

Annexure I

Impact of sickness on the CPSEs selected for audit

Impact of sickness of the CPSEs on debt management and employment:

S.No.	Name of the CPSE	Impact of sickness
1.	NTC	<p>Due to sickness, 77 mills (out of 119 mills) had to be closed down. Upto 30.06.2011, 62575 employees were relieved under VRS after incurring an expenditure of ₹ 2374.44 crore.</p> <p>The negative net worth and continuous cash losses had adversely affected the Company's ability to repay debts and service loans. The total borrowings (including interest) at the time of first approval of its revival scheme in 2002 had accumulated to ₹ 8174.43 crore.</p>
2.	HOCL	<p>Due to sickness, it was envisaged that 590 surplus employees would be relieved under VRS. However, only 83 employees opted for VRS and compensation paid on this account was ₹ 10.49 crore.</p> <p>The company had outstanding bonds and public deposits and overdue interest thereon, seriously affecting the liquidity position. Further, the borrowings of the Company for implementing VRS carrying interest rate of 12.25 per cent were offsetting the savings in salary of the VRS employees. Since the company was incurring cash losses, it was not in a position to repay the debts which had accumulated to ₹ 455.36 crore at the time of sickness. This had serious repercussions like complaints from the investors, and threat for filing winding up petitions. Due to non payment to suppliers, the supply of the raw materials and services was also seriously affected.</p>
3.	CCI	<p>Due to sickness, all the 7 non-operating units have been closed and 3374 employees separated under VRS/ VSS. The surplus employees could not be relieved in one unit (Adilabad) where a status quo order was passed by High Court.</p> <p>Due to paucity of funds, CCI was not able to generate sufficient funds for working capital, its net worth became negative and it was not able to service the then existing loans. The total borrowings (including interest) at the time of</p>

		<p>sickness were ₹ 590.65 crore which had increased to ₹ 882.88 crore at the time of approval of scheme.</p> <p>Besides, consequent to sickness, banks and financial institutions had to waive off interest payable by CCI amounting to ₹ 112.16 crore.</p>
4.	HMT Machine Tools	<p>Non-revision of wages has resulted in de-motivation/ low morale of employees. As superannuation age has been retained at 58 years instead of 60 years, skilled and qualified personnel are retiring early and the Company has lost their services. 4320 employees were relieved under VRS and compensation of ₹ 329.55 crore has been paid.</p> <p>The Company is utilising cash credit facility from banks and also availing loans from GOI. The Company has not been able to repay debts/ service loans obtained from GOI.</p> <p>The total borrowings (including interest) at the time of sickness had accumulated to ₹ 324.46 crore.</p>
5.	ECL	<p>Since declaration of sickness, 23299 employees have been relieved under VRS after incurring an expenditure of ₹ 678.76 crore.</p> <p>The total borrowings of the company at the time of sickness had accumulated to ₹ 1014.30 crore.</p>
6.	FACT	<p>There was no impact upon employment in FACT Ltd as a result of sickness since no employee retrenchment scheme was formulated by the Company consequent to its sickness.</p> <p>Sickness adversely affected the debt service ability of the company. At the time of sickness, the borrowings stood at ₹ 867.37 crore including bank loans of ₹ 176.57 crore.</p>
7.	BCL	<p>Number of employees came down from 2671 in 1999-2000 to 546 in 2005-06 and to 412 in 2010-11. The same was possible based on implementation of roll back of retiring age from 60 years to 58 years through which 809 employees retired in 2000-01. Secondly, VRS was implemented on eight occasions during 2001-02 to 2004-05 through which 815 employees were relieved. The roll back and VRS were financed through Non-plan loans provided by the GOI amounting to ₹ 41.79 crore.</p> <p>The total borrowings (including interest) at the time of sickness had accumulated to ₹ 7155.32 crore.</p>
8.	HEC	<p>Due to sickness, 9007 employees had to be relieved under VRS after incurring an expenditure of ₹ 193 crore.</p>

		Sickness adversely affected the borrowing position of the Company, its ability to service loans and pay debts. Total borrowings (including interest) at the time of sickness were ₹ 294.99 crore which further increased to ₹ 627.79 crore in 1996 when a scheme was sanctioned by BIFR. The borrowings further increased to 1116.29 crore in 2005 when a fresh revival scheme was approved by GOI.
9.	NPCC	<p>Due to sickness, wage revision to workmen due from 1997 could not be done. Provident fund dues and other dues of the employees could not be deposited timely with concerned authorities.</p> <p>Employees numbering 115, 109 and 29 were retrenched/relieved under VRS in the year 2005-06, 2006-07 and 2007-08 respectively after incurring expenditure of ₹ 10.04 crore. After the approval of scheme in December 2008, wage revision with effect from July 2007 was implemented in 2010-11.</p> <p>Besides, sickness in NPCC resulted in accumulation of GOI loan of ₹ 235.23 crore with interest of ₹ 434.65 crore. Further, due to sickness, banks and financial institutions had to waive off loans of ₹ 13.55 crore and interest of ₹ 33.98 crore.</p>
10.	NEPA*	<p>After the company was referred to BIFR in September 1998, the recruitment has been stopped at all levels except at statutory posts. This has created vacancy on most of the hierarchy and has adversely affected the administration and performance of the company.</p> <p>After the company became sick, 1511 employees were relieved under VRS. The company has taken loan from GOI to pay the salary, VRS and for civil works of the Company. The Company is facing scarcity of funds from 1998 due to which it is unable to repay the interest as well as principal amount of loan raised from GOI.</p> <p>For meeting salary and VRS expenditure, the Company from time to time has been receiving non-plan loan from GOI. The GOI loans outstanding at the time of sickness were ₹ 5.00 crore which increased to ₹ 224.22 crore as on 30.11.2011 with an outstanding interest of ₹ 303.81 crore.</p>

* Revival scheme is pending for approval from GOI.

Annexure II

Ministry-wise break-up of the CPSEs selected for Performance Audit

S.No.	Ministry/ Department	No. of sick CPSEs whose schemes were approved by GOI	No. of sick CPSEs selected	Names of sick CPSEs selected
1.	Agriculture	1	0	-
2.	Chemicals & Fertilisers	5	2	HOCL, FACT
3.	Coal	1	1	ECL
4.	Heavy Industries	15	3	CCI, HEC, HMT(MT)
5.	Housing & Urban Poverty Alleviation	1	0	-
6.	Mines	2	0	-
7.	Railways	3	1	BCL
8.	Science & Technology	1	0	-
9.	Shipping	1	0	-
10.	Steel	2	0	-
11.	Textiles	2	1	NTC
12.	Water Resources	1	1	NPCC
	TOTAL	35	9	

Annexure-III

RECOMMENDATIONS OF COMMITTEE ON PUBLIC UNDERTAKINGS (COPU) ON PERFORMANCE AUDIT REPORT ON “SALE OF SURPLUS LAND AND BUILDINGS BY NTC LTD”

1. National Textile Corporation Limited (Company) incorporated with the main objective of managing the affairs of sick textile undertakings taken over by the Government of India (GOI), was managing 119 textile mills through its nine subsidiaries. Of these, eight subsidiaries were declared sick between 1992 and 1994 under the Sick Industrial Companies (Special Provisions) Act, 1985. In the year 2002, the Board for Industrial Finance and Reconstruction (BIFR)/GOI approved revival scheme for these sick subsidiaries envisaging modernization of 53 viable mills and closure of 66 unviable mills at an estimated cost of ₹3937 crore. The scheme was self-financing and the funds realized from sale of surplus assets of NTC mills were to be utilized for revival/ modernization. However, this scheme could not be implemented, as envisaged, due to non-availability of funds through sale of surplus assets mainly on account of delay in getting the permission for sale of land of the mills from the State Governments concerned and implementation period of the scheme was extended from 31st March, 2004 to 31st March, 2006. Meanwhile, the remaining one subsidiary of the Company was also declared sick in December, 2005 and a modified rehabilitation scheme (MS-2006) costing ₹5267.56 crore was submitted to BIFR in January, 2006 which was approved in March, 2006. The implementation period of MS-2006 was upto 31st March, 2008. The Committee’s examination has revealed that the Company could not achieve the precise objectives of modernization/ revival of mills, reduced manpower strength and sale of surplus assets as envisaged in the modified scheme even after extension of implementation period for a further period of one year under another modified scheme of 2008 approved by BIFR. Although the Company is stated to have generated ₹4034.60 crore by sale of assets of the closed mills and surplus assets of the viable mills upto 30th September, 2009, the fact remains that the process of revival/modernization and the sale of almost half of surplus land of NTC mills is yet to be completed. Obviously, the Company and the administrative Ministry have failed to identify the weak spots in the implementation of the scheme from every possible angle despite grant of extension of implementation period from time to time under modified schemes. Now that a proposal for extension of revival scheme upto 31st March, 2011 is stated to be under consideration for approval of the Union Cabinet, the Committee desire that effective and concrete steps should be taken by the Ministry of Textiles to ensure proper implementation and realization of objectives of the revival scheme within the proposed extended period.
2. The Committee note that the revival scheme for NTC envisaged compliance of BIFR/GOI guidelines and instructions issued by the Company for sale of surplus land and buildings. The process of sale was to be operated in such a manner as

to generate maximum resources for the revival plan and to ensure that the sale was conducted in a transparent and fair manner. The findings contained in the Audit review covering the sale of surplus land and buildings between 1st April, 2002 and 31st March, 2008 in six of the nine sub-offices of the Company and further examination of the subject matter by the Committee have brought out several inadequacies in the systems and procedures adopted by the Company during sale process of its surplus land and buildings. Some such important aspects have been dealt with in the succeeding paragraphs of this Report.

3. Committee desire that the Ministry of Textiles should lay down precise guidelines in this regard so as to obviate recurrence of instances of sale of land and buildings beyond the purview of revival scheme approved by BIFR/GOI. The Committee would also like the Ministry to make it mandatory that land measurements are carried out by the Company before offering any property for sale.

4. (a). Non-observance of procedure for valuation of properties

The Committee note that the procedure devised by the Company in November, 2002 for sale of fixed assets envisaged that the ASC should determine reserve price of land on the basis of average of three valuations, namely, valuation in Draft Rehabilitation Scheme(DRS) approved by BIFR, Valuation given by Property Consultants and the Valuation by the Central Board of Direct Taxes (CBDT). In November, 2004, the GOI further directed that the reserve price should not be less than Minimum Assured Return (MAR) in case of properties in Mumbai, where Marketing Consultants had quoted MAR. It was, however, observed in Audit that all the three valuation factors were considered in only 27 cases out of 79 cases of sale of land. Strangely enough, while only one or two valuations factors were considered in 37 cases, none of the prescribed valuation factors are reported to be considered at the time of fixing the reserve price in as many as 15 cases. In the opinion of the Committee, these cases of blatant procedural violations clearly reveal the scant regard shown by the ASC towards Company's precise guidelines for fixation of reserve price. The Committee, therefore, recommend that the Ministry of Textiles should identify the level at which these lapses had occurred and contemplate establishing an effective monitoring system to ensure that the guidelines/directions issued for sale of remaining surplus land of NTC mills are scrupulously followed in future.

5. (b). CBDT Valuations

The audit review reveals that out of 66 cases of sale of land through tender, CBDT valuation of 1994-95 and 1998-99 was considered for fixation of reserve price in 29 cases during April, 2002 to March, 2008. However, the CBDT valuation was not indexed to the year of fixation of reserve price for arriving at realistic value. During his evidence before the Committee, the CMD, NTC deposed "I have gone through the records of the Company and I have found that CBDT was involved in the valuation of land once in 1995-96 period. After that when the Company approached them, they have not agreed." The Company, however,

could not produce any documentary evidence portraying unwillingness by CBDT for undertaking valuation of NTC properties leading the Committee to believe that NTC did not invariably involve CBDT in the process of fixation of reserve price in accordance with their own specific guidelines issued in November, 2002. At this stage, the Committee express their strong displeasure over the manner in which the valuation of CBDT was not given due consideration for fixation of reserve price in all cases as stipulated in the guidelines issued by the Company in November, 2002. The Committee, therefore, desire that the Ministry of Textiles should involve expert agencies of the Government like CPWD and CBDT in the process of valuation of NTC properties to be offered for sale in the coming years.

6. (c). MAR Valuation

The Committee note that the GOI's direction stipulated that the reserve price in case of properties in Mumbai should not be less than MAR, where marketing consultants had quoted the same. They, however, find that the Company had no system of vetting valuation reports and MAR given by the consultants with the result that there were wide variations between sale value realized and MAR quoted by the consultants. According to the Audit, such variations ranged between 94.3% and 279.28% in the case of 5 land parcels for which MAR was obtained. The Committee are not convinced with the reply of the Company that MAR was arrived at by best international real estate consultant and there was no reason for NTC to question their wisdom. On the other hand, the Committee are of firm view that MAR reports obtained by the Company did not give the realistic market value of the land parcels offered for sale as is evident from the substantially high sale value realized by the Company in all these cases. At this stage, the Committee can only conclude that the purpose of obtaining MAR for the purposes of fixation of best price/reserve price could not be achieved.

7. (d). Fair Market Value

The Committee note that the GOI directed in April, 2005 that the ASC should take a decision on the reserve price keeping it as close to the market value as possible. The Committee's examination, has, however, brought out that there were wide variations between the reserve price fixed and the actual sale value realized in a number of cases on the basis of valuation done by the ASC. The self-admission of the Company that it had realized 180% to 350% higher than the reserve price fixed for the sale of properties in Mumbai is a clear indicator that no system had been put in place to assess the fair market value of the properties in accordance with the GOI directives. Whatever may be the claims of the Company for sale value realizations for NTC's properties in Mumbai, the fact remains that the reserve prices fixed by the ASC in the instant cases were nowhere near the market prices realized by the Company. The Committee expressed their strong displeasure over the failure of the Company to devise an effective system to assess the fair market value of NTC properties before offering them for sale so as to ensure realization of maximum possible revenue. The

Committee, therefore, recommend that the Ministry of Textiles should now devise suitable procedures for assessing fair market value of NTC properties being offered for sale and ensure strict compliance of such procedures within the laid down policies.

8. Defects in Tender Documents

The Committee are constrained to observe that the information disclosed in the tender documents issued for sale of assets in a number of cases was either incorrect or ambiguous and that the Company had not established any system for verification of the contents of the tender documents. Prominent among these cases related to Mumbai Textile Mill, Apollo Textile Mill and Chalisgaon Textile Mill where Audit has estimated a loss of ₹185.10 crore to the Company. The audit observations and the replies of the Ministry in these cases have been briefly enumerated in the following paragraphs:

(i) Mumbai Textile Mill, Mumbai

The Audit has pointed out that the tender document for sale of land of the Mill stated that the mill area consisting of 67,293.17 square metre bearing CSNo.464 (admeasuring 65,993.17 square metre) and CS No.4/464 (Marwari Chowka Chawl admeasuring 1300 Square metre) was offered for sale. While the Company had no intention for sale of land of Marwari Chowka Chawl, it was wrongly included in the tender document. Further, the sale deed and the possession letter specifying the boundaries of the land sold did not include area of Marwari Chowka Chawl. Subsequently, the purchaser asked for possession of Marwari Chowka Chawl also since it was included in the tender document. The ASC accepted the fact that the parcel of land of 1300 square metre was wrongly included in the tender document and the possession and ownership of this land worth ₹ 13.56 crore was given to the private party without any consideration besides the liability of about ₹5.23 crore to rehabilitate 24 occupants of Chawl was owned by the Company resulting in loss of ₹ 18.79 crore. NTC admitted the fact that land of 1300 square metre was occupied by Chawl and had not appeared in the lay out plan due to mistake. While contending that the mistake of non-disclosure of Marwari Chowka Chawl had not been liable for any loss to the Company, the reply of NTC is strangely and conspicuously silent on the audit observations on handing over the possession of 1300 square metre plot without any consideration and the liability owned by the Company for rehabilitation of occupants of Marwari Chowka Chawl.

(ii) Apollo Textile Mill, Mumbai

The Audit has brought out that the Company had received lesser amount in tendered bids by not disclosing the vital information about the feasibility of access to the Main Road which was allowed later on. This enhanced the value of the land resulting in loss of ₹165.80 crore to the Company after deducting consideration received for right to access to main road.

NTC has informed the Committee that originally, the property was tendered in 2005 giving all the particulars known to the Company. Later on, in 2006, a provision for road was made as per the town planning and thus it cannot be presumed as deficiency in tender document.

(iii) Chalisgaon Textile Mill, Chalisgaon

According to the Audit, six plots of land of the Mills were sold to the highest bidder and the purchaser did not pay second and final installment due on the plea that in the tender document the Company had wrongly mentioned the land to be in residential zone though it was in industrial zone. This incorrect information in tender document resulted in delay in receipt of sale proceeds for which no interest was recovered and the Company lost interest of ₹51 lakh calculated on the basis of 18 per cent per annum.

Responding to the Audit observation, NTC stated that the State Government/local municipal authorities were reluctant to grant approvals for change of zone. Since NTC was in financial crunch during that period, it was decided to sell the land on 'as is where is' basis for survival of the Company and the tenders were floated before obtaining change of zone.

Explaining its failure to establish a proper system for verification of all the facts included in tender documents, the Company put forth the plea that NTC had no expertise of sale of land and it had resorted to execute sale of assets only to implement the revival scheme approved by the BIFR. Going by the self admission of the Company that the defects in the tender documents had occurred due to inadequacy of the system, the Committee are of the firm opinion that the casual approach on the part of the Company and the failure of the Ministry to devise a foolproof system in this regard ultimately proved detrimental to the financial interests of the Company. The Committee, therefore, recommend that all the cases of loss due to defective tender documents as pointed out by Audit should be thoroughly enquired into at the highest level in the Ministry of Textiles and responsibility fixed for such costly lapses. The Committee would like to be informed of the action taken in each such case.

9. Sale below the Registration Rates and Reserve Prices

During the course of their examination, the Committee's attention has also been drawn to certain cases of sale of NTC properties below the prevailing registration rates and the reserve price in contravention of the GOI directives issued in November, 2004. NTC has pleaded that the Company cannot indefinitely keep on retendering if a property after repeated attempts is not taken for the reserve price fixed by the Company. At the same time, NTC has assured the Committee that the "GOI is reviewing the guidelines for fixation of the reserve price with a view to refining and improving the system and achieving optimum realization from sale of assets." The Committee hope that earnest efforts would be made by the Ministry of Textiles to ensure

compliance of their new guidelines in the best financial interest of the Company.

10. Sale without Following Tender Process

The Committee's scrutiny of the information made available to them brings out that the procedure and guidelines to be followed by ASC, issued in March, 2002 as per BIFR Order-2002 clearly stipulated that the "Sale of assets should be effected by way of public sale through sealed tenders, after adequate notice is given to the public through advertisements.....". Further, one of the specific functions assigned to the ASC constituted from time to time was to ensure that the sale was conducted in a fair and transparent manner and through open notification. The audit review has, however, brought out that the sale was made without following tender process in a number of cases. While furnishing the reasons for not following guidelines in these cases, NTC pleaded that the Company could not resort to the public tender system in some cases which were of exceptional nature due to reasons such as accessibility of the plot, size of the plot, consistent litigations, defects in title and orders issued by the local authorities for earmarking the land for road network, etc. While giving due credence to exceptional nature of some of these cases, the Committee cannot accept the accessibility, size and location of some of the properties as valid reasons for not resorting to its sale without following tender process. While taking a serious view of these instances of deviation from stipulated guidelines, the Committee recommend that the Government should now incorporate an effective system of review of the decisions taken by the Company in all such cases where any departure is made from the directions/guidelines issued for the implementation of the revival schemes.

11. Inconsistencies among guidelines and the procedures

During their examination of the subject, the Committee's attention has also been drawn to the fact that there were inconsistencies among the guidelines issued by the BIFR/GOI and the procedures laid down by the Company resulting in revenue loss to the Company. These included: fixation of earnest money deposit (EMD) by the Company at a lower rate; non receipt of EMD in Demand Draft; and grant of extension ranging from 96 days to 1371 days for payment beyond 60 days from the due date of payment without charging interest leviable on delayed payments. According to the Audit, the Company stated during September, 2008 that ASC was an empowered body to decide the issues relating to the sale of surplus assets and to decide the guidelines depending upon the situation and circumstances. The Company also maintained that the ASC was fully empowered to extend the period beyond 60 days. During the examination of the subject, the Company, however, informed the Committee that the ASC constituted by the Government has no authority to evolve procedures going beyond the guidelines of the BIFR and the deviations pointed out have to be examined on a case to case basis so as to take a final view in the matter. The Committee strongly recommend that the

Company/ Ministry should fix responsibility for these blatant acts of procedural irregularities.

12. Need for Improving Systems

During the examination of the subject matter, NTC has repeatedly pleaded before the Committee that the Company has never been in the business of selling assets and this has been a new area of activity on account of implementation of the revival scheme. The Committee are constrained to observe that most of the issues/shortcomings pointed out by the Audit could have been avoided had the Company devised systems and procedures strictly in accordance with the BIFR guidelines and acted accordingly thereon. Having taken note of the assurance given by the Company that it will review the existing policy on the basis of suggestions of Audit and make modifications required for implementation in all future cases of sale, the Committee firmly desire that the Company should amend its system of valuation and sale of assets without further delay.

13. To sum up, the examination of the subject matter relating to sale of surplus properties by NTC has revealed several shortcomings/irregularities. According to the Audit findings, Company either suffered losses or lost opportunities to earn in the following cases:-

- (a) Defects in tender documents (loss of ₹185.10 crore);
- (b) Sale below registration rates (loss of potential revenue of ₹10.43 crore);
- (c) Sale below reserve price (loss of potential revenue of ₹84.35 lakh);
- (d) Inconsistencies in the guidelines (loss of potential revenue of ₹49.60 crore).

The Committee are of the considered view that the Ministry and the Company have not made any sincere efforts to realize optimum value of the properties sold. The Committee, therefore, strongly desire that the Ministry of Textiles and the Company should take concrete measures to fully exploit the market conditions for optimal gains to the advantage of the Company in respect of the sale of remaining surplus assets.