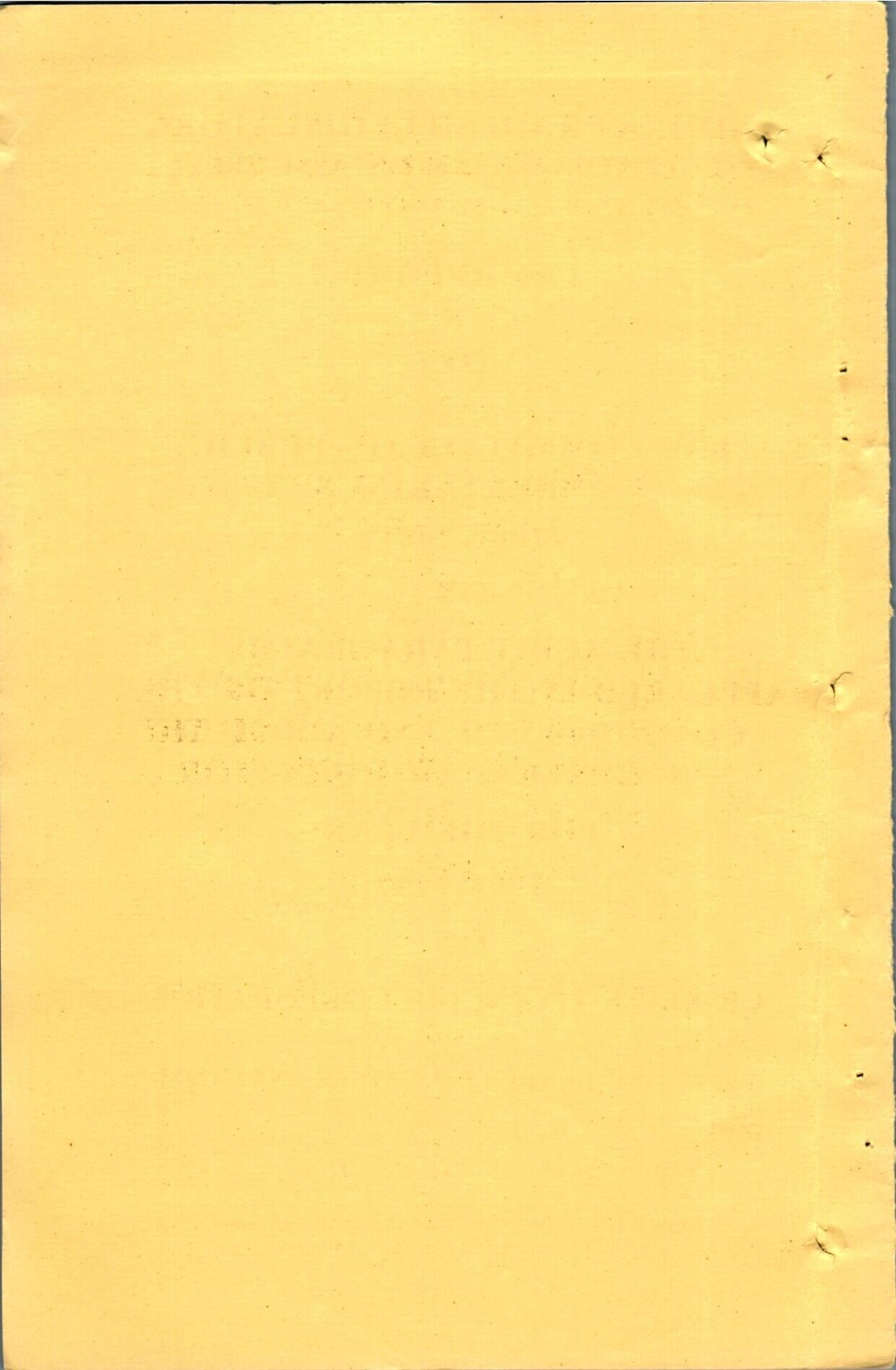
FOR THE YEAR

1996-1997

ON

A.P. STATE FINANCIAL CORPORATION

(PRESENTED TO THE LEGISLATURE ON 27-3-2002)



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**(PRESENTED TO THE LEGISLATURE ON 27-3-2002)**



COMMITTEE ON PUBLIC UNDERTAKINGS  
(2000-2001)

(Constituted on the 3rd April 2000)

CHAIRMAN:

1. Sri A.V. Suryanarayana Raju

MEMBERS:

2. Sri Balli Durga Prasad Rao
3. Sri S.A. Khaleel Basha
4. Sri P. Mahender Reddy
5. Smt. P. Anantha Lakshmi
6. Sri B. Janardhan
7. Sri R. Prakash Reddy
8. Sri Kondabala Koteswara Rao
9. Sri Kanna Lakshminarayana
10. Sri Patil Venugopala Reddy
11. Sri T. Jeevan Reddy
12. Sri N. Narsimhulu
13. Sri Kandula Nagarjuna Reddy
14. Sri Akbaruddin Owaisi

SPECIAL INVITEES:

15. Sri Reddy Satyanarayana
16. Sri M. Dharma Rao

LEGISLATURE SECRETARIAT:

1. Sri K. Tuljanand Singh, Secretary
2. Sri P. Kasi Raju, Deputy Secretary
3. Sri B. Padma Reddy, Assistant Secretary
4. Sri P. Sitaramulu, Section Officer



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## INTRODUCTION

I, the Chairman of the Committee on Public Undertakings (2000-2001) having been authorised by the Committee to present the Report on their behalf present this Report on A.P. State Financial Corporation.

The Committee on Public Undertakings have examined the Report of the C & AG of India (Commercial) for the year ended 31st March, 1997 at their sittings held on 19.10.2001 and 28.11.2001.

The Committee have considered and approved the said Report at their sitting held on 23rd March, 2002.

A record of proceedings of the sittings of the Committee which has been maintained forms part of this Report.

The Committee wishes to express their thanks to the Principal Secretary to Government, Industries and Commerce Department, the V.C. & M.D., A.P. State Financial Corporation for the cooperation they have extended.

The Committee places on record their appreciation of the assistance rendered to the Committee by the Accountant General (Audit-II), Andhra Pradesh, Dy. Accountant General (Commercial) and other officers and staff of the Accountant General's Office.

The Committee also places on record their appreciation of the assistance rendered to the Committee by the Secretary, Legislature and the other officers and Staff of Legislature Secretariat in the examination of the audit paras relating to the A.P. State Financial Corporation and in preparation of the Report.

Hyderabad,  
Dt. 23.03.2002.

A.V. SURYANARAYANA RAJU  
Chairman  
Committee on  
Public Undertakings.



## REPORT

### RECOMMENDATIONS ON 3 PARAS APPEARED IN THE AUDIT REPORT (C) FOR THE YEAR 1996-97 ON ANDHRA PRADESH STATE FINANCIAL CORPORATION

#### PARA 4 B.1.1:

#### 1. Extension of financial assistance for establishment of granite polishing unit:

1.1 The Corporation disbursed a total loan of Rs.1.65 crore to M/s Anand Granites (P) Ltd (the unit) for setting up of 100% Export Oriented Unit (EOU). The unit expected to commence its commercial production during August, 1991 but could not. Besides, in deviation to the approved line of activity, promoters carried on mining activity to produce raw granite blocks. As against Rs. 3.29 crore due for payment upto 1995-96 towards principal and interest the unit paid only Rs. 15.11 lakh towards interest. Due to default in payment the unit was seized in October, 1995 and put for sale. However, against the assets valued Rs. 2.82 crore available with the unit, the highest bid for sale received was Rs.1.54 crore which was not accepted. The Corporation has not even accepted the OTS (One Time Settlement) scheme for Rs. 1.98 crore.

1.2 The Corporation in its explanatory notes stated that it has decided to sell the unit to recover the dues.

1.3 The Chief General Manager in his oral evidence stated that if necessary, the Corporation would proceed against the personal properties of the promoters.

#### PARA 4B.1.2:

#### 2. Financial assistance to a mini steel plant:

2.1 The Corporation disbursed a loan of Rs.60 lakh to M/s Ganga Steels (P) Limited (the unit) in 1987 for setting up of a mini steel plant. Due to non-availability of the raw material and marketing problems, the unit incurred losses since inception despite change of place from Karimnagar district to Medak district and was finally closed in October, 1993. The unit incurred cumulative loss of Rs. 3.58 crore (cash loss of Rs. 2.98 crore) by the end of 1993-94. A sum of Rs. 0.72 lakh could only be recovered. At the end of 1995-96 an amount of Rs. 2.08 crore has fallen due for recovery. (principal Rs. 59.28 lakh and interest Rs.149 lakh). The Corporation failed to ensure the availability of raw material before financing the unit and the line of activity was not eligible for refinance from IDBI.

2.2 The Corporation in its oral evidence stated that an amount of Rs. 99.28 lakh against Rs. 59.28 lakh towards principal and Rs. 40 lakh towards interest was paid by the unit in 2001 as a final settlement.

**PARA 4B.1.3:**

3. Extension of financial assistance to an unviable unit (M/s Malcom Abrasives (P) Ltd. Mahabubnagar)

3.1 The Corporation disbursed a loan of Rs. 61.31 lakh during April, 1988 to March, 1990 for manufacturing of Silicon Carbide Grains. Electric Power and Raw petroleum Coke are the main raw materials for manufacturing of the product. The unit commenced trial production in September, 1990 and continued upto 1992-93 and became sick thereafter. The main reasons for sickness was rise in power tariff which was the main raw material for the manufacturing of the product. The Corporation could not ensure the same at the time of disbursement of loan. The unit was seized in June, 1994. A sum of Rs. 0.93 lakh could only be recovered leaving a balance of Rs. 60.38 lakh. Interest accrued upto April, 1995 amounted to Rs. 46.35 lakh. Interest for the subsequent period was not assessed. The assets of the unit were valued at Rs. 54.15 lakh against the book value of Rs. 88.43 lakh. The unit was put for sale.

3.2 The Corporation in its explanatory notes stated that the appraisals of the Corporation were correct as per the conditions prevailed at the time of the appraisal.

3.3 The Chief General Manager in his oral evidence stated that advertisements were given for sale of the unit, in five occasions and there was no response. The Corporation is trying to sell the land and buildings.

3.4 The Chief General Manager also stated that in all the cases only urban property is being taken as collateral security. Regarding monitoring by appointing a nominee director in all the loanee organisations, he also stated that as the number of loanees are more it is not possible to monitor the performance of each unit by nominating a director in the Board of the loanee organisation.

3.5 The Managing Director of the Corporation in his oral evidence also stated that

1) in the OTS' system entire loan amount has never been written off,

2) from next year onwards, there would be special invitee in each loanee organisation for monitoring the performance of the assisted units,

3) the sickness, some times may be, because of improper evaluation of the project report submitted by the loanee Company.

### 3.6 Recommendation:

The Committee recommends that the following steps shall be taken up by the Corporation for safeguarding the interest of the Corporation:

(i) the Corporation shall improve the system of assessment of the viability of the units for which loans are being sanctioned,

(ii) the system of valuation of assets of the loanee organisation for implementing the scheme of One Time Settlement (OTS) or at the time of seizure of the units on default of payment shall be on realistic method,

(iii) the maintenance of monitoring cell for monitoring the performance of the loanee organisation shall be strengthened,

iv) meeting of the Board of Directors of the assisted units, shall be attended by the nominee directors with out fail for proper monitoring of the functioning of the loanee organisation.

(v) proper collateral security shall also be obtained to maintain control over the loanee organisation.

(vi) The Committee also recommends that the above 3 cases shall be settled and a report on the same shall be submitted to the Committee by September 2002.

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