

## Chapter III

### 3. Thematic Audit

#### Land Allotments by Andhra Pradesh Industrial Infrastructure Corporation Limited

#### Executive Summary

*Alienation/ acquisition and allotment of land to private parties is a major activity undertaken by the Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC). Audit has commented on land allotments by APIIC and instances of undue favours granted to private parties by APIIC and Government of Andhra Pradesh (GoAP) in recent Audit Reports (viz., 2006-07-Commercial and 2011-12-Civil). However, in order to present a comprehensive picture of land acquisition/ alienation and allotments by APIIC, a thematic audit on this subject, covering the Corporate Office of APIIC and 8 out of its 16 Zonal Offices was conducted in May to July 2012. The audited sample of 1096 cases involved 43,920 acres of land, covering 78 per cent of the total land allotment during 2006-12. The main findings and recommendations arising out of the thematic audit are summarized below.*

#### **Sale/Lease of land in advance possession of APIIC pending alienation by GoAP**

*Alienation orders of GoAP had not been received for 49,046 acres of land, which APIIC had already taken advance possession. Consequently, APIIC was making sales/lease to private parties based on the tentative market value of land.*

#### **Irregularities in allotment/ alienation**

- Deficiencies in the award and implementation of the project for development of 'Integrated Vizag Knowledge City' over 1750 acres of land, with corresponding undue favour to the successful bidder and allottee, Unitech Ltd, besides substantial post-bid changes such that the Development Agreement bore virtually no resemblance to the project terms and conditions envisaged at the time of bidding, in detriment to the financial interests of APIIC.*
- Instances of allotment of land to private parties at rates well below the market value or well below acquisition cost'; notable instances of such allotment at irregularly low rates were to East Coast Energy Ltd., MLR Motors Pvt. Ltd, Orient Craft Fashion Institute of Technology, Krishnapatnam Power Corporation Ltd., and Kineta Power Pvt. Ltd., involving losses of ₹48.84 crore.*
- 82 allotments by APIIC at rates lower than those of APIIC's own Price Fixation Committee (PFC); notable instances of such allotments were to J.T. Holdings, Hyderabad Gems Ltd., Hetero Drugs Ltd., Aurobindo Pharma Ltd., and Gujarat NRE Coke Ltd., involving losses of*

₹ 69.83 crore. There were also instances of allotment of land by APIIC before fixation of cost by its Price Fixation Committee (PFC), which resulted in loss of ₹ 25.09 crore in respect of six cases.

- Other deficiencies in allotment detrimental to APIIC's financial interests, including allotment at reduced rates leading to the allottees undue benefit of ₹ 44.07 crore.
- Short-levy/ non-levy of service charges and process fee amounting to ₹ 65.37 crore, non-levy of commercial rates for commercial activities in Industrial/ IT Parks with loss of revenue of ₹ 16.13 crore, short-levy of conversion fee for non-agricultural purposes of ₹ 6.40 crore.
- Irregularities in allotments of land on lease basis by APIIC in several cases, notably in respect of Samuha Engineering Industries Ltd. with undue favour of ₹ 61.24 crore. Other cases of irregularities in lease allotment included Solar Semiconductor Pvt. Ltd., and XL Telecom & Energy Ltd. in Fab City (Rangareddy District) and Thermal Power Tech Corporation India Ltd., (SPS Nellore District), with loss of revenue of ₹ 25.99 crore.

#### **Non-achievement/ partial achievement of objectives**

Out of 6038 allotments, 4220 allotments during 2006-10 should have been completed within 2 years. Of these, 1204 units (involving 15292 acres of land) were yet to even commence implementation. Audit scrutiny also revealed instances of non-fulfillment of targeted objectives of investment and employment generation for various industries, despite the rebate for land cost.

### 3.1. Background

Andhra Pradesh Industrial Infrastructure Corporation Limited (APIIC) was incorporated in September 1973 as a wholly owned undertaking of the Government of Andhra Pradesh (GoAP) with the objective of providing industrial infrastructure through the development of industrial areas. APIIC has developed more than 300 Industrial Parks (IPs), as well as industrial sheds, dormitory units and commercial shops. APIIC is also developing sector focused parks (e.g. apparel parks, food processing parks and leather parks) as well as Special Economic Zones (SEZs) in the State. It has also developed a HITEC City<sup>34</sup> as a PPP (Public-Private Partnership) project, and is acting as a principal facilitator in various “mega projects”.

APIIC is managed by a Board of Directors (headed by a Chairman) and a Vice-Chairman & Managing Director (VC&MD), who is its Chief Executive. He is assisted by two Executive Directors (EDs); functional heads for land acquisition, engineering, projects, finance, legal and administration and two Chief Engineers; and 16 Zonal Managers at the field level.

### 3.2. Land alienation/ allotments by APIIC

Alienation/ acquisition and allotment of land (in industrial parks, SEZ etc. as well as through various “mega projects” and other projects) to private parties is a major activity of APIIC during the last few years.

As of March 2012, APIIC had acquired 139372 acre land since inception. During 2006-12, APIIC acquired 73,992 acres of land at a cost of ₹ 5717 crore<sup>35</sup>, and developed 22,103 acres at a cost of ₹ 767 crore. It allotted 56,003 acres of land (both developed and undeveloped) to 6038 allottees for a consideration of ₹ 6206 crore. The allotment of undeveloped lands over developed industrial plots has been on the increase, due to bulk allotments on Outright Sale (ORS) basis – 96 *per cent* of the land allotted (53,849 acres for ₹ 5744 crore) was on ORS basis. A year-wise profile of acquisition and allotment during 2006-12 is given below:

*Table 3.1 - Land acquisition/ allotment by APIIC during 2006-12<sup>36</sup>*

Year	Land acquired/ alienated (acres)	Land developed (acres)	Land allotted (acres)	Sale consideration (₹ crore)
2006-07	6507	4236	4387	1078
2007-08	22145	4058	9212	2983
2008-09	25525	3861	14987	630
2009-10	8996	8729	14829	672
2010-11	7582	784	8754	474
2011-12	3237	435	3834	369
<b>Total</b>	<b>73992</b>	<b>22103</b>	<b>56003</b>	<b>6206</b>

<sup>34</sup> Hyderabad Information Technology and Engineering Consultancy (HITEC) City

<sup>35</sup> Excluding cases where APIIC had taken advance possession but alienation proceedings were pending, which are substantial.

<sup>36</sup> Source: data as provided by APIIC.

### 3.3. Land Alienation/ Allotment Procedures

#### 3.3.1. Procedure for Alienation of Government Land by GoAP

Standing Orders of the erstwhile Board of Revenue (BSO) and the Andhra Pradesh (Telengana) Alienation of State Lands and Land Revenue Rules, 1975 authorise GoAP to alienate land for *bona fide* public purposes either free of cost (for public interest) or on payment of full or concessional market value (MV) (for private purpose). MV, as per AP Land Acquisition Act, 1894, is the price obtained with reference to the date notified for its acquisition by sale of adjacent lands with similar advantages.

Alienation of land is done by the Government through issue of an alienation order in favour of an applicant. The procedure for alienating Government land is as follows:

- On receipt of application for requirement of land, it is processed by the local revenue authorities;
- Land is identified by the District Collector (DC) and notice calling for objections is published in the village within 15 days, which are disposed off on merit;
- Resolution of Gram Panchayat/ Municipal Council are also obtained, if the land falls within the limits of Gram Panchayat/ Municipality;
- Depending on the powers of the competent authority (linked to the area of land and its MV) recommendations of the DC are examined by the Empowered Committee<sup>37</sup> and recommendations thereof are placed before the Council of Ministers (CoM). After approval of the CoM, Government orders are issued for alienation;
- On issue of orders by the competent authority and after collection of land value, changes in the status of the land are incorporated in the Mandal/Village records.
- In cases of emergency, the BSO permits handing over the possession of land in advance, pending formal approval of the alienation process.

#### 3.3.2. Procedure for Acquisition of Private Land by Government

Section 3 of the AP Land Acquisition Act, 1894 empowers Government to acquire private land for public purpose. The process involves several stages, which are summarized below:

- **Preliminary Proceedings** – The requisitioning Department sends an application to the Revenue authorities, indicating the purpose of acquisition, provision of funds, along with details of the land, and the officer to be nominated for joint inspection. In scheduled areas, Gram Sabha/ Panchayat is to be consulted, before taking up acquisition.
- **Draft Notification (DN) under Section 4(1)** – The DN, published in the Official Gazette and two daily newspapers, is crucial for determination of MV. It also empowers authorised officers to conduct survey/ joint

---

<sup>37</sup> Headed by the Chief Commissioner of Land Acquisition (CCLA) at the State level.

inspection of the land. Any interested persons can give their views within 30 days of DN, if any, that the land is not required for a public purpose. The DC; after giving the objectors an opportunity of being heard and further inquiry, shall under Section 5-A, give his recommendations, which shall be final.

- **Draft Declaration (DD) under Section 6** – After considering the report under Section 5-A, Government/ Collector shall issue a Draft Declaration (DD) within one year of the DN. After the DD, the Collector shall issue the order for acquisition.
- **Preliminary Valuation, Award etc.** – Upon issue of DD, preliminary valuation is carried out taking previous three years sale transaction as base. A notice is issued for inviting the claim for compensation and after enquiry the DC (with the approval of the GoAP) passes the award determining the area of land, compensation to be given to pattadar and the payment is made after acquisition of land
- **Special powers in case of urgency** – In case of urgency, the Collector can invoke the provisions of Section 17, and take possession after publication of notice under Section 9(1) of the Act, before passing the award; however, before taking possession, the Collector shall tender 80 *per cent* payment of compensation

### 3.3.3. Procedure for Allotment of Land by APIIC

APIIC formulated the ‘APIIC Allotment Regulations, 1998’, (with amendments being carried out from time to time), which prescribe the procedures and matters relating to applications, for allotment and their scrutiny, fixation of cost of plot/shed, auction, payments by allottees, allotment of alternate plots, execution of agreement for sale and sale deed, cancellations, restoration, refunds etc. The procedure followed by APIIC for allotment of land is summarised below:

- After development of new industrial areas, a notification is published in two daily news papers, which are widely circulated, inviting applications for establishment of industry. Also in case of existing industrial areas, APIIC displays the vacancy position on the notice board of the concerned Estate Office/District Industries Centers (DICs). From August 2011 onwards, APIIC is also inviting applications ‘online’. In respect of MoUs entered into by the State Government, the land is also being allotted as recommended by GoAP.
- Applications received along with requisite documents are scrutinized and placed before the concerned Allotment Committee, which then recommends allotment of plots. GoAP has constituted District Level Allotment Committees (DLACs)<sup>38</sup> for processing the applications for allotment of land/sheds, in the industrial parks of APIIC.
- Up to 31 March 2005, applications received for allotments up to five acres, were approved by DLAC, while those above five acres were sent to

<sup>38</sup> APIIC’s Zonal Manager as its Chairman, with representatives/members from District Industries Centre, Andhra Pradesh Pollution Control Board (APPCB), and Andhra Pradesh State Financial Corporation (APSFC) etc.

the Corporate Office for approval. After 1 April 2011, APIIC's Corporate Office has constituted a State Level Allotment Committee (SLAC)<sup>39</sup> for approval of allotments above five acres, or whose land value is more than ₹ one crore.

- Once the allotment is approved by the competent authority, APIIC issues a Provisional Allotment Order (PAO), indicating the amount to be paid within 90 days. In cases where the land cost has not been fixed by GoAP, APIIC also obtains an undertaking from the applicant to pay the differential amount, as and when fixed. On receipt of the entire sale consideration, APIIC enters into an "agreement for sale" with the allottee. Subsequently, on substantial/ full completion of the project, APIIC executes the sale deed in favour of the allottee.

#### **3.3.4. Price Fixation**

APIIC has a Price Fixation Committee (PFC), which usually meets once in a month, to fix the cost of land in respect of newly developed Industrial Estates/ IDA and also review the cost of land annually. The recommendations of PFC are approved by the VC& MD, APIIC and communicated to the Zonal Offices.

The methodology adopted for fixation of land cost by the PFC is summarized below:

- The land cost includes three items *i.e.* (a) land acquisition cost, (b) development cost and (c) other overheads thereon;
  - (a) Land acquisition cost is acquisition cost of patta/ government land (including an estimate of 10 *per cent* for *ex gratia*, where applicable), interest at the rate of 12 *per cent* per annum on amounts deposited with the Revenue Authorities till the date of land cost fixation/ allotment, one time interest at the rate of 12 *per cent* (to cover interest during construction period), and conversion charges for non-agricultural land as well as enhanced compensation, if any.
  - (b) Development cost (not levied for undeveloped land) includes the estimated cost of works proposed for layout, interest at the rate of 12 *per cent*, and administrative charges at the rate of 15 *per cent*.
  - (c) On the sum of land acquisition cost and development cost, 15 *per cent* overheads are levied. However, these overheads are not levied for undeveloped land acquired by APIIC on requisition from applicants with advance deposits; in such cases, process fee, EMD and service charges/ administrative charges are calculated separately (as described in paragraph 3.8.3).
- The total cost is divided by net usable area to arrive at the cost per acre or cost per sq.m.

---

<sup>39</sup> VC & MD as its Chairman, with representatives/members from APPCB, APSFC, Commissioner of Industries, and Andhra Pradesh Industrial and Technical Consultancy Organisation Limited (APITCO) etc.

### 3.4. Audit Approach

#### 3.4.1 Audit Scope

In the past, we had scrutinized land allotments by APIIC and commented upon numerous instances of undue favours granted to private parties by APIIC and GoAP in several recent Audit Reports, notably in the CAG's Audit Reports (Commercial) for 2006-07, 2009-10 and 2010-11 and the Audit Report (Civil) on Land Allotments for 2011-12. A brief of the main audit findings included in recent CAG's Audit Reports is indicated in **Annexure 3.1** to this report.

However, in order to present a comprehensive picture of land acquisition/alienation and allotments by APIIC, we decided to conduct a thematic audit on this issue, by covering the Corporate Office of APIIC and 8 out of its 16 Zonal Offices. Our audited sample of 1,096 cases involved 43,920 acres of land, amounting to 78 *per cent* of the total land allotment (56,003 acres) during 2006-12, as detailed in **Annexure 3.2**.

Out of the test-checked 1096 cases involving 43,920 acres of land, we noticed significant deficiencies in respect of 193 allotments covering 30,207 acres (69 *per cent*), which are described below in this report; in most of the cases, reasons for deviations were not available on record. However, in respect of the remaining 903 cases involving 13,713 acres of land, no significant deficiencies, worth highlighting in this Report, were noticed.

#### 3.4.2 Audit Objectives

The objectives of the thematic audit were to ascertain whether:

- The market value for alienation/acquisition of Government/ patta land was properly ascertained and fixed by GoAP;
- The land allotment process was transparent, uniformly applied in accordance with laid down guidelines, procedures and regulations, and was in public interest;
- The sale price and lease premium on plots was fixed properly and consistently in accordance with APIIC's pricing policy, and was realized in time; and
- The conditions governing the allotment were fulfilled, and the objectives of infrastructure creation and industrial development were achieved in a timely manner.

#### 3.4.3 Audit Criteria

We adopted the following sources of audit criteria:

- The rules, regulations and decisions, orders and guidelines of GoAP and APIIC for alienation/ acquisition/ allotment and fixation of land cost/ land allotment cost;
- Terms and conditions of agreements/ MOUs with developers/ GoAP and terms and conditions for land allotment; and
- Scheme guidelines issued by GoAP/ GoI.

#### **3.4.4 Audit Methodology**

We conducted the audit during May to July 2012 by scrutiny of records in GoAP and the Corporate and Field Offices of APIIC, including notifications and G.Os issued by Revenue authorities, records relating to development and implementation of individual projects/schemes, minutes of meetings of APIIC's Board of Directors and Price Fixation Committee, and other related documents.

The draft findings were issued (30 October 2012) to GoAP and APIIC; despite issue of a reminder (30 November 2012), the reply is still awaited.

#### **3.4.5 Acknowledgement**

We acknowledge the co-operation extended by GoAP and APIIC in the conduct of this thematic audit.

### **Audit Findings**

#### **3.5. Sale/ lease of land in advance possession of APIIC pending alienation by GoAP**

As of March 2012, APIIC had acquired 139,732 acre land since its inception, of which 50,511 acre was patta and 89,221 acre was Government land. However, alienation orders of GoAP had not been received for 49,046 acres (55 per cent of total Government land acquired), for which APIIC had already taken advance possession. Of this, alienation proceedings in respect of 32,428 acres of land were reportedly pending with the District Collectors, 10,239 acres with the Chief Commissioner of Land Administration (CCLA) and 6379 acres with GoAP. We observed that alienation proceedings in respect of these lands were pending from 1974 onwards. The reasons for such long pendency were not furnished, despite having been sought (May 2012). A district-wise profile indicates maximum pendency in SPS Nellore (15,053 acres), followed by Visakhapatnam (9,004 acres), YSR Kadapa (7,520 acres) and Rangareddy (5,946 acres).

Despite non-finalization of alienation proceedings, APIIC was making allotments of such lands to private parties and executed sale deeds based on the tentative market value of land. In our test checked sample, we found 31 such cases of allotments to private parties involving 7098 acres where alienation proceedings are still pending and in some of such cases the land was allotted at less than market value which has been discussed in this thematic audit.

Further, we did not find any cases of APIIC invoking the allottees' undertaking to pay the differential cost, indicating that APIIC did not have an effective mechanism for working out and recovery of such differential cost.

#### **3.6. Irregularities in alienation/ acquisition of land**

##### ***Apparel Export Park/ SEZ for Electronics Hardware, Maheswaram***

In November 2001, APIIC requested the District Collector, Rangareddy District for alienation of 420 acres of land<sup>40</sup> for establishment of an Apparel

---

<sup>40</sup> 405 acres of Government land + 15 acres of patta land.



Export Park and advance possession as well as physical possession of 275 acres was handed over in August 2002. At the time of handing over, the land was reported as Government land, but not assigned land. Subsequently, the Apparel Export Park project was deferred, and APIIC proposed (June 2007) to construct a sector-specific SEZ for Electronics Hardware, which was approved by GoI (July 2007).

However, in August 2008, the Tahsildar, Maheswaram, Rangareddy District stated that 407.28 acre land was available, out of which 379.11 acre was assigned and that possession was given to APIIC, without notifying the assignees. Between December 2008 and November 2009, APIIC deposited ₹ 21 crore with the Revenue Authorities, of which ₹ 17.55 crore was disbursed as *ex gratia* to the assignees for cancellation and resumption of the assignments, and possession of additional 83 acres handed over. Subsequently, APIIC also paid ₹ 2.15 crore for acquisition of patta land of 15.10 acres. The fencing work taken up by APIIC had to be suspended and foreclosed (February 2012) after incurring an expenditure of ₹ 1.79 crore due to obstruction by villagers/ assignees on grounds of non-payment of *ex gratia*.

Thus, the land, which was stated by the Revenue Department to be unassigned in August 2002 and possession handed over to APIIC, was stated as assigned in August 2008 with an increase in habitations and assignees on the land, which could be attributed to inaction by the Revenue Department.

#### ***Hardware Park at Shamshabad***

In response to APIIC's requisition (March 2004) for alienating identified Government land of 108.27 acres at Raviryala Village for establishment of Hardware Park at Shamshabad, Rangareddy District, the then MRO, Maheshwaram Mandal resumed the lands from the assignees in March 2006, without, however, issuing show cause notices to the assignees<sup>41</sup> and waiting for 15 days thereafter before proceeding further for land alienation.

While one section of the assignees accepted *ex gratia* payment of ₹ 6 lakh/ acre, another section, involving 37.29 acres of land, were not satisfied and approached the AP High Court seeking higher compensation. Since, the revenue authorities failed to issue show cause notices in time in 2006, show cause notices were belatedly issued in September 2009, on the directions of the High Court. Registration statistics for 2006-09 were reworked, and a revised amount of compensation of ₹ 15 lakh/ acre was recommended and paid. This resulted in avoidable payment of additional *ex gratia* of ₹ 4.36 crore<sup>42</sup>.

#### ***Expansion of Hardware Park at Shamshabad***

The MRO, Ibrahimpatnam on the instructions of the Special Grade Deputy Collector and Revenue Divisional Officer, Rangareddy, East Division, after conducting panchanama (28 March 2006) handed over 190.33 acres of Gairam sarkari/ unassigned land to APIIC. Thereafter, APIIC requisitioned (May 2006) the Revenue Department for alienation of Government land of 190.33 acres in Sy. No. 255 of Adibatla Village, Ibrahimpatnam Mandal,

<sup>41</sup> As required under the AP Assigned Lands (Prohibition of Transfer) Act, 1977.

<sup>42</sup> (₹ 15 lakh - ₹ 6 lakh) X 37.29 acre + 30 per cent thereof = ₹ 4.36 crore.

Rangareddy for expansion of its Hardware Park<sup>43</sup>. While submitting the proposals to the District Collector (DC), the MRO, Ibrahimpatnam stated that the notice calling for objections had been published in the village notice board (as required under the Land Acquisition Act, 1894) and no objections were received within 15 days, and then noticed occupation<sup>44</sup> in 10 acres of land.

Consequently, after proposals of the District Collector (DC)/ CCLA and approval by the Empowered Committee for deletion of 10.30 acres, CCLA directed the DC (November 2006) to hand over 180 acres land in Sy No. 255. However, APIIC could take over (March 2007) only 139 acres of land (uncultivable/free), as the balance 41 acres of land was said to be under encroachment even after exclusion of 10 acres already encroached.

As APIIC had entered into MoUs (February/April 2007) with IT companies, it asked for allotment of the balance land as illegal encroachers were preventing these IT companies from undertaking construction activities. Strangely, the MRO, Ibrahimpatnam cancelled (August 2006) the allotment by his predecessor in March 2006, stating it to be void and not done in accordance with the law. By November 2008, APIIC had to deposit ₹ 4.35 crore as *ex gratia* to encroachers in 168 acres of land in Sy. No. 255.

The increase in the extent of encroachment from 10 acres (March 2006) to 51 acres (March 2007) to 178 acres (November 2008) out of a total of 190.33 acres, coupled with the cancellation of the earlier allotment by the subsequent MRO (due to non-compliance with the law, but without explanations) is clearly indicative of the Revenue Department officials not addressing encroachment of prime Government land. This is further compounded by the failure to furnish information on the number of encroachers, penalty imposed during jamabandi period, and details of UCs for amounts paid to encroachers, when requested by audit from the District Collector's Office.

#### ***My Home Industries Limited (MHIL)***

In November 2008, My Home Industries Limited (MHIL) requested APIIC to acquire 27 acres of land for formation of rail and road connectivity from its cement plant at Mulakalapalli Village, Yelamanchili Mandal, Visakhapatnam District to Bayyavaram Railway Station. This finally culminated in acquisition (April 2010) by APIIC of 18.26 acres of patta land at a total compensation of ₹ 2.39 crore.

Audit scrutiny revealed that out of the 18.26 acres, the allottee had already acquired 1.73 acres before publication (January/February 2009) of the Draft Notification (DN), and further acquired 8.45 acres of patta land after publication of the Draft Notification, but before publication of Draft Declaration (DD) which is irregular. Thus, execution of sale deeds by the Sub-Registrar to the extent of 8.45 acres after publication of the DN is highly irregular.

---

<sup>43</sup> This was pursuant to the RDO's direction (March 2006) to hand over possession of Gairam Sarkari/ unassigned Government land of 190.33 acres to APIIC.

<sup>44</sup> 1 school, some graves and old houses

### 3.7. Irregularities in Allotment

#### 3.7.1 Allotment at rates well below Market Rates/Acquisition Cost

##### *Integrated Vizag Knowledge City*

In August 2007, APIIC invited Expressions of Interest (EoI) for development of '**Integrated Vizag Knowledge City**' (including International Standard Championship Golf Course) on 1750 acres land in Kapula Uppada Village, Bheemunipatnam Mandal, Visakhapatnam District already in its advance possession (November 2004), pending alienation proceedings of GoAP. The bid documents stipulated (August 2007) that the successful bidder should pay ₹ 350 crore for land cost (at ₹ 20 lakh/ acre for 1750 acres) and also offer revenue sharing at a minimum rate of 2 *per cent* per annum of Gross Revenue for a minimum period of 10 years. While 18 bidders<sup>45</sup> purchased bid documents in response to the EoI, only five bidders participated, and only two out of five bidders – Unitech Ltd. and A1 Hamra Real Estate Development – were deemed to have qualified on technical and financial criteria. Unitech Ltd. was the higher of the two bidders, offering an aggregate annual revenue share of ₹ 2938 crore over 10 years. The Development Agreement (DA) was concluded with Unitech Ltd. on 17 July, 2008 i.e. 9 months after the date of issue (September 2007) of the Letter of Award (LoA). However, even before entering into the Development Agreement, APIIC executed (08 July 2008) a sale deed for 5 acres of land and handed over possession to Unitech Ltd.

In fact, the allottee (Unitech Ltd.) did not comply with the terms of the LoA, stipulating payment of land cost of ₹ 350 crore within 180 days (i.e. by March 2008). Instead, the allottee paid only ₹ 255 crore (apart from ₹ 10 crore payable towards EMD and ₹ 5 crore towards project development expenses) and that only by October 2008. Due to failure of the allottee to pay the balance cost of ₹ 95 crore, despite repeated reminders, and not taking up the intended development, APIIC cancelled the agreement only in April 2011. Subsequently in May 2011, Unitech Ltd filed a writ petition in the City Civil Court, Hyderabad, seeking to restrain APIIC from creating third party rights on the project/land (i.e., re-allotting it to another party) and the matter is sub-judice, although no stay has been granted and the hearing has not taken place.

Audit scrutiny revealed the following deficiencies in the award and implementation of the project

##### **(a) Selection of Project Consultant**

APIIC nominated (29 August 2007) Capital Fortunes Pvt Ltd. Hyderabad as the project consultant. The basis for selection of consultant without going through a competitive process was not available on record. However, even before the terms of appointment and terms of payment for the consultant were

<sup>45</sup> AL Futtaim Pvt Co LLC, Al Hamra Real Estates, DLF Ltd., Elixir Conbuild Pvt Ltd., Emaar Properties PJSC, ETA Star Property Developers, Ferani Hotel Pvt Ltd., Gem Infra Pvt Ltd., GVK Power & Infra Ltd., Jai Prakash Associates Ltd., L&T Urban Infra Ltd., Lanco Hills Technologies Ltd., MAYTAS Properties Ltd., Millennia Realtors Pvt Ltd., Nagarjuna Constructions Co. Ltd., Rakindo, Tata Realty and Infra Ltd., and Unitech Ltd.

finalized, the consultant had already started the work<sup>46</sup>. The consultancy fee of ₹ one crore was fixed *post facto* only in March 2009, well after the finalization of the Development Agreement (17 July 2008). Out of the agreed consultancy fee of ₹ one crore, APIIC paid ₹ 75.00 lakh between March & August 2009 to the consultant, that too without entering into an agreement with the consultant. Thus, the selection of consultant and terms and condition of payment were not finalized on a transparent and competitive basis. It may be noted that it was the consultant's report which formed the sole basis for disqualification of three bidders restricting competition to just two bids.

**(b) Short lead time allowed for bidding**

The EoI for the Integrated Vizag Knowledge City was published on 8 August 2007, with the last date for submission of bids as 31 August 2007. Before opening of bids, many of the leading bidders<sup>47</sup> requested APIIC for granting extension of time (EoT), ranging from 15 days (Unitech Ltd) to one month (others). We observed that EoT was granted for only 14 days i.e., up to 14 September 2007; reasons for rejecting longer EoT were not on record. It appears that the short period permitted for submitting bids acted as a deterrent to competition. Strangely, of the 18 bidders who purchased bids, only five submitted their bids. Out of 13 bidders who did not submit bids, three had earlier asked for extension up to 30 September 2007.

**(c) Non availability of pre-bid meeting minutes & Non constitution of tender committee**

Even though the CMD constituted a Committee consisting of ED, CE, and Vice President (Projects) for conducting a pre-bid meeting, APIIC did not maintain, or did not provide the minutes of the pre bid meeting conducted on 25 August 2007. In fact, in its letter of 28 August 2007 to APIIC, MAYTAS stated that "most of our queries were not answered at the pre bid meeting with a standard response being 'APIIC will get back to us in writing'. We are still waiting for APIIC's response". Also, ETA- Star Property Developers in its letter of 26 August 2007 reiterated several queries (on key issues such as FAR<sup>48</sup>, Zero Date etc.) which were raised and were pending clarification. It was observed that though the replies to the queries were prepared but whether the same was forwarded to the individual bidders were not available on records. Further, no evidence exists of the constitution by APIIC of a Tender Committee for discussing and analyzing the technical and financial capabilities of the bidders.

**(d) Selection and Short listing of Bidders**

Out of the five bidders/Companies who submitted their bids, the Company disqualified three bidders i.e., DLF Ltd., ETA- Star, and AL Futtaim on various deficiencies, whereas, with regard to Unitech, the consultant's report deemed the bid to be responsive even though the following deficiencies existed in the bid:

---

<sup>46</sup> The EoI for Integrated Vizag Knowledge City was published on 8 August 2007.

<sup>47</sup> ETA Star Property Developers LLC, LANCO Hills Technology Park Pvt Ltd., MAYTAS Properties Ltd., Nagarjuna Construction Company Ltd., and Unitech Ltd.

<sup>48</sup> Floor Area Ratio.

- Unitech claimed to have developed a Golf Course under the brand Golf & Country Club, Gurgaon, which appears to be the same name as referred to in DLF's bid (Golf & Country Club).
- The certificate issued by the Statutory Auditor indicated that the bidder had 100 *per cent* “**beneficial interest**” in the Golf Course with villas. However, the format of the auditor's certificate in the bid document (BRS 2) required 51 *per cent* of share holding and not “beneficial interest”, whose meaning is *prima facie* unclear.

Further, there is a certificate from the Managing Director of Unitech Ltd. dated 19 September 2007 (the same date as the date of the consultant's evaluation report) that the Golf Course at Karma Lake Lands was owned and developed by Unitech Ltd.

The original Bid Documents of Unitech Ltd. along with their Technical and Financial Capabilities certified by appropriate authorities and responses in formats were not furnished to audit despite repeated pursuance. Consequently, we are unable to confirm that the qualification of Unitech Ltd. and disqualification of other bidders was conducted in a fair and transparent manner. Correspondence relating to effecting of changes in the DA was also not made available to audit.

**(e) Delay in entering into Development Agreement (DA)**

As per clause 3.1.4 of the bid document, the DA was to be executed between APIIC and the Special Purpose Vehicle (SPV) within a period of 60 days from the date of issue of the LoA (September 2007). However, the DA was executed only on 17 July 2008 (a delay of 9 months). While APIIC granted only 14 days of EoT for submission of bids, showing undue haste for awarding such a huge project, it took nine months to enter into the DA with the selected bidder.

**(f) Post- bid amendments favoring Unitech Ltd.**

As per clause 3.1.4 of the bid document, DA should have been finalized based upon the Terms of Reference (ToR) in the bid document. However, audit scrutiny revealed several deviations and departures from the bid document detrimental to the financial interest of APIIC.

1. The Zero Date is the base date for the purpose of project and is linked to payments. As per the LoA, Zero Date was supposed to be exactly one year after the date of DA. However, this was modified in the DA to a date after receipt of all approvals, thus, postponing the Zero Date substantially/indefinitely<sup>49</sup>.
2. The year of commencement of the payment of Annual Minimum Guarantee (AMG) became ambiguous, because of changes in the definition of Zero Date in the DA.
3. As per bid document, EMD of ₹ 10 crore could be impounded in the event of defaults like failure to pay the total purchase price within the stipulated

<sup>49</sup> If APIIC intended the Zero Date to start after receipt of all approvals, thus considering the interest of the developer, indicating a contrary clause for Zero Date at the bid stage would have discouraged other bidders, and put them at a disadvantage.

period, failure to incorporate and obtain certificate of commencement of business for the SPV before execution of DA, approval of Memorandum and Articles of Association of SPV, failure to submit DPR, failure to submit Bank Guarantee, failure to execute DA/power of attorney, failure to execute sale deed and other omissions and commissions. However, the DA provided for refund/adjustment of EMD immediately on payment of the last instalment of total purchase price. In the given circumstances, the EMD cannot be impounded by APIIC in the event of any default other than non payment by the developer.

4. As per the bid document, the last instalment (₹ 175 crore) of the total sale price (₹ 350 crore ) was to be paid within 180 days (i.e., by March 2008) from the date of issue of the LoA (September 2007). However, the DA provided for payment within a period of 45 days from the date of execution of the DA (July 2008), thus giving further extension to Unitech.
5. The bid document did not provide for any reduction or dilution of share holding pattern of the Developer. However, the DA provided for dilution of share holding of Unitech Ltd. in the SPV Company below 51 *per cent* in case of listing, and also that such shares could also be mortgaged to lenders.
6. The bid document provided that the right of APIIC on the land shall be supreme and the lender's right shall be subordinate to the rights of APIIC under all circumstances. However, the rights were reversed in the DA, which provided that the Company's interest on the land was subordinate to the interest of the lenders.
7. The bid document provided for joint and several liability of the successful bidder and SPV for non fulfilment of the obligation. However, in the DA, this liability was limited to the equity shares held by the members. Thus, Unitech Ltd. bore no direct liability for failure to comply with the project terms and conditions.
8. Compensatory payment (CP) by APIIC was not provided for in the bid document. However, the DA provided for CP by APIIC to the developer, even in the case of significant event of default by the developer, as well as title related issues, political *force majeure* etc. with the CP restricted to the compensated land under consideration and not the total project cost.
9. Though the bid document did not provide any substantial target, yet the DA provided that 60 *per cent* completion would be deemed to be completion of development.

Further, APIIC never apprised its BoD about the project and deviations from the Bid Document while entering into DA. The BoD was only apprised in May 2011, when APIIC finally took a decision to cancel the project.

#### **(g) Unduly Low Land Price**

The land price was fixed in the bidding documents at an unduly low rate of ₹ 20 lakh/ acre, although the cost of land registered in and around the project, as per information furnished by the Sub Registrar, varied between

₹ 19.50 lakh and ₹ 75.50 lakh/ acre. Further, VUDA<sup>50</sup> had auctioned (44.25 acres) land (August 2007) in the vicinity of 0.5 km and realized a market value of ₹ 2.14 crore/ acre. Even after including the revenue share over 10 years of ₹ 2938 crore (without discounting), there was a potential loss of revenue of ₹ 457 crore to APIIC<sup>51</sup>.

#### (h) Inadequate security through Bank Guarantee

The bid document specified that the Performance Security would be in the form of Bank Guarantee (BG) for the amount of Annual Minimum Guaranteed Amount (AMG), which was reflected in the DA. In this case, the land price was fixed at just ₹ 350 crore, while the revenue share offered by Unitech Ltd. was a much higher amount of ₹ 2938 crore for 10 years. However, the AMG offered for the initial four years, and the corresponding BG required, ranged from ₹ 5 crore to ₹ 78 crore only. It is only from the fifth to the tenth year, that the AMG increased to a range of ₹ 200 crore to ₹ 650 crore. Hence, the BG, linked to the low AMG amounts in the first few years, would provide negligible security to APIIC over the life of the project, since the land rights, including rights to mortgage land, would pass to the developer, merely after payment of the land cost alone. In fact, the DA allowed even the customers of the developer to mortgage their interest in the land to their lenders.

Thus, there were numerous deficiencies in the award and implementation of the project for development of ‘Integrated Vizag Knowledge City’ over 1750 acres of land, with corresponding undue favour to the successful bidder and allottee, Unitech Ltd. besides substantial post-bid changes such that the Development Agreement bore virtually no resemblance to the project terms and conditions envisaged at the time of bidding in detriment to the financial interests of APIIC. Also, due to cancellation of allotment and filing of legal suit against APIIC by Unitech, 1750 acres of prime land in Vizag District allotted at an unduly low price remained undeveloped.

#### *East Coast Energy Pvt. Ltd.*

Even before the request (March 2008) of East Coast Energy Pvt Ltd., APIIC gave advance possession (February 2008) of 2050 acres land in Santhabommali Mandal, Srikakulam District for establishment of a coal-based thermal power plant. Against the recommendation of Sub-Collector, Tekkali (October 2007), in consultation with Sub-Registrar, Kotabommali, of a fair market value of ₹ 1.50 lakh/ acre, GoAP approved (July 2008) a rate of ₹ 85,000/ acre<sup>52</sup>, on the basis of the Empowered Committee’s recommendation (July 2008). This resulted in a potential loss of revenue of ₹ 13.33 crore<sup>53</sup> on account of the difference in fair market value of ₹ 65,000, as well as differential service charges (at 15 per cent of cost of acquisition) of ₹ 2.00 crore, and corresponding undue benefit to the allottee. The project is still under implementation.

<sup>50</sup> Visakhapatnam Urban Development Authority.

<sup>51</sup> One acre of land=4840 sq. yards; ₹ 3745 crore (1750 acres x ₹ 2.14 crore) – ₹ 350 crore (land cost) – ₹ 2938 crore (revenue share) = ₹ 457 crore.

<sup>52</sup> The District Collector, Srikakulam had recommended a rate of ₹ 40,000/ acre.

<sup>53</sup> (1,50,000 – 85,000) x 2,050 acres.

***MLR Motors Pvt. Ltd.***

On the directions of the State Government in November 2006 for allotment of land to MLR Motors Pvt. Ltd., APIIC requisitioned alienation of 750 acres of land in Muppireddypally, Toopran Mandal, Medak District. The Tahsildar, Toopran Mandal handed over advance possession in March 2007, and proposed a rate of ₹ 5 lakh, against the market value of ₹ 10 lakh to ₹ 15 lakh per acre as locally enquired by the Deputy Tahsildar.

In April 2007, GoAP directed APIIC to allot 225 acres of land at ₹ 5 lakh/acre to MLR Motors for establishment of a four wheeler manufacturing unit, with estimated investment of ₹ 1200 crore and direct employment to 3000 workers and possession to be given after financial closure. In May 2007, APIIC allotted this land to MLR Motors at this rate, without even charging process fees and service charges, and handed over physical possession, without receipt of the balance land cost of ₹ 8.25 crore (out of ₹ 11.25 crore) and without obtaining a project report and ascertaining financial closure of the project. Although the balance land cost was due by August 2007, GoAP extended the time limit several times upto March 2012.

As of March 2012, MLR Motors had paid a total of ₹ 8.47 crore and was yet to pay an amount of ₹ 7.35 crore towards balance land cost and interest. Further, there was no progress on the project, except for construction of a building in 0.74 acres. Also, APIIC without approval of GoAP, permitted transfer of 25 acres in June 2011 in favour of MLR Auto Ltd. for mortgaging with APSFC for a loan of ₹ 19.17 crore.

Thus, there were a series of continuing irregularities with undue benefit to MLR Motors which resulted in merely exploiting the market value of the land through mortgages for loans, without in any way contributing to the purported objective of setting up a four wheeler manufacturing unit. Further, there was a loss of revenue on account of lower land cost of ₹ 11.25 crore<sup>54</sup>, and process fee, service charges, frontage charges and conversion charges of ₹ 4.50 crore.

***Orient Craft Fashion Institute of Technology***

In response to a proposal (August 2007) by Orient Craft Limited (OCL), Gurgaon, it was decided (August 2007) to allot 25 acres of land available with APIIC at a concessional rate of ₹ 5 lakh/acre, against the prevailing rate of ₹ 60.70 lakh/acre, on the grounds that the institute would set up facilities to train 4,000 people per annum (for a fee), giving preference to people from BPL families, and secure employment in upcoming garment industries. The allottee was accorded to commence construction immediately and make it operational by December 2008.

In pursuance of a GoAP order of November 2007 and receipt of ₹ 1.09 crore, APIIC provisionally allotted and handed over possession of 21.83 acres of land and entered into a sale agreement in June 2008.

Further, the agreement stipulated a timeframe of two years from handing over possession for implementation of the project, with extension of time by up to two years at a penalty of 10 *per cent* of the land cost at the prevailing rate.

---

<sup>54</sup> Market value of ₹ 10 lakh less allotment rate of ₹ 5 lakh x 225 acres.



However, the project has not yet been implemented, despite issue of two show cause notices in November 2011 and April 2012 by APIIC, which requested (July 2012) GoAP to take a suitable decision on the land allotted. Neither had APIIC levied penalty of ₹ 4.60 crore for extension of time, nor had it cancelled the allotment so far. Thus, purpose of extending concession of ₹ 12.16 crore to OCL is defeated.

***Vivimed Labs Ltd.***

APIIC requisitioned (August 2008) DC, Srikakulam for alienation of 66.23 acres of Government land for allotment to Vivimed Labs Ltd. for establishment of a speciality chemicals and pharmaceutical unit at Boyapalem Village, Ranasthalam Mandal.

Audit scrutiny revealed that GoAP alienated (April 2011) 58.92 acres of land (Boyapalem – 36.49 acres, Chittivalasa – 7.53 acres and Narava – 14.90 acres) at rates far below the market value (₹ 1.20 lakh/ acre and ₹ 2 lakh/ acre in Boyapalem and Chittivalasa, against the market rates of ₹ 2 lakh/ acre and ₹ 8 lakh/ acre), resulting in loss of revenue of ₹ 0.35 crore<sup>55</sup> and corresponding undue benefit to the allottee, as well as loss of differential service charges (at the rate of 15 per cent) of ₹ 0.05 crore. Further, out of the total sale consideration of ₹ 1.47 crore recoverable from the allottee, APIIC was yet to recover ₹ 0.10 crore.

***Krishnapatnam Power Corporation Ltd. (KPCL) and Kineta Power Private Ltd. (KPPL)***

In January 2008, APIIC requested the Revenue authorities for alienation of Government land of 2370 acres in Chillakur Mandal, SPS Nellore District for allotment to Krishnapatnam Power Corporation Ltd. (KPCL) and Kineta Power Private Ltd. (KPPL), and deposited ₹ 14.30 crore (at ₹ 1.30 lakh/ acre) in respect of 1100 acres of assigned land as *ex gratia*, in response to a demand from Sub-Collector, Gudur in February 2008. Pending alienation orders, APIIC provisionally allotted 1847.98 acres of land at ₹ 2 lakh/ acre to KPCL and KPPL. 1972 acres of land was handed over by the Revenue authorities to APIIC between June 2008 and December 2010.

However, in February 2009, GoAP alienated 1847.98 acres of land at ₹ 60,000/ acre (in addition to ₹ 1.30 lakh *ex-gratia* already paid for 1100 acre), and APIIC issued revised allotment orders at ₹ 80,000/ acre (plus service charges at the rate of 15 per cent and process fee of ₹ 10,000/ acre) in May/ June 2009. Thus, in respect of the 1100 acres of assigned land, APIIC incurred a cost of ₹ 1.90 lakh/ acre but charged only ₹ 80,000/ acre. This resulted in a loss of ₹ 12.10 crore plus differential service charges and process fee of ₹ 1.82 crore, and corresponding undue benefit to the allottees. The projects are still under implementation.

***3.7.2 Allotment at rates below those recommended by Price Fixation Committee***

Audit scrutiny revealed numerous cases where APIIC allotted plots at

<sup>55</sup> 36.49 acre x (2 lakh – 1.20 lakh) + 7.53 acre x (8lakh – 2 lakh) + 14.90 acre x (2 lakh – 1.20 lakh) = ₹ 86.29-₹ 50.97 lakh towards *ex-gratia* = ₹ 35.32 lakh.

concessional rates below the rates fixed by PFC, either by reducing the price unilaterally or on recommendations of GoAP, resulting in undue benefit of ₹ 176.55 crore to 82 allottees (see **Annexure-3.3**). A summary of the important cases of allotment at concessional rates below PFC-fixed rates is given below:

#### ***J.T. Holdings***

In accordance with MoU entered into (December 2004) with GoAP, APIIC allotted undeveloped land to the extent of 70 acres in two spells (March 2005 – 10 acres and June 2005 – 60 acres) to J.T.Holdings at ₹ 4.95 lakh per acre in Sy.No.1/1 of Kancha Imarat of Raviryal Village, Maheswaram Mandal, Rangareddy District for setting up an IT facility and undertaking associated business activities. On receipt of total sale consideration of ₹ 3.47 crore, an agreement for sale was executed in October 2005.

Audit scrutiny, however, revealed that the allotment rate of ₹ 4.95 lakh per acre was much lower than the PFC fixed rates of ₹ 200 per sq.mt (₹ 8,09,400 per acre) valid from August 2004 to March 2005 and; this resulted in loss of revenue of ₹ 2.20 crore. The project is under implementation.

#### ***Gitanjali Gems Limited***

As per the MoU entered into (July 2005) between GoAP and Gitanjali Gems Limited (allottee), APIIC allotted (August 2005) 75 acres of land for setting up of Gems and Jewellery SEZ at ₹ 5.00 lakh per acre in Sy.No.1/1 of Kancha Imarat of Raviraryala Village, Maheswaram Mandal, Rangareddy District. On receipt of the total consideration of ₹ 3.75 crore, an agreement for sale was executed on 8 December 2005.

Further, on the directions of the GoAP (June 2007), APIIC additionally allotted (July 2007) 95.51 acres of land at ₹ 20 lakh per acre on outright sale basis to Hyderabad Gems (formerly Gitanjali Gems), and the sale agreement was executed in July 2007 itself. However, the allotment rate of ₹ 20 lakh per acre was far lower than the PFC fixed rates for undeveloped land of ₹ 1500 per sq mtr (₹ 60.71 lakh per acre) valid from April 2007 to September 2007, this resulted in a loss of ₹ 38.88 crore. The project is under implementation.

#### ***Pharma Formulations SEZ***

APIIC developed (2006) a Pharma Formulations SEZ in Green Industrial Park, Jedcherla, Mahabubnagar District. As per Allotment Regulations, 1998, the allotment shall be made at the rates fixed by APIIC as on the date of issue of the Provisional Allotment Order (PAO). Disregarding this policy, APIIC allotted plots/lands at lower rates in two cases tabulated below resulting in loss of ₹ 11.25 crore:

Sl. No. (1)	Name of the allottee (2)	Date of allotment (3)	Extent in sq.mts (4)	Allotted Rate (per sq.mt) in ₹. (5)	PFC Rate (Per sq.mt.) in ₹ (6)	Loss (₹ in crore) (7)=(6)-(5)*(4)	Lease rentals per annum (per cent on cost of land) (8)	Loss of lease rentals per annum (₹ in crore) (9)=(7)*(8)
1	Hetero Drugs Ltd.	11.11.2006	2,67,102	173	371	5.29	2	0.11
2	Aurobindo Pharma Ltd.	02.08.2007	1,82,115	173	500	5.96	1	0.06
<b>Total</b>						<b>11.25</b>		<b>0.17</b>

Further, all the allotments in SEZ are made on lease basis. Hence, the lesser fixation of land cost affects the fixation of lease rentals also, resulting in short fixation of lease of ₹ 0.17 crore per annum over the 35 year lease period.

#### ***Gujarat NRE Coke Limited***

APIIC allotted (June 2008) 250 acres land in Industrial Park, Attivaram (SPS Nellore District) at ₹ 6.00 lakh per acre to Gujarat NRE Coke Limited on “as is where is” basis for setting up of “Low ash metallurgical coke oven plant along with waste heat recovery based integrated power plant”. The allottee requested (November 2009) APIIC to transfer the allotted land situated at Industrial Park, Attivaram to APIIC’s new venture at Industrial Park, Naidupet, near Krishnapatnam Port, SPS Nellore District. On the request of the allottee, the cost of land was fixed at ₹ 8.00 lakh per acre and modified allotment orders were issued in July 2010 to the allottee.

APIIC’s Allotment Regulations provided for such requests for allotments only within 90 days of the Provisional Allotment Letter; subsequent requests for allotment should have been allotted at the then prevailing PFC rates. Thus, allotment of an alternate plot at ₹ 8 lakh per acre, against the then prevailing market rate of ₹ 15 lakh per acre, resulted in loss of ₹ 17.50 crore to APIIC.

#### ***Pallavi Education Society and Shalivahana Mines Private Limited***

Pallavi Education Society and Shalivahana Mines Private Limited, both represented by the same owner(encrocher), were in unauthorised occupation of APIIC’s 2.84 acre (11500 sq.mt) land in Survey No.44 at IDA, Nacharam, Rangareddy District. When the encroacher requested (July 2003) for regularisation, APIIC tried (March 2004) to evict the encroacher from the premises. The encroacher again filed a writ petition in 2004, which was dismissed (November 2004) by the High Court, but the encroacher filed a writ appeal against the High Court order and obtained (December 2004) status quo.

Meanwhile, Shalivahana Mines requested (December 2005, March 2006 and February 2008) for regularisation of the encroached land for establishment of an Apparel Training Institute. In response to this, though the request made in March 2006 was turned down (5 July 2006) by the Board of Directors and directed obtaining of immediate vacation of the status quo, APIIC issued (March 2008) a Provisional Allotment letter for the land, subject to payment of ₹ 1200 per sq.m towards regularisation fee, withdrawal of the writ appeal and payment of legal expenses (₹ 0.60 lakh). On withdrawal of the writ appeal (August 2009) and payment of land cost of ₹ 1.38 crore and legal fee of

₹ 0.60 lakh, APIIC handed over possession of land (February 2010) and executed sale agreement (February 2010) and sale deed (November 2010).

The allotment rate of ₹ 1200/ sq.m was far lower than the prevailing PFC rate of ₹ 5400/ sq.m, and the allotment was contrary to the Board's direction, resulting in loss of ₹ 4.83 crore.

#### ***RU Service Centre (India) Pvt. Ltd. and ICICI Bank***

Pursuant to GoAP's proposal (April 2002), APIIC decided to take up development of a Financial District in about 125 acres land at Nanakramguda Village, Serilingampally Mandal, Rangareddy District. In March 2003, the PFC tentatively worked out the cost of land at ₹ 78.75 lakh/ acre (based on a land cost of ₹ 22.50 lakh/ acre plus development and other costs), corresponding to an allotment price on ORS basis of ₹ 2000/ sq.m. (₹ 80.94 lakh/ acre). In March 2005, PFC recommended a market price for land of ₹ 35 lakh/ acre; however, APIIC did not revise the land costs which should have been increased by ₹ 255/- per sq.m and the frontage charges by ₹ 210/- per sq.m .

Audit scrutiny revealed that RU Service Centre (India) Pvt. Ltd. was allotted (August 2005) 11.04 acres at ₹ 2,000/ sq.m, without revision of rates. Further, APIIC also failed to levy frontage charges at 10 *per cent* of land cost and Development cost (₹ 85 lakh per acre at revised cost). Thus, the total loss incurred by APIIC amounted to ₹ 2.23 crore.<sup>56</sup>

Similarly, APIIC allotted (October 2003) three acres land at ₹ 78.75 lakh/ acre to ICICI Bank, which regretted (August 2004) their inability to take up the offer. However, in August 2005, ICICI Bank again evinced interest and was allotted 8.46 acres at the old rate of ₹ 78.75 lakh/acre; the total loss incurred by APIIC amounted to Rs 1.71 crore<sup>56</sup>.

#### ***Reliance Power Ltd./ Samalkota Power Ltd.***

In response to a request (May 2010) of Reliance Power Ltd. (RPL) (name subsequently changed to Samalkota Power Ltd. (SPL)) for allotment of adjoining 60-65 acres for expanding their existing Power Project at IP, Peddapuram, Executive Director – I, APIIC approved allotment of 55.32 acres at the prevailing land cost of ₹ 1500/ sq.m, which was communicated by the ZM, Kakinada to RPL. However, RPL requested (July 2010) the VC & MD, APIIC to consider the minimum premium over and above the prevailing GoAP unit rates, which was followed by a communication from the OSD, Energy (PR. IV) Department, GoAP to the DC, Kakinada asking for early allocation of land to RPL. Subsequently, the PFC, which had fixed rates for IP, Peddapuram at ₹ 1500/ sq.m. valid from June 2009 till March 2011, revised the land cost downwards to ₹ 1000/ sq.m for Peddapuram. Consequently, 49.75 acres of land (201330 sq.m) was allotted at ₹ 1000/ sq.m. to a group company of RPL<sup>57</sup> in January 2011, which resulted in loss of revenue of ₹ 10.07 crore to APIIC, with corresponding undue benefit to the allottee.

---

<sup>56</sup> (₹ 255+₹ 210+ frontage charges) rounded off to ₹ 500x44,678 sq.m (R.U.Service) and ₹ 500x34,238 sq.m (ICICI Bank).

<sup>57</sup> Reliance Goa & Samalkot Ltd. – at the request of CEO, RPL.

***Mindspace IT Park Pvt. Ltd.***

In response to a request (14 November 2005) from Mind Space IT Park Pvt Ltd. (Raheja Group)<sup>58</sup>, APIIC provisionally allotted (21 November 2005) 350 acres of land at Growth Centre, Hindupur at ₹ 60/ sq.m for developing an “Infrastructure & Knowledge Hub” for implementation within 2 years, without, however, receiving a Detailed Project Report. Within four days of allotment, the allottee stated (25 November 2005) that they did not intend to set up any industry, but wished to develop the land with infrastructural facilities and offer it to needy entrepreneurs. APIIC modified its allotment (21 February 2006) accordingly, stipulating 15 years for implementation of the project. Subsequently, in response to a request from the allottee (10 April 2007), APIIC allowed the line of activity to be changed to ‘Apparel Park SEZ’ without even charging the prevailing allotment rate (i.e. ₹ 300/ sq.m.).

Thus, there were a series of accommodations by APIIC to benefit the interests of the allottee, essentially for real estate development. On the request for ‘Apparel Park SEZ’, APIIC should have cancelled the earlier allotments and issued a fresh allotment, with the land cost calculated at ₹ 300/ sq.m (the prevalent rates as of the date of approval). Failure by APIIC to do so resulted in undue benefit to the allottee of ₹ 34 crore.

In May 2011, APIIC cancelled the sale agreement, as the allottee had not implemented the project; this has been stayed through a judicial order.

***Shantha Biotechnics Ltd.***

In September 2007, APIIC allotted 40 acres of land at Muppireddypally, Rangareddy District at a concessional rate of ₹ 12.50 lakh/ acre (against the prevailing rate of ₹ 25 lakh/ acre) to Shantha Biotechnics Ltd. for setting up a biopharma products unit, with envisaged investment and employment generation of ₹ 50 crore and 300 persons respectively; APIIC handed over possession of the land in July 2008, after waiving interest of ₹ 0.15 crore for delayed payment of land cost.

Instead of setting up a biopharma products unit, the allottee decided to set up a SEZ, which has not been implemented. Not only did APIIC grant undue benefit of ₹ 5 crore through concessional land rates, but also failed to cancel the allotment and make a fresh allotment for the new purpose (SEZ) at the then prevailing land cost rates. Instead, it extended the time limit for project execution upto December 2012, subject to penalty of payment of ₹ 0.27 crore; this has not been paid by the allottee, claiming that the delay was due to delayed handing over of land by APIIC and delay in getting SEZ approvals from GoI.

***3.7.3 Allotment of land even before fixation of cost of land by Price Fixation Committee***

Allotment of land by APIIC in SEZs/ IPs even before fixation of cost of land by the PFC (which turned out to be higher), resulted in undue benefit of ₹ 25.09 crore in respect of 248.83 acres of land to six allottees

<sup>58</sup> Name changed to Neogen Properties (P) Ltd.

(see **Annexure-3.4**). One such case relating to the MPSEZ at Naidupet, SPS Nellore District is described below.

#### ***Multi Product SEZ at Naidupet***

APIIC developed a Multi Product SEZ at Naidupet, SPS Nellore District and prepared a tentative layout with 17 plots with net usable area of 1664 acres. Of these, APIIC allotted three plots covering 335 acres on lease basis at widely varying rates within a period of three months only (with annual lease rentals at 2 per cent of 50 per cent of the lease premium), well before the fixation of land cost by PFC:

- 100 acres was allotted (12 March 2009) to Prime Electricals Ltd. at a lease premium of ₹ 6 lakh/ acre (cost of land – ₹ 3.00 lakh/acre and development charges of ₹ 3 lakh/ acre payable in 5 yearly installments);
- 25 acres was allotted (14 May 2009) to Hemair Systems Ltd. at a lease premium of ₹ 12 lakh/ acre (including development charges of ₹ 6 lakh/ acre, with rebate of ₹ 3 lakh/ acre);
- 210 acres was allotted (27 May 2009) to Greentech Industries Ltd. on lease premium of just ₹ 1 lakh/ acre, reportedly on account of the worldwide recession in the industry. Vis-à-vis the rate of ₹ 12 lakh/ acre charged for Hemair Systems Ltd., this amounts to undue benefit of ₹ 23.10 crore. The corresponding benefit in terms of lease rentals over the 33 year lease period works out to ₹ 7.62 crore.

The PFC of APIIC fixed the land cost of the MP SEZ in February 2010 at ₹ 16 lakh/ acre, which is higher than the rates fixed for any of the above allotments.

#### ***3.7.4 Charging of cost of Government land at much lower rates than patta land***

As per past practice, APIIC fixes the cost of acquired Government land on par with the cost of acquired patta land, while allotting land for development of Industrial Parks/ projects of private parties. However, in respect of five allottees, APIIC fixed the cost of 4581.79 acre Government land lower than that of patta land, resulting in a loss of ₹ 148.56 crore (see **Annexure-3.5**). One such case is discussed below.

#### ***Krishnapatnam Infratech Private Limited***

For the development of an IP/ SEZ at Krishnapatnam Village, SPS Nellore district APIIC allotted (September 2010) 321 acres of patta land in Kota and Chillakur Mandals at ₹ 4.47 lakh/ acre + processing fee and service charges (for which consent awards for patta land were passed between March 2009 and July 2009 for about ₹ 4.50 lakh per acre) to Krishnapatnam Infratech Private Limited (allottee). However, APIIC had already given advance possession (29 May 2009) of Government land to the extent of 4409.72 acres and allotment orders were issued in two phases (2682.77 acres in February 2009 and 1726.95 acres in September 2010) to the allottee at ₹ 1.15 lakh/ acre only, resulting in loss of revenue of ₹ 146.40 crore.

### 3.7.5 Other irregularities in allotments

#### **Trade Towers and Business District, Manchirevula**

In October 2007, APIIC awarded the project for development of Trade Towers (100 floors building) and Business District at Manchirevula Village, Rajendra Nagar Mandal, Rangareddy District to a consortium of Reliance Energy Limited (REL) and Sobha Developers Private Limited (SDPL), who quoted the highest rate of ₹ 6.57 crore per acre; the contract agreements were signed in May 2008. The Project had two modules – Trade Towers in 30 acres (1<sup>st</sup> module) and Business District in the remaining area of 50.68 acres (2<sup>nd</sup> module). Paragraph 3.4 of the CAG’s Audit Report No. 4 of 2010-11 (Commercial), had highlighted several instances of undue favours extended to REL, viz. irregular removal of SDPL (key technical partner) from the SPV; dilution of development milestones especially with regard to the 100 floors Trade Tower; non-forfeiture of performance security for default in payment of consideration amount and submission of DPRs; irregular waiver of Development Premium; change in construction standard from international standard to warm shell etc.

Subsequent audit scrutiny revealed that APIIC extended further post-contractual favours to the allottee in July 2010, as summarized below:

- Cash performance security of ₹ 32.90 crore paid to APIIC was irregularly substituted by a Bank Guarantee for Performance Security, and that too from the SPV (CBD Towers Private Limited) and not from Reliance Energy Limited.
- The conditional conveyance deed for the land for the Business District (2<sup>nd</sup> module) was substituted by sale deeds (this was contrary to the allotment regulation which stipulates execution of sale deed only after full/substantial completion of the project) whereby charge was created in favour of APIIC and first charge would be ceded to lenders, subject to payment of balance amount of land cost and ‘substantial completion’<sup>59</sup>. Ceding of first charge in favour of lenders may pose a threat to the very objective of implementation of project, in case the SPV raised loans by pledging the land and utilizing the funds for its working capital requirements or other purposes.

In addition, the Board approved (May 2011) extension of additional favours (summarized below) which were forwarded to GoAP and are pending approval:

- Change of development phasing, with the Business District to be developed first, followed by the Trade Tower.
- Equity lock-in condition of permitting dilution from 51 to 26 *per cent* three years after completion of the Trade Tower, to be amended to dilution three years after “financial closure” of the Trade Tower.

<sup>59</sup> This was modified to completion of 3 million square feet (including 1 million square feet of Module II)As against the stipulation in the October 2007 Letter of Award of minimum 100 floors and 4 million square feet for Module 1.

- As against the stipulated Project Implementation Period of four years from Zero Date for the Trade Tower, and seven years from Zero Date for the Business District, Project Implementation Period ending in 2020, and effective date to be shifted from April 2010<sup>60</sup> to the dates of execution of amendment agreements (not yet finalized), with further scope for extension of Project Implementation Period by up to 5 years *inter-alia* due to ‘uncertainties in the real estate market which may warrant such extension of time’.

The above amendments not only continue the trend of undue post-contractual favours on various accounts to the developer, but seek to completely change the nature of the project from the original intent of construction of the 100 floors Trade Towers preceding the Business District (as laid out at the time of bidding and contract award) as well as dilution/ extension of the project implementation timelines to 2020 (and even beyond).

This draft audit finding was issued separately (August 2012) to GoAP, with a copy to APIIC; their reply is yet to be received.

#### ***Quantum Green Pvt. Ltd.***

On the request (August 2005) of Rajitha Crop Care Pvt Ltd., APIIC requisitioned 60 acres of land at Ravulakolanu village, Pulivendula for setting up soluble fertilizers, organic manure and hybrid seeds manufacturing units, but its request was turned down (November 2006) by the District Collector, YSR Kadapa District on the grounds that these lands were assigned lands, and attracted the provisions of the AP Assigned Lands (Prohibition of Transfer) Act, 1977.

However, on the directions (December 2007) of the State Government, the District Collector permitted (January 2008) handing over of advance possession of 24.87 acres of land (out of the same land) for allotment (February 2008) to Quantum Green Pvt. Ltd., Pulivendula for setting up milk chilling, hybrid feed, fruit and feed processing and cattle feed unit; this was followed by GoAP’s alienation order of March 2008.

GoAP’s stand was inconsistent in turning down land alienation for allotment to one party on grounds of assigned land, but approving such alienation (and even permitting advance possession) for another party – Quantum Green Pvt. Ltd. without any objections relating to assigned land being raised. Further, APIIC also failed to collect process fee and service charges of ₹ 0.06 crore from Quantum Green Pvt. Ltd.

#### ***Apache Investment Holdings Pte. Ltd.***

GoAP entered into (January 2006) an MoU with Apache Investment Holdings Pte. Ltd., Singapore for setting up an Adidas shoe manufacturing unit (a sector-specific SEZ footwear industry) in 314.57 acres of land at Mambattu village, Tada Mandal, SPS Nellore District on a 25-year long term lease at a nominal rate of ₹ 1/acre p.a. The allottee was to invest ₹ 200 crore within four years of SEZ approval and upto ₹ 500 crore over five years ‘under favourable conditions’, and was also required to provide employment to 10,000 persons

---

<sup>60</sup> Already altered/ extended as a result of the approval of the first restructuring proposal (November 2009).



(minimum) and 30,000 persons (maximum) in four phases'; production (1<sup>st</sup> phase) was to commence by end 2006, and all operational facilities were to be completed within 4 years. Further, the MoU empowered Apache Investment with the option to assign, transfer and convey in perpetuity all title in the land, as soon as Apache Investment's employee count reached 15,000 or more.

APIIC identified and, pending acquisition/ alienation, handed over advance possession of 313.57 acres of land (79.43 acres of endowment land<sup>61</sup> and 234.14 acres of Government land) to Apache Investment in February 2006, GoI approval for the sector-specific SEZ was obtained in August 2006, and the lease agreement with Apache Investment was concluded in October 2008.

In October 2009, APIIC recommended that GoAP transfer 100 acres of land at ₹ 1/acre in favour of Apache SEZ Development India Pvt. Ltd., a holding company of Apache Investment, because Apache Investment's operational difficulties had forced transfer of 100 acres on outright sale basis to Apache SEZ, which would in turn allot/ sell land to others. This was approved by GoAP in March 2010.

Clearly, even the original MoU, involving transfer of land free of cost, was loaded in favour of Apache Investment. Twenty five year long-term lease was also not smoothly enforceable, as Apache Investment could transfer the rights in the property against a consideration after reaching an employee count of 15,000.

Transfer of 100 acres to another entity, Apache SEZ Development India Pvt. Ltd., who could sell lands to others, transformed the exercise from setting up of a manufacturing unit futile and completion deviation of land obtained at zero cost from GoAP from its stated objectives while seeking allotment. This resulted in undue benefit of ₹ 20 crore, considering the then prevailing market value of ₹ 20 lakh per acre.

### ***Tata Telecom Academy***

Pending alienation orders, APIIC had acquired (April 2000) Government land of 1109 acres in Imarat Kancha, Raviryala Village, Maheshwaram Mandal, Rangareddy for developing various industrial parks. In June 2004, APIIC's Board decided to reserve land with frontage (i.e. road facing plots) in the Hardware Park, which amounted to 6.71 acres on 5 plots, for commercial advantage.

However, in April 2008, APIIC's Allotment Committee decided to allot these five plots. Despite knowing the fact that the area was reserved at the behest of the Board, on an internal noting suggesting Board's approval for such allotment, the then CMD ordered "no need to place in Board". The Provisional Allotment Order for these plots was issued in May 2008. Further, differential land cost of ₹ 0.94 crore, as per PFC fixed rates effective from May 2008, was yet to be recovered.

<sup>61</sup> For which APIIC paid (March 2006) ₹ 0.67 crore to the Asst. Commissioner, Endowments, Nellore.

***Bhuviteja Enterprises (India) Pvt. Ltd.***

APIIC allotted (November 2005) a one acre developed plot in the Financial District, Nanakramguda at 1.5 times the prevailing rate (total cost - ₹ 1.52 crore) to Bhuviteja Enterprises (India) Pvt. Ltd. for establishing an integrated petrol bunk with hotel and restaurant, business support centre and other amenities in a phased manner, with the sale agreement/ transfer of possession in January 2006. The project was to be implemented within 2 years of taking possession; however, the project (involving construction of G+19 floor, which was not disclosed on submission of application) is still under implementation.

In violation of the allotment regulations, the sale deed was executed in November 2008 with only partial/ negligible operation (petrol bunk), to facilitate obtaining of loans from financial institutions. Further, the Project Manager (IPU) irregularly directed (November 2008) the Joint Sub-Registrar, Moosapet, Rangareddy to register the Sale Agreement/ Sale Deed at ₹ 1.11 crore, leading to undervaluation of property by ₹ 0.41 crore and evasion of stamp/ transfer duty of ₹ 0.05 crore.

***Srini Food Park Private Limited***

After obtaining in principle approval (December 2008) from Ministry of Food Processing Industries, GoI for establishing 'Mega Food Park', APIIC allotted (February 2009) 147.71 acres of land at Mogili Village, Bangarupalayam Mandal, Chittoor District to Srini Food Park Private Limited at a tentative cost of ₹ 4 lakh/ acre, which was revised to 141.03 acres of land at ₹ 2.50 lakh/ acre (₹ 352.57 lakh). Sale deeds were executed for 110 acres (February/ May 2009) after receipt of sale consideration of ₹ 2.75 crore; subject to the allottee's undertaking to pay the differential cost of land. PFC fixed (October 2011) the cost of land at ₹ 100/ sq.mtr (i.e., ₹ 4.00 lakh per acre) and the allottee was asked (November 2011) to pay the differential cost of ₹ 1.70 crore, which is yet to be paid.

During an inspection (April 2010), APIIC discovered unauthorized encroachment of 5.40 acres of its land by the allottee (who stated that these lands were required for road access and agreed to pay the land cost); this also denied APIIC access to its balance adjoining lands (31.03 acres). The allottee requested (July 2011) for allotment of the balance land, in respect of which clarifications sought by the State Level Allotment Committee (September 2011) on project implementation and land utilization are yet to be furnished by the allottee.

APIIC failed to take penal action against the allottee for illegal encroachment of land, nor had it recovered the differential land cost from the allottee.

***UPI Polymers Pvt. Ltd.***

Pending alienation orders, APIIC took advance possession (April 2011) of 50 acres of Government land for developing an IP at Survepalli Village, Venkatachalam Mandal, SPS Nellore District, and allotted 45 acres of the above land (May 2011) to UPI Polymers Pvt. Ltd. at ₹ 9.49 lakh/ acre (arrived at by taking basic value of land of ₹ 7.50 lakh/ acre). However, taking into cognizance correspondence between the District Collector and the CCLA, who

recommended (June 2011) fixing a market value of ₹ 7 lakh/ acre but without communication of firm market value from GoAP, APIIC unilaterally reduced the basic cost of land and revised its land cost to ₹ 8.85 lakh/ acre, resulting in undue benefit of ₹ 0.28 crore to the allottee. Incidentally, APIIC had allotted (May 2011) adjoining land of 2 acres in the same IP to Ms. A. Radha Devi for establishing a petroleum retail outlet at 1.5 times of ₹ 9.49 lakh/ acre.

#### ***SRI City (P) Ltd.***

Whenever land utilization is converted from agriculture to non-agricultural purpose, the land owner/occupier has to pay land conversion fee under the AP Agriculture Land (Conversion to Non-Agricultural Purpose) Act, 2006 at 10 per cent of basic value of the land which will be fixed by the rules framed by GoAP from time to time.

Based on the application and agreement for acquisition of land (February/ June 2006) of SRI City (P) Ltd., APIIC acquired 7181.32 acres and allotted 7156.23 acres of land (Patta land – 3705.18 acres; and Government land– 3451.05 acres) between May 2007 and December 2011. However, APIIC did not pay the conversion fee payable for conversion for non-agricultural purpose, amounting to ₹ 9.03 crore<sup>62</sup>. APIIC stated that SRI City (P) Ltd. had remitted ₹ 2.63 crore<sup>63</sup> towards land conversion fee; thus there was short collection of ₹ 6.40 crore by APIIC from SRI City (P) Ltd. and corresponding short remittance to Government.

#### ***Vega Conveyors and Automation Ltd.***

APIIC allotted (November 2006) a plot of 7497 sq.m at ₹ 600/sq.m at IP Pashamylaram to Vega Conveyors and Automation Ltd., and sale agreement (along with transfer of possession) was concluded (March 2008) after collection of land cost. Subsequently, (July 2009), the allottee requested for allotment of an alternate plot, because the land allotted was not sufficient for its project. APIIC irregularly accepted the request, which was beyond the period of 90 days from the provisional allotment letter stipulated in the Allotment Regulations for considering requests for alternate plot. Further, it allotted (September 2009) an alternate plot of 14,918 sq.m (much larger size) at the older rate of ₹ 600/ sq.m for the initial allotment area, and the prevailing rate of ₹ 1500/sq.m only for the balance area, although the Allotment Regulations stipulate levy of the prevailing land cost for the entire (alternate) plot; this resulted in loss of revenue of ₹ 0.62 crore.

#### ***Air Liquide India Holding Pvt. Ltd.***

APIIC allotted (November 2007) 29.74 acres of land at IP, Vakalapudi, Kakinada to Air Liquide India Holding Pvt Ltd. at a cost of ₹ 24.07 crore for ‘fabrication of air and gas separation plants and providing related services and equipment’; it executed the sale agreement and handed over possession in September 2008. Although construction was to commence within 6 months of possession and project implementation was to be completed within 2 years, the

<sup>62</sup> Conversion charges for Dry land: 5501.36 acres X ₹ 12,000 (₹ 6.60 crore) & Wet land 1679.96 acres X ₹ 14,500 (₹ 2.43 crore); details for 25.01 acres of dry land are not available.

<sup>63</sup> Out of ₹ 2.77 crore for a total land of 7542 acre converted by allottee.

allottee did not commence construction. After issue of notices by APIIC, the allottee intimated (August 2010) their decision to surrender the land and requested (March 2011) for waiver of occupation charges which was granted. Such irregular waiver of occupation charges (₹ 2.17 crore), was accepted by VC&MD, APIIC and only the EMD of ₹ 0.75 lakh was forfeited. The allottee handed over possession of the land to APIIC in March 2011.

#### ***Apollo Hospital Pvt. Ltd.***

Pursuant to GoAP Order (May 2006), APIIC allotted (1 July 2006) 10 acres of land at Health City, Visakhapatnam ₹ 2 crore/ acre payable in five yearly installments. Further, it issued the Provisional Allotment Order, concluded the Sale Agreement and handed over possession (3 July 2006) of 8.03 acres of land – evidently in undue haste – after receiving only the first installment of ₹ 4 crore, in clear violation of the Allotment Regulations. However, despite fixing of a lenient payment schedule over five years<sup>64</sup>, the allottee has been continuously defaulting on payments. As of February 2012, a total amount of ₹ 13.93 crore (including interest of ₹ 3.12 crore) is due. Even after six years of handing over possession, the construction of the hospital buildings is stated to be in progress. Despite extension of undue favours from the very beginning, APIIC has failed to take punitive action for cancellation despite non-payment.

#### ***Institute of Cancer and Research Pvt. Ltd.***

APIIC allotted (June 2007) 5.07 acres of land at Health City, Visakhapatnam to the 'Indian Institute of Cancer and Research Pvt. Ltd.' at ₹ 2.75 crore/ acre plus development cost of ₹ 0.50 crore/ acre, and handed over possession in February 2009. Further, it concluded (February 2009) the sale agreement, without receiving the development cost of ₹ 2.54 crore, which was also suppressed from the sale consideration (resulting in evasion of stamp/ transfer duty of ₹ 0.25 crore). As of February 2012, an amount of ₹ 3.55 crore (₹ 2.54 crore – principal plus ₹ 1.01 crore – interest) is outstanding. As regards project implementation, the construction of even the compound wall was said to be in progress.

### **3.8. Other deficiencies**

#### ***3.8.1 Non-levy of commercial rates***

APIIC was charging commercial rates i.e., double the normal land cost (as on the date of allotment) for plots for Common Facility Centre (CFC) and other commercial activities in Industrial Parks (IPs) located in Hyderabad and Visakhapatnam, while in respect of other IPs, one and half times of the normal land cost. From October 2009, a uniform approach of one and half-times of the normal land cost was adopted in respect of all IPs.

Audit scrutiny revealed that APIIC failed to levy commercial rates for allotment of plots in CFC areas and other commercial activities in its Industrial Parks, resulting in loss of revenue of ₹ 16.13 crore in respect of 16 allottees (see **Annexure-3.6**). One important case is discussed below.

---

<sup>64</sup> As brought out in Para 6.1 of the CAG's Audit Report No. 2011-12, other entrepreneurs were asked to pay within 1 week/ 60 days/ 90 days.

### ***Sattva Infrastructure India Pvt. Ltd.***

In December 2008, APIIC allotted 29 acres of land to Sattva Infrastructure India Pvt Ltd. – 22 acres at ₹ 1125/ sq.m and 7 acres at ₹ 750/ sq.m – in the Common Facilities Centre (CFC) area in the Automotive Park, Toopran, Medak District for setting up of logistics park<sup>65</sup> with proposed investment of ₹ 46 crore and employment generation for 300 people. The stipulation of 1.5 times of the normal rates for lands/ plots in CFC area for commercial use outside Hyderabad area viz. ₹ 1125/ sq.m in this case, was not followed, resulting in loss of revenue of ₹ 1.06 crore<sup>66</sup>. Also, APIIC failed to levy interest of ₹ 0.63 crore on delays of 48 to 150 days in payment of land cost. Further, the allottee has not implemented the project, despite APIIC issuing show-cause notices in May 2010, March 2011, November 2011 and January 2012; however, APIIC has not levied penalty of ₹ 0.26 crore for extension of time, nor has it cancelled the allotment.

#### ***3.8.2 Non-levy/ Short levy of frontage charges***

As per clause 7.5 of APIIC's Allotment Regulations, 1998, frontage charges are levied at the rate of 15 *per cent* for plots/sheds facing or abutting National or State Highways or Service Roads of APIIC parallel to such highways and at the rate of 10 *per cent* for plots/ sheds facing or abutting District, PWD or ZP Roads or Service Roads of APIIC parallel to such roads. The limit for levy of frontage charges was restricted for allotments of plots up to 20,000 sq.m. per allotment, but there was no specific policy for charging beyond 20,000 sq.m. We observed that in respect of 13 allotments, the area allotted abutting State/National highways ranged between 21975 sq.m and 1955794 sq.m., for which no frontage was charged. This needs to be addressed urgently by APIIC with specific requirements for frontage charges for larger plot allotments.

Audit scrutiny revealed non levy/short levy of frontage charges of ₹ 0.47 crore in 12 cases for limits up to 20,000 sq.mtrs (as per Allotment Regulations) (see **Annexure-3.7**).

#### ***3.8.3 Non-levy/ Short levy of process fee and service charges***

On the requisition of allottees, APIIC also alienates and acquires land on which it collects Process Fee (PF), Earnest Money Deposit and Service Charges (SC)/Administrative Charges from the allottees as determined from time to time, the rates indicated below:

Charges	Upto November 2006	November 2006 to September 2010	From September 2010 onwards
<b>Process Fee</b>	₹ 20,000/ acre	₹ 10,000/ acre	₹ 15,000/ acre (upto 100 acres); ₹ 10,000/ acre (100-400 acres); ₹ 7500/ acre (above 400 acres)
<b>EMD</b>	₹ 10,000/ acre	₹ 20,000/ acre	₹ 20,000/ Acre
<b>Service / Administrative Charges</b>	15 <i>per cent</i>	15 <i>per cent</i>	15 <i>per cent</i> (upto 100 acres); 10 <i>per cent</i> (100- 400 acres); 7.5 <i>per cent</i> (above 400 acres)

<sup>65</sup> Including motel, petrol bunk and other related activities.

<sup>66</sup> 7 acres x 4047 sqm x (1125-750).

Audit scrutiny revealed short-levy/ non-levy by APIIC of Service Charges and Process Fees by ₹ 58.77 crore and ₹ 6.60 crore in respect of 21 and 12 allottees respectively; details are given in **Annexure-3.8**. One of the important cases involving such short levy/ non-levy is discussed below:

#### ***Anrak Aluminium Ltd.***

In pursuance of an application (April 2008) by Anrak Aluminium Ltd. and directions of GoAP, APIIC identified and acquired 1925.36 acres of land (1658.90 acres of patta land and 266.46 acres of Government land) between April 2008 and February 2009. It issued the Provisional Allotment Order for the above land at IP, Makavaram (Visakhapatnam District) on 16 February 2009, the Final Allotment Order on 18 February 2009 and the sale deed for the patta land on 19 February 2009, showing remarkable speed in allotment rarely displayed for other transactions. However, APIIC only indicated a tentative cost of ₹ 2.51 lakh/ acre for patta land through the allotment orders, without indicating the amount payable for service charges and process fees. Even when the cost of Government land was fixed by the Revenue Department in July 2009 at ₹ 2.32 lakh/ acre, APIIC informed (August 2009) the allottee of the land cost, service charges and process fee only in respect of Government land, but not for the patta land.

It is only when an additional 132.92 acres of land required by the allottee was under acquisition that the ED, APIIC directed (May 2011) the Zonal Manager, Visakhapatnam to recover the differential cost of land cost (at ₹ 2.85 lakh/ acre) for land already allotted along with service charges and process fee. The ZM raised (November 2011/ February 2012) demands for ₹ 15.96 crore (differential land cost-₹ 7.01 crore; service charge-₹ 7.29 crore and processing fee-₹ 1.66 crore). In response, the allottee questioned (February 2012) the methodology for calculations, but had not made payment. The project is still under implementation.

#### ***3.8.4 Non-levy/ non-recovery of penal interest***

As per its laid down pricing policy and allotment terms and conditions, APIIC charges interest/ penal interest at the rate of 12 *per cent* p.a. on non-receipt of sale consideration within the stipulated 90 days, *ex gratia*/ land cost deposited by APIIC with Revenue authorities on behalf of the allottees, and regularization of encroachments from the date of illegal occupation, and at the rate of 16 *per cent* p.a. on non-receipt of differential cost of land. Audit scrutiny revealed short levy/non recovery of interest/ penal interest of ₹ 3.68 crore in nine cases (see **Annexure-3.9**).

#### ***3.8.5 Loss due to extension of rebate to ineligible allottees***

APIIC decided to extend, as a special incentive, rebate of 5 *per cent* on total sale consideration to allottees remitting the due amount within 30 days of issue of the Provisional allotment order; this rebate was in force from November 2008 to March 2010.

Information in respect of special incentive/ rebate was provided in respect of only 2 (Shamshabad and Kakinada) out of 16 zones. In respect of these two zones, audit scrutiny revealed irregular provision of rebate of ₹ 0.19 crore to

three allottees<sup>67</sup> despite delay in remittance of sale consideration by 36 to 215 days.

### 3.9. Irregularities in allotment on lease basis

In addition to outright sale, APIIC has also been allotting plots/ land on long term lease (ranging from 21 to 66 years) by charging lease premium/ upfront fee (by charging either PFC fixed rates or based on market value), and collecting lease rentals at the rate of 1 or 2 *per cent* p.a. (with or without an incremental clause) on the lease premium.

Audit scrutiny revealed that APIIC has not framed any policy in fixing lease premium and lease rentals, with instances of arbitrary fixing of lower lease premiums with consequent under-charging of lease rentals, as described below.

#### ***Solar Semiconductor Pvt. Ltd. and XL Telecom & Energy Ltd.***

Fab City SPV (India) Pvt Ltd. (FCPL) was incorporated (May 2006) as an 89 *per cent* subsidiary of APIIC and notified in 1075 acres of land in Rangareddy as a sector-specific SEZ through different GoI notifications (January 2007 to July 2009). As of May 2012, allotments of 401.10 acres had been made by FCPL to 16 allottees on long lease basis (33 to 66 years), charging lease premium and annual lease rentals at the rate of 2 *per cent* of 50 *per cent* of the Lease Premium. However, in respect of two allottees (Solar Semiconductor Pvt. Ltd. and XL Telecom & Energy Ltd.), APIIC fixed annual lease rentals at a nominal rate of ₹ 100/ acre, resulting in loss of revenue of ₹ 13.13 crore over the 66 year lease period to APIIC and corresponding undue benefit to the allottees.

#### ***Thermal Power Tech Corporation (India) Limited***

APIIC allotted (September 2009) 680.55 acres of land in Muthukur Mandal, SPS Nellore District to Thermal Power Tech Corporation (India) Limited on long lease (21 years) with an upfront fee of ₹ 9 lakh/ acre and a nominal annual lease rental of just ₹ 1,000/ acre, while lease rentals for other leases by APIIC in MP SEZ, Naidupet, SPS Nellore District<sup>68</sup> were fixed at the rate of 2 *per cent* of 50 *per cent* of the lease premium. This resulted in loss of ₹ 12.86 crore of revenue over the 21-year lease period to APIIC.

#### ***Samuha Engineering Industries Ltd. (SEIL)***

APIIC earmarked land of 347.25 acres (240.43 acres in the SEZ area and 106.82 acres in non-SEZ area) in Adibatla Village, Ibrahimpatnam Mandal of Rangareddy for development of Aerospace SEZ. Between October 2007 and June 2009, APIIC allotted land at lease premiums ranging between ₹ 25 lakh to ₹ 30 lakh, and lease rentals at the rate of 2 *per cent* p.a. with annual incremental increase.

However, audit scrutiny revealed a series of undue favours to one allottee – Samuha Engineering Industries Ltd. (SEIL), as summarised below:

<sup>67</sup> Varasiddhi Vinayaka Agro, Peddapuram – 36 days; Thermo Cables Lt, Jedcherla – 42 days, and Raichem Pharma Pvt. Ltd. – 215 days.

<sup>68</sup> Prime Electric Ltd. – May 2009; Hemair Systems Ltd. – August, 2009 and Greentech Industries (India) Pvt. Ltd. – July 2009.

- APIIC decided to allot undeveloped land at ₹ 10 lakh/ acre on Outright Sale basis (against the prevailing market value of ₹ 30 lakh/ acre) after a decision was taken in a meeting held on 30 November 2009 between the Principal Secretary & CIP to Government, Industries & Commerce Department, C&MD, Executive Director, and Advisor-II of APIIC and representatives from the allottee company.
- In April 2010, SEIL submitted an application for establishing an Aerospace & Precision Engineering and Products Manufacturing Unit in the Aerospace SEZ. APIIC allotted (April 2010) land of 103 acres (later revised to 100.51 acres) to SEIL at a lease premium of ₹ 10 lakh/ acre on a 33 year lease. On receipt of the lease premium of ₹ 10.05 crore, the lease deed was concluded in January 2011; although in June 2010, the PFC had decided on annual lease rentals at the rate of 2 per cent with 5 per cent annual increment, in this case the lease rentals remained at 1 per cent with 5 per cent annual increment. APIIC also allotted (April 2010) the entire 93.18 acres of land in the Aerospace non-SEZ area adjoining the SEZ at ₹ 10 lakh/ acre, for which sale agreement was concluded in November 2010 after receipt of sale consideration.

The total undue benefit to SEIL amounted to ₹ 61.24 crore over the lease period:

- Under-recovery of lease premium of ₹ 15.08 crore (vis-à-vis the lease premium of ₹ 25 lakh/ acre charged to Punj Lloyd<sup>69</sup>);
- Under-recovery of lease rentals (both due to lower lease premium and lower annual rental rate of 1 per cent) of ₹ 32.18 crore;
- Under-recovery of land cost on non-SEZ land of ₹ 13.98 crore.

Further, in February 2011, without going through a transparent tendering process, APIIC selected SEIL as its co-developer, and entered into a co-developer agreement with SEIL over the 100.51 acres of land, with SEIL being responsible for providing internal infrastructure but also empowered to sub-let/ sub-lease and also mortgage plots with APIIC's approval. Based on the recommendations of APIIC's VC&MD and DC, Visakhapatnam SEZ, the SEZ Board approved the selection of SEIL as co-developer in March 2011, despite reservations expressed on the lack of relevant expertise of SEIL.

### **3.9.1 Waiver of Lease Rentals**

APIIC waived payment of lease rentals for the first five years from the date of possessions for seven allottees<sup>70</sup>, although other allottees in the same IP/ SEZ did not receive such benefits. This resulted in loss of revenue of ₹ 1.41 crore to APIIC, with corresponding benefit to the allottees.

---

<sup>69</sup> A higher rate of ₹ 30 lakh/ acre was charged to Tata Advanced Systems and ₹ 25.00 lakh/acre to Punj Lloyd.

<sup>70</sup> Infotech Entp, Kakinada; KSK Surya Photovoltaic, Shamsabad; MyTec Software, Vizag; Precitat IT, Vizag; Tata Advanced Systems Ltd., Shamsabad; Titan Energy Systems, Shamsabad; and Xenosoft Technologies, Vizag.



### 3.10. Non-achievement/ partial achievement of objectives

#### 3.10.1 Overall Status of Implementation

Out of 6,038 allotments (involving 56,003 acres of land) made during 2006-12, 2,447 allottees had implemented their units, 1,267 units were still under implementation, while 1,826 units (covering 22,542 acres of land) had yet to commence implementation and possession in respect of 498 allotments is yet to be handed over. Further, out of 4,220 allotments made during 2006-10, which should have been completed within 2 years (i.e. by now), 1,204 units (involving 15,292 acres of land) were yet to even commence implementation. Except for sending formal notices, APIIC had not taken serious action for cancellation/ resumption.

#### 3.10.2 Non implementation of Projects

##### *IT Towers and Park/ SEZ at Putlampalli*

GoAP directed (February 2007) establishment of IT Towers and Park/ SEZ at Putlampalli in YSR Kadapa District and alienated (April 2007) 52.76 acres of land for establishment of IT Park/ SEZ on PPP basis; this was approved by GoI in July 2007.

However, despite expenditure by APIIC of ₹ 6.13 crore<sup>71</sup> (excluding the land value of ₹ 10.50 crore), the objective of the IT Park/ SEZ has not been achieved. Just 5 acres of land were leased by APIIC (February 2008) to Raheja Corp Pvt Ltd., who requested (October 2010) cancellation of the lease and the development agreement on grounds of lack of proper access to the site and lack of interest by Indian/ MNC clients for Tier II/ III sites. Thus, the amount spent on creation of infrastructure facility to the extent of ₹ 6.13 crore was blocked up.

##### *IT SEZ at Kakinada*

GoI approved (October 2007) development and O&M of an IT SEZ at Kakinada, and notified (January 2008) 25.73 acres of land for IT and IT enabled services under the sector-specific SEZ. This land had been acquired by APIIC in 1992.

However, despite expenditure of ₹ 3.07 crore on civil works, APIIC could allot (October 2008) only five plots for 4.99 acres to one allottee, with the balance nine plots for 10.51 acres remaining unallotted. Further, the time period of three years for implementation of the IT SEZ stipulated by GoI expired in October 2010, and APIIC has not sought further extension.

##### *IP at Kakinada*

APIIC asked the Revenue Department to acquire 295.04 acres of patta land at Thammavaram Village, Kakinada (Rural) for development of an Industrial Park at Kakinada. Although APIIC paid ₹ 3.66 crore as land compensation, the total liability for land compensation was ₹ 19.01 crore<sup>72</sup> on account of legal cases filed by unsatisfied farmers, and is likely to increase further.

<sup>71</sup> ₹ 3.33 crore – roads, ₹ 2.10 crore – power supply; ₹ 0.70 crore for compound wall ₹ 6.13 crore.

<sup>72</sup> Including the amount of ₹ 3.66 crore already paid.

Despite knowing that 186 acres land was under litigation, APIIC sold (March 2008/ March 2009) 25 acres for ₹ 10.12 crore to two entrepreneurs<sup>73</sup>, who were unable to commence construction activities and operations due to the farmers' dispute with APIIC. APIIC also laid a bitumen/ asphaltic road 5.5 metre wide carriage way (including culverts) at a cost of ₹ 0.94 crore on an existing 30 feet-wide gravel-kutchra village road, which should not have been taken in the first instance as the work was obstructed for more than a year by the farmers.

#### ***IT SEZ at Gambheeram***

APIIC developed (2008) an IT SEZ at Gambheeram, Visakhapatnam in 51.31 acres of land (gross area), carving out 23 plots (net usable area of 21.91 acres), and incurred expenditure of ₹ 1.66 crore on development works<sup>74</sup>. However, all 23 plots remained vacant. Against 3 plots totaling 2 acres allotted to 3 IT companies, in terms of MoUs entered into in November 2009, only one company had shown some interest in the SEZ.

#### ***Gokaldas Image Pvt. Ltd. and Shahi Exports Pvt. Ltd.***

GoAP allotted (December 2005) 8-10 acres of land each to five entrepreneurs, who had approached GoAP, for establishing garment manufacturing and export units with a promise of creating employment for 3000 persons each. While three units had implemented the projects, two units had failed to do so, as summarized below:

- Gokaldas Images Pvt. Ltd. was allotted (May 2006) 8.303 acres of land by APIIC at a concessional rate of ₹ 25 lakh/ acre (against the prevailing rate of ₹ 60.71 lakh/ acre) with the stipulation of completing the project within 2 ½ years and creating employment for 2500 persons. However, the project has not been implemented till date, despite issue of notices. APIIC's request (May 2010) to GoAP for cancellation of the allotment has not been acted upon by GoAP. In addition to the concession in land cost of ₹ 2.97 crore, penalty of ₹ 2.42 crore for delayed implementation has not been levied.
- Shahi Exports Pvt. Ltd., Haryana was allotted (May 2006) 9.13 acres of land at the concessional rate of ₹ 25 lakh/ acre (against the prevailing rate of ₹ 60.75 lakh/ acre) with the stipulation of creating employment for 3000 persons. While the allottee commenced production from May 2010, it had provided employment to only 1500 persons as of November 2010. We observed that concessional land allotments are made to IT companies, subject to recovery of proportionate concessional land rate in case of default in providing envisaged employment by the allottee. However, no such clause for recovery of proportionate land cost is incorporated in the allotment letter/agreement; as a result, proportionate land cost of ₹ 1.63 crore could not be recovered.

---

<sup>73</sup> 13 acres for ₹ 5.26 crore to Aishwarya Infrastructure & Services, and 12 acres for ₹ 4.86 crore to Emmel Infrastructure Pvt Ltd.

<sup>74</sup> ₹ 1.32 crore – laying of roads; ₹ 0.34 crore – fencing works.

**Apache Footwear India Pvt. Ltd.**

APIIC requisitioned (July 2009) alienation of 87.24 acres of DKT<sup>75</sup> land in Settigunta village, Kodur mandal, YSR Kadapa District for establishment of Industrial Park and allotment to Apache Footwear India Pvt. Ltd. for setting up a footwear stitching unit, within a stipulated period of 6 months.

APIIC deposited (September 2009) ₹ 1.40 crore<sup>76</sup> and took over possession of 20.27 acres in November 2009; the RDO furnished UCs (February 2012) for ₹ 1.11 crore, with unspent balance of ₹ 0.29 crore. However, Apache Footwear had not taken over possession, although it had confirmed (October 2009) the adequacy of 20.27 acres. Further, APIIC failed to collect EMD and Process Fee amounting to ₹ 0.69 crore from the allottee and the land is still lying unutilized with the company.

**GVK Bio Science Pvt. Ltd.**

APIIC allotted (November 2005) 20 acres of land at IDA Mallapur to GVK Bio Science Pvt. Ltd. for setting up of ‘contract research of development activities for pharma and biotech companies’, to be completed within two years. It entered into a sale agreement and transferred possession of land (March 2007) to the allottee on payment of ₹ 6.32 crore.

However, the allottee has failed to complete the project. APIIC has neither cancelled the allotment, nor levied penalty of ₹ 0.42 crore on the allottee.

**Hinduja Foundries Ltd.**

APIIC allotted (August 2007) 60 acres of land at ₹ 25 lakh/ acre in the Automotive Park, Muppireddypally, Toopran to Hinduja Foundries Ltd. for establishing an auto applications manufacture unit with proposed investment of ₹ 150 crore and employment generation for 700 people within a two year timeframe; it entered into a sale agreement and handed over possession in April 2008. However, the allottee had not commenced project implementation, except for construction of compound walls. Further, at the allottee’s request, APIIC extended the time limit to December 2012, without levying penalty of ₹ 4.59 crore on the allottee.

**Aga Khan Foundation**

GoAP directed (August 2005) APIIC to allot 100 acres (then prevailing market value of ₹ 8 crore) of undeveloped land in Hardware Park, Kancha Imrat, Hyderabad free of cost to the Agha Khan Foundation, Switzerland for opening a ‘Centre of Excellence’; the Foundation was also exempted from payment of state taxes and duties. As of February 2012, the project was still under implementation, and only the construction of buildings had been completed.

**Wipro Ltd.**

Pursuant to the IT Policy 2005-10 and an MoU (October 2005) between GoAP

<sup>75</sup> Darkhastudaru – a type of assigned land for which compensation is paid to assignee.

<sup>76</sup> In response to the District Collector’s request for depositing ₹ 6.02 crore for alienating the land, failing which deposit of ₹ 1.40 crore towards the cost of 20 acres for paying *ex gratia* at ₹ 7.00 lakh/ acre to the DKT land holders.

and Wipro Ltd., 7.14 acres of land was allotted (May 2006) at ₹ 80 lakh/ acre at Resapuvanipalem, Visakhapatnam and the sale agreement, along with land possession, was executed in April 2007 after payment of the land cost. Commencement of construction within 12 to 18 months from allotment and implementation within 5 years, along with providing employment to 2000 personnel was stipulated, failing which rebate on pro rata basis, along with interest at the rate of 16 *per cent* p.a. on daily product basis, was to be refunded by the allottee.

Wipro Ltd., did not implement the project within five years, and APIIC obtained (December 2011) GoAP approval for cancellation and resumption of land. Subsequently, after directions from the Minister, IT&C, APIIC issued a notice (March 2012) to the allottee, which assured (April 2012) project implementation within the next few months. Also, APIIC did not claim refund of rebate pro rata, which would have amounted to ₹ 28.56 crore.

#### ***Satyam Computer Services Ltd.***

Pursuant to the IT Policy 2002-05 and an MoU (May 2002) between GoAP and Satyam Computer Services Ltd., 14.93 acres of land was allotted (October 2004) at ₹ 80 lakh/ acre at Hi-Tech City, Madhapur to Nipuna Services Limited, a subsidiary of Satyam, and possession of land handed over between May 2004 and April 2006. APIIC irregularly acceded to Satyam's request (July 2005) for resuming and transferring the land to Satyam at the same rate of ₹ 80 lakh/ acre, without either recovering occupation charges (₹ 0.72 crore) or making a fresh allotment at the then prevalent rates.

The allottee had to provide employment for 6500 persons by the end of the 7<sup>th</sup> year (extended to 64 months through the re-allotment to Satyam), failing which rebate/ subsidy was to be refunded at ₹ 20,000/ job failed in creation on a proportion to 2000 personnel was stipulated, failing which rebate on pro rata basis, along with interest at the rate of 16 *per cent* p.a. on daily product basis, was to be refunded by the allottee. However, APIIC did not claim the rebate due of ₹ 9.07 crore, along with interest thereon of ₹ 1.45 crore.

#### ***IT Park at Tirupati***

Pending alienation proceedings, APIIC acquired (July 2007) 152.16 acres of Government land for establishing an IT Park at Tirupati (72.05 acres – IT SEZ, and 80.115 acres – IT Non-SEZ), and completed (October 2009) various development works at a cost of ₹ 6.21 crore (proportionate cost for Non-SEZ area: ₹ 5.63 crore). APIIC also allotted 72.945 acres in the IT Non-SEZ area to six entrepreneurs, realising revenue of ₹ 8.26 crore. These activities were undertaken, despite the fact that TUDA had not approved the proposed layout plan since the Tirupati Master Plan included a proposed 80 feet wide road through the IT Non-SEZ area<sup>77</sup>. In fact, APIIC realised (April 2011) that the land allotted in the Non-SEZ area was undeveloped land, which was not indicated in APIIC's allotment orders (except in one case). In our opinion, APIIC should have undertaken development work and allotments only after getting the layout plan approved by TUDA. Until such approval is granted,

---

<sup>77</sup> APIIC has been requesting GoAP for deletion of this road, but no response/ approval has been received.

APIIC cannot approve the building plans of the allottees, who, thus, cannot implement their projects.

As regards the IT SEZ area, not even a single IT company had come forward to establish their units in the SEZ. The entire expenditure of ₹ 6.21 crore incurred by APIIC on development works (both SEZ and non-SEZ areas) is, thus, infructuous.

### **3.10.3 Non-Implementation of Projects by IT Companies as per MoUs**

GoAP has been entering into MoUs with various IT companies, based on the recommendations of the Consultative Committee on Information Technology, and has been allotting land on concessional rates to these IT units, subject to achievement of periodical targets for investments and employment generation stipulated in the MoUs.

Audit scrutiny of achievements in respect of MoUs for 37 units during the period 2006-12 revealed the following:

- Out of the 37 units, 11 had been implemented, 9 were under implementation and 17 had not been implemented at all.
- Against the proposed investment of ₹ 1651.16 crore, the actual investment was ₹ 17143. 51 crore. However, this was largely due to a huge investment of ₹ 15,000 crore by Wipro at their Vattinagulapally Campus (against the projected investment of ₹ 100 crore). 22 out of 37 units made investments which were less than the investments proposed in the MoUs.
- Against the proposed employment generation of 85,490 up to 18 August 2012, the actual employment generation was only 25,511. Even in respect of the 11 implemented units, the actual employment generation was only 25,511 against the proposed 41,190, only 4 units could achieve the targeted/ proposed employment.

## **Conclusions**

- *Audit scrutiny revealed a large number of allotments by APIIC, both on Outright Sale and lease basis, to private parties at rates which were fixed either below the market value or at rates below its acquisition cost and also below the recommended/approved rates by Price Fixation Committee; in some cases, these allotments were made to private parties, pending issue of alienation orders by GoAP. APIIC also failed to follow its own pricing policy and Allotment Regulations in respect of allotments by not collecting/levying commercial rates for undertaking commercial activities, failing to levy services charges/ process fee and frontage charges, and not levying fines and penalties etc.; this resulted in substantial loss of revenue to APIIC with corresponding benefit to the allottees.*
- *APIIC's allotment of the "Integrated Vizag Knowledge City" project in Visakhapatnam District to Unitech Ltd. was deficient. Qualification of Unitech Ltd. and disqualification of other bidders in a fair and transparent manner could not be established. Further, there were enormous post-bid changes in the Development Agreement for the project and contractual changes in the Trade Towers and Business*

***District Project in Rangareddy District.***

- ***Due to non implementation/ partial implementation of various projects for which land was allotted by APIIC, the stated objectives of industrial development and employment generation were not achieved.***

**Recommendations**

- ***Sale of land, which is in advance possession of APIIC, to private parties should be strictly avoided, till finalization of alienation proceedings and fixation of land cost by GoAP/APIIC. APIIC should strictly avoid allotments to private parties, before fixation of cost by its Price Fixation Committee.***
- ***Responsibility of concerned officials may be fixed in cases of allotments at rates below market value and/ or rates fixed by APIIC's PFC. Further, APIIC may also review cases where the allotment terms and conditions have not been complied within a timely manner in accordance with the stipulated milestones.***
- ***Any industry-specific relaxations granted by APIIC should be, applied uniformly and transparently across all allottees under that category.***
- ***All deviations from APIIC's approved policies and regulations must be duly justified to the Board of Directors of APIIC/ GoAP for their decision as to whether these deviations are appropriate and in public interest.***
- ***Government and APIIC should prevent extension of any favours to the developers through more post-contractual amendments to the agreement(s)/terms of bid documents. If the developers do not comply with the basic requirements which were clearly stipulated at the time of tendering and contract award (and made known to all other tendering parties, who were edged out by the successful bidder), the agreements should consider termination on grounds of the developer's default, after giving due notice and following stipulated contractual formalities.***