

CHAPTER VI

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

6.1 Overview of Union Territory of Puducherry Public Sector Undertakings

Introduction

6.1.1 The Union Territory Public Sector Undertakings (PSUs) were established to carry out commercial activities keeping in view the welfare of people. As on 31 March 2012, there were 13 Government companies (all working) and none of them was listed on the stock exchange(s). These PSUs registered a turnover of ₹ 336.68 crore as per their latest finalised accounts (September 2012). This turnover was equal to 2.39 *per cent* of Gross State Domestic Product (GSDP) for 2011-12. The major activities of PSUs are concentrated in Financing and Manufacturing sectors. The PSUs incurred an aggregate loss of ₹ 55.81 crore as per their latest finalised accounts (September 2012). They had employed 5,839 employees as of 31 March 2012.

6.1.2 No PSU was either established or closed during 2011-12.

6.1.3 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government Company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government Company includes a subsidiary of a Government Company.

6.1.4 The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per provisions of Section 619 of the Companies Act, 1956.

Investments in State PSUs

6.1.5 As on 31 March 2012, the investment (capital and long-term loans) in 13 PSUs was ₹ 726.25 crore as per details given below:

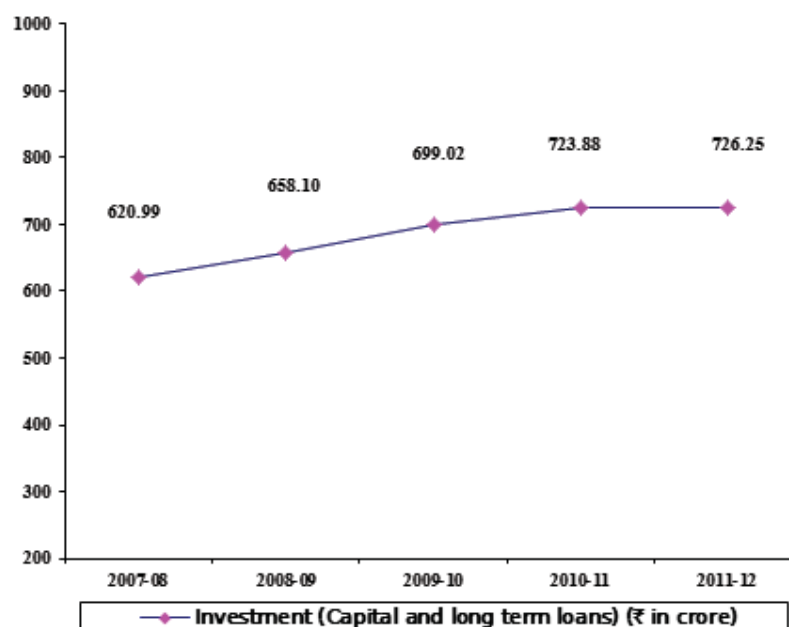
(₹ in crore)

Type of PSUs	Capital	Long Term Loans	Total
Working PSUs	710.90	15.35	726.25

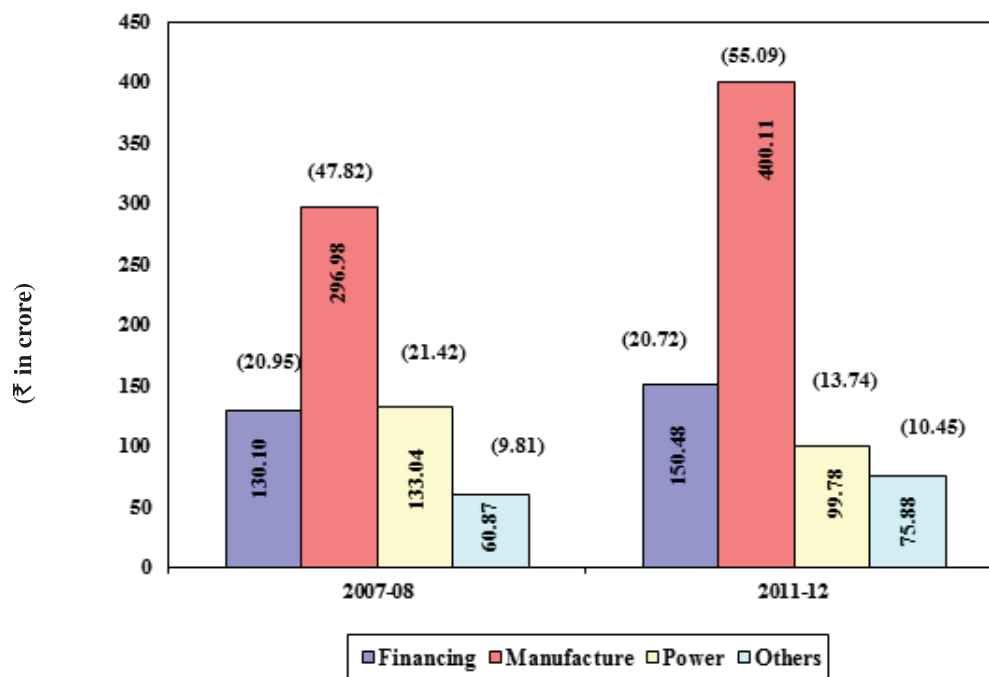
(Source : Details furnished by the Companies)

A summarised position of Government investment in PSUs of UT of Puducherry is detailed in **Appendix 6.1**.

6.1.6 Of the total investment in the 13 PSUs as on 31 March 2012, 97.89 *per cent* was towards capital and 2.11 *per cent* in long-term loans. The investment has grown by 16.95 *per cent* from ₹ 620.99 crore in 2007-08 to ₹ 726.25 crore in 2011-12.



6.1.7 The investment in various important sectors and percentage thereof at the end of 31 March 2008 and 31 March 2012 are indicated in the bar chart.



Budgetary outgo, grants/subsidies, guarantees and loans

6.1.8 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of PSUs are given in **Appendix 6.3**. The summarised details of budgetary support from Government of UT of Puducherry are given below for three years ended 31 March 2012.

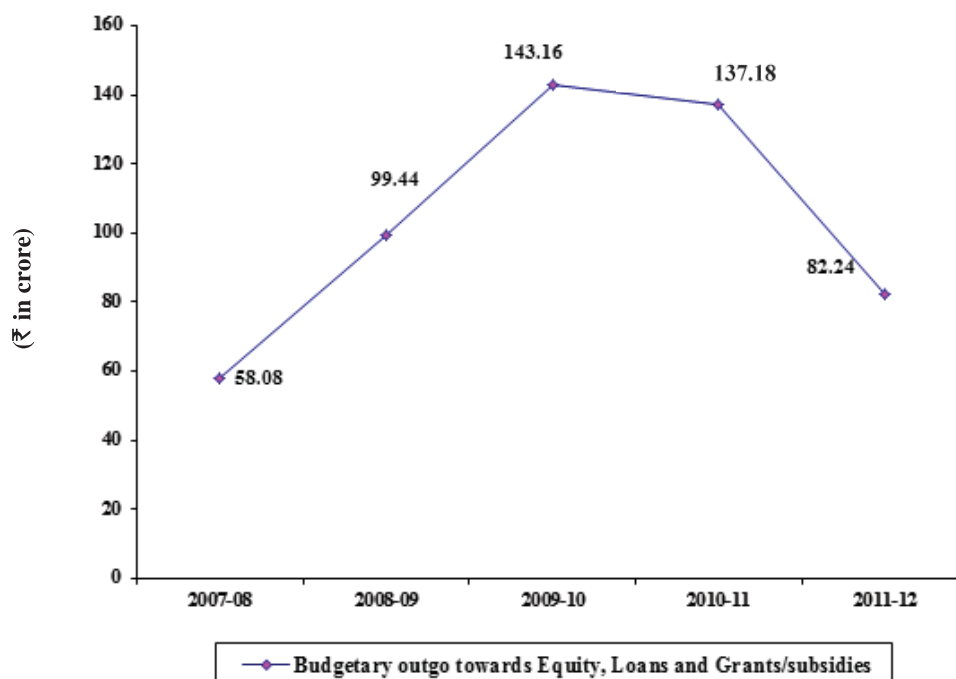
(Amount - ₹ in crore)

Sl.No	Particulars	2009-10		2010-11		2011-12	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1	Equity Capital outgo from budget	7	65.72	7	17.72	5	6.73
2	Loans given from budget	--	--	1	0.32	--	--
3	Grants/Subsidy received	5	77.44	6	119.14	6	75.51
4	Total Outgo (1+2+3)	8 ¹	143.16	8 ¹	137.18	8 ¹	82.24
5	Loan converted into equity	--	--	2	4.01	--	--
6	Guarantee Commitment	1	4.97	1	4.97	1	3.64

(Source : Details furnished by the Companies)

¹ These are the actual number of companies which have received budgetary support in the form of equity, loans and grants/subsidies from the UT Government during the respective years.

6.1.9 The details regarding budgetary outgo towards equity, loans and grants/subsidies for the past five years are given in the graph below:



In respect of Pondicherry Corporation for Development of Women and Handicapped Persons Limited and Puducherry Backward Classes and Minorities Development Corporation Limited, the entire loss is met by the Government of UT of Puducherry by way of subsidy.

6.1.10 As regards guarantee commitment, only Puducherry Adi Dravidar Development Corporation Limited availed the Government of India guarantee against which ₹ 3.64 crore was outstanding as on 31 March 2012. No guarantee commission was payable to the UT Government by the Company.

Absence of accurate figure for investment in PSUs

6.1.11 Figures in respect of equity and loans outstanding as per records of UT PSUs should agree with that of the figures appearing in the Finance Accounts of the Government of UT of Puducherry. In case the figures do not agree, the concerned PSUs and the Finance Department should reconcile the differences. The position in this regard as on 31 March 2012 is stated below:

(₹ in crore)

Outstanding in respect of	Amount as per Finance Accounts 2011-12	Amount as per records of PSUs	Difference
Equity	700.23	700.53	0.30
Loans	0.94	--	0.94
Guarantees	4.28	3.64	0.64

(Source: Finance Accounts for 2011-12 and details furnished by the Companies)

6.1.12 Audit observed that the differences occurred in respect of three PSUs and the differences were pending reconciliation over a period of five years up to 2011-12. The UT Government and PSUs may take concrete steps to reconcile the differences in a time bound manner.

Performance of PSUs

6.1.13 The financial results of PSUs are detailed in **Appendix 6.2**. The ratio of PSUs turnover to State GDP shows the extent of PSUs activities in the State economy. Table below provides the details of PSUs turnover and GSDP for the period 2007-08 to 2011-12.

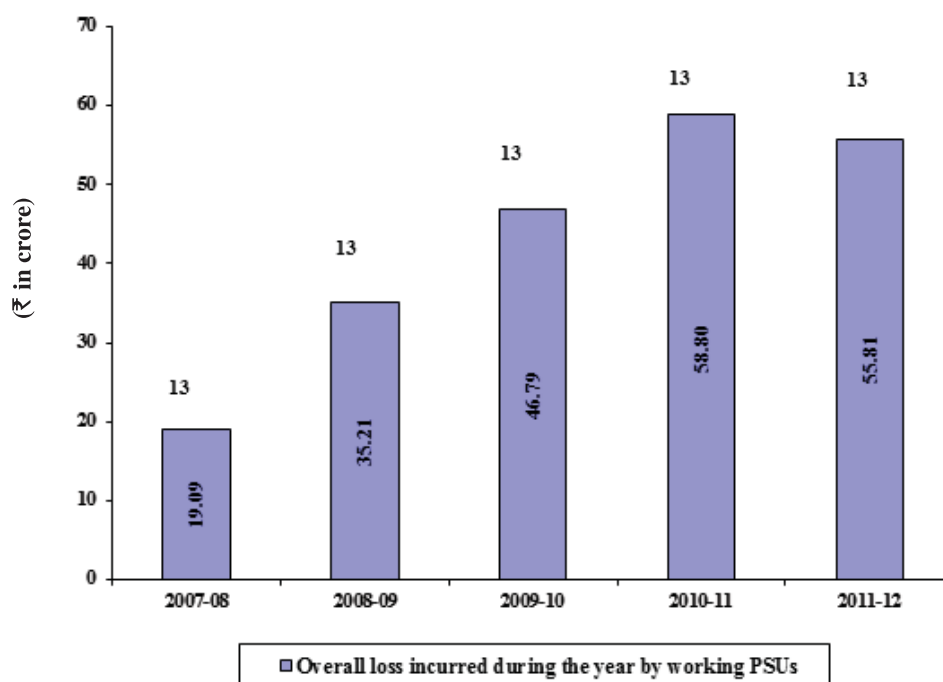
(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Turnover	307.39	399.89	308.53	338.35	336.68 ²
GSDP	7,103	11,773.57	11,255.23	11,255.23	14,081.06
Percentage of Turnover to State GDP	4.33	3.40	2.74	3.01	2.39

(Source : Details furnished by the Companies and GSDP furnished by UT Government)

6.1.14 The overall losses incurred by the UT PSUs during the period 2007-12 is given below in the bar chart.

² Turnover as per latest finalised accounts as of 30 September 2012



During the year 2011-12, out of 13 PSUs, two PSUs earned profit of ₹ 5.31 crore while nine PSUs incurred loss of ₹ 61.12 crore leading to overall loss. Two working PSUs prepared their accounts on ‘no profit no loss’ basis. The contributors to profit were Puducherry Distilleries Limited (₹ 4.63 crore) and Puducherry Power Corporation Limited (₹ 0.68 crore). Heavy losses were incurred by Pondicherry Textiles Corporation Limited (₹ 30.12 crore) and Swadeshee-Bharathee Textile Mills Limited (₹ 11.17 crore).

6.1.15 The losses of PSUs were mainly attributable to deficiencies in financial management, planning, implementation of projects, operational management and monitoring. A review of the latest Audit Reports of CAG showed that the UT PSUs incurred avoidable expenditure/loss of revenue to the extent of ₹ 1.99 crore. Year-wise details from Audit Reports are stated below:

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	Total
Net Profit (loss)	(46.79)	(58.80)	(55.81)	(161.40)
Controllable losses as per C&AG's Audit Report	0.96	1.83	1.99	4.78

(Source: Details furnished by the Companies)

6.1.16 The above losses pointed out by Audit Reports of CAG were based on test check of records of PSUs. Therefore, the actual controllable losses could be much more than this. With better management, the losses could be minimised. The PSUs can discharge their role efficiently only if they are

financially prudent. This points towards a need for professionalism and accountability in the functioning of PSUs.

6.1.17 Some other key parameters pertaining to UT PSUs are given below:
(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Return on Capital Employed (Per cent)	NIL	NIL	NIL	NIL	NIL
Debt	14.89	11.48	16.46	19.59	15.35
Turnover	307.39	399.89	308.53	338.35	336.68
Debt/Turnover Ratio	0.05:1	0.03:1	0.05:1	0.06:1	0.05:1
Interest Payments	4.54	7.25	10.49	10.56	15.15
Accumulated Losses	211.36	263.76	268.60	378.51	449.45

(Source: Details furnished by the Companies)

6.1.18 As per the latest finalised accounts of PSUs as on 30 September 2012, the capital employed worked out to ₹ 677.15 crore in comparison to capital employed of ₹ 571.93 crore in 2007-08. During the last five years overall return on capital employed remained negative.

6.1.19 The State Government had not formulated any policy for payment of minimum dividend on the paid up share capital contributed by it. As per their latest finalised accounts, two PSUs earned an aggregate profit of ₹ 5.31 crore and one PSU³ declared a dividend of ₹ 0.93 crore.

Arrears in finalisation of accounts

6.1.20 The accounts of the companies for every year are required to be finalised within six months from the end of the relevant financial year under Sections 166, 210, 230 and 619 of the Companies Act, 1956. The table below provides the details of progress made by PSUs in finalisation of accounts by September 2012.

Sl.No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Number of PSUs	13	13	13	13	13
2.	Number of accounts finalised during the year.	12	13	13	8	17
3.	Number of accounts in arrears	20	20	20	25	21
4.	Number of PSUs with arrears in accounts	12	13	13	13	12
5.	Extent of arrears	1 to 3 years	1 to 3 years	1 to 3 years	1 to 3 years	1 to 3 years

(Source: Details compiled by Audit)

³ Puducherry Distilleries Limited

6.1.21 It could be seen from the table that 12 companies are having arrears in finalisation of accounts. The extent of arrears remained the same at one to three years during the five years ending 2011-12. The companies should make efforts to reduce the arrears in finalisation of accounts.

6.1.22 As of September 2012, the UT Government has invested ₹ 144.86 crore (Equity: ₹ 22.26 crore, Grants/Subsidies: ₹ 122.60 crore) in nine PSUs during the years for which accounts have not been finalised as detailed in **Appendix 6.4**. In the absence of accounts and their audit, investments and expenditure incurred cannot be vouchsafed.

6.1.23 The administrative departments have the responsibility of overseeing the activities of these entities and ensuring that the accounts are finalised and adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed periodically by Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this, the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (October 2012) with the Chief Secretary to UT Government to expedite the finalisation of accounts in arrears.

Adverse Comments on the Accounts and Internal Audit of PSUs

6.1.24 Eleven companies forwarded their accounts to CAG during the year 2011-12. Of these, accounts of six companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below:

(Amount ₹ in crore)

Sl. No.	Particulars	2009-10		2010-11		2011-12	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	0.88	---	---	---	---
2.	Increase in loss	1	7.53	2	5.79	2	10.23
3.	Errors of classification	1	0.52	1	0.60	---	---
	Total	3	8.93	2	6.39	2	10.23

(Source: Annual Accounts of the Companies)

6.1.25 During the year, the statutory auditors had given unqualified certificates for eight accounts and qualified certificates for nine accounts.

6.1.26 Some of the important comments in respect of accounts of companies are stated below:

Puducherry Agro Services and Industries Corporation Limited (2008-09)

- Understatement of losses due to short provision of leave encashment benefits to the extent of ₹ 1.97 crore.

Pondicherry Textiles Corporation Limited (2009-10)

- The Statutory Auditors expressed their inability to give an opinion about (i) the recoverability of loans and advances amounting to ₹ 5.03 crore (ii) non-provision of interest on the loan amount of ₹ 3.47 crore and (iii) realisability of slow moving/non-moving items valued at cost.
- There was understatement of loss due to:
 - (i) non-provision of gratuity liability of ₹ 0.42 crore.
 - (ii) accounting of Voluntary Retirement Scheme compensation as receivable from Government of Puducherry without orders – ₹ 1.04 crore.
 - (iii) non-provision of ESI contribution on the interim relief granted to workers and contract labourers – ₹ 1.79 crore.
 - (iv) Valuation of process stock of unpacked grey cloth at cost despite its realisable value being lower than the cost – ₹ 5.01 crore.

6.1.27 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/internal control system during the year 2011-12 is given below:

Sl.No	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 6.2
1.	There was no system of preparing short term/long term business plans and review the same with actuals	3	6, 12 & 13
2.	Internal audit requires strengthening	3	2, 7 & 13
3.	Internal audit manual not prescribed	2	6&9
4.	Delineated fraud policy not available	6	2, 6, 7, 9, 12 & 13

Sl.No	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to serial number of the companies as per Appendix 6.2
5.	Non-formation/non-convening of Audit Committee in compliance with Section 292-A of the companies Act, 1956	3	1,4 &5
6.	Non-maintenance of proper register for fixed assets	1	5
7.	There was no approved IT strategy or plan	7	2, 3, 4, 5, 7, 9 & 13

(Source: Reports furnished by statutory auditors u/s 619(3)(a) of the Companies Act, 1956)

The Companies concerned should address the issues commented upon by the statutory auditors and take effective remedial action.

PONDICHERRY INDUSTRIAL PROMOTION DEVELOPMENT AND INVESTMENT CORPORATION LIMITED

6.2 Non accrual of envisaged benefit

PIPDIC deviated from the accepted principles of financial propriety and nominated a private party as a Joint Venture partner without following tender process. Further, failure to adhere to milestones led to cancellation of allotted coal block resulting in non accrual of envisaged benefit of availability of cheaper power.

Ministry of Coal (MOC), Government of India allots identified coal blocks to Central/State Public Sector Undertakings (PSUs) based on applications through the Government Dispensation route. In November 2006, MOC invited applications from PSUs for allotment of certain identified coal blocks.

JR Power Gen Private Limited (JRP), a private party with no proven experience either in coal mining or power generation prompted (14 December 2006), the Government of Union Territory of Puducherry (UT), to apply for allotment of coal block through this route. JRP, *inter alia*, stated that PIPDIC, a PSU of the UT, could apply for allotment of a block and form a Joint Venture (JV) with JRP for mining of coal and implement an end use power project. JRP indicated that the entire work from prospecting to mine development would be at its cost and the role of PIPDIC would only be that of a facilitator.

Based on this offer and as per the decision (16 January 2007) of UT, PIPDIC entered into (17 January 2007) a Memorandum of Understanding (MOU) with JRP and simultaneously applied for allotment of coal. The chronology of events from the date of application to December 2012 is indicated below:

Date	Chronology of events
25.07.2007	MOC allotted the Naini coal block in Odisha jointly to Gujarat Mineral Development Corporation (GMDC) and PIPDIC with equal share of coal reserves of 250 million tonnes each.
21.10.2007	The allotment order of MOC required PIPDIC to pay its share of Bank Guarantee of ₹ 32.50 crore before 24 October 2007. As JRP insisted execution of Coal Supply Agreement (CSA) before release of funds to PIPDIC, the CSA was entered into with JRP.
30.09.2008	To comply with MOC's condition that mining of coal should be done either by the allottees or by forming a separate Government company for this purpose, PIPDIC and GMDC entered into an MOU for formation of JV company.
22.06.2009	MOC reviewed the progress of mining of coal blocks and associated end use projects.
08.10.2009	MOC issued Show cause notice to PIPDIC for the delay in formation of the JV Company for joint implementation of the coal block.
09.10.2009	JV Company viz., Naini Coal Company Ltd (NCCL) was formed.
02.05.2012	MOC issued second show cause notice to PIPDIC for not adhering to the milestones.
11.12.2012	Government of India based on the recommendation of the Inter Ministerial Group de allocated the Naini coal block allotted to PIPDIC.

An analysis of the induction of JRP as the private partner by PIPDIC and the progress in development of the coal mine revealed the following:

Absence of Plan for coal mining activity

Prior to the *suo motu* proposal received from JRP, PIPDIC, a PSU, primarily engaged in industrial promotion and term lending activities in the UT, had no intention to apply for allotment of coal blocks. The application for allotment of coal block by PIPDIC was only at the behest of JRP as evidenced by the fact that the UT was not even aware of the circular of MOC informing of allocation of coal under Government dispensation route. Thus PIPDIC ventured into a new line of activity primarily at the behest of JRP. The consequences of such lack of planning are discussed in the subsequent paragraphs.

Selection of JRP without tender process

When JRP approached (December 2006) the UT, it was not even incorporated as a company and did not have any experience whatsoever either in coal mining or power production. JRP was incorporated as a private company only on 12 January 2007. However, PIPDIC decided to enter into an agreement without calling for tender or exploring the market situation.

Though an MOU with JRP was not a pre requisite for applying for coal blocks, PIPDIC showed undue haste in entering into an MOU on the same day of forwarding the application to MOC. Thus the MOU became a *fait accompli* even before allotment of the coal block. Between June 2007 and March 2008, PIPDIC received Expressions of Interest from other experienced mining companies like Neyveli Lignite Corporation, LANCO group, IL&FS, etc. However these offers were either not considered or followed up on the grounds that PIPDIC had already tied up with JRP through a binding MOU.

The decision to nominate JRP as a private partner for the project was against the canons of financial propriety and the Hon'ble Supreme Court's judgment of December 2006 wherein it was held that public contracts are to be procured only through tenders. Further, it was in total violation of the Central Vigilance Commission's guidelines of October 2003 wherein the need for award of contract in a transparent manner was emphasised.

The Government while accepting (December 2012) that it had no intention of applying for coal block under Government dispensation route till the receipt of proposal of JRP, stated that no tender process was resorted to as no other firm except JRP had approached it till the date of filing the application for coal block allotment. The fact however remains that PIPDIC did not attempt to get competitive offers from other reputed power producing companies before finalising an MOU with JRP hastily.

Unfavourable terms of MOU and Coal Supply Agreement (CSA)

The terms of the MOU and CSA were heavily loaded in favour of JRP as detailed below:

- JRP would consume the entire coal extracted from the coal blocks allocated to PIPDIC.
- JRP would be having full rights in setting up of the power plant of a capacity of 1980 MW including the selection of the power producing partner;
- JRP would sell to PIPDIC 10 *per cent* of power generated at the nominal rate calculated as prescribed by the Central Electricity

Regulatory Commission and sell another 16 *per cent* of power at the lowest rate at which the power was being sold by JRP to third parties;

Allocation of coal block by MOC envisaged captive use of the coal by the allottee States. This required active participation by PIPDIC to ensure that a major portion of the end use power was available to the UT. However, the terms of the MOU and the CSA were loaded in favour of the private firm and against the interest of the UT. While the UT gets only 26 *per cent* of the power of which only 10 *per cent* is at a nominal cost, JRP holds control of the lion's share of 60 *per cent*⁴ of power to be produced. **Thus PIPDIC entered into the MOU and CSA accepting the terms of JRP without due diligence as to the commercial terms involved. The terms of the MOU and CSA were heavily loaded in favour of JRP, defeating the objective of captive usage of end use power by the allottee States.**

Further, JRP intimated in April 2008 that they had selected KSK Energy Ventures Limited (KSK) as their power producing partner. However, it was noted that even KSK at that time, did not have adequate experience for executing projects of this magnitude.

Non achievement of milestones

The conditions of allotment of coal block stipulated that the allottee should obtain prospective licence within three months from the date of allocation and prepare Geological Report (GR) within 27 months. The production of coal should be commenced within 36 months from the date of obtaining the GR. This required that PIPDIC to play an active role in obtaining the prospecting licence from the State of Odisha and carry out other related activities viz., land acquisition, forest clearances, etc, in a time bound manner. It was observed that there was no action plan in PIPDIC for carrying out these activities and there was a delay of 26 months even in formation of the JV Company, viz, NCCL. There was no progress at all in other activities viz, obtaining Prospecting Licence and subsequent activities of mining. In the meantime, MOC issued two show cause notices (October 2009 and May 2012) to PIPDIC pointing out the delay. While issuing the second show cause notice, the MOC had observed that PIPDIC was not serious about the timely development of the coal block and failed to achieve critical milestones. This indicated that PIPDIC did not have the wherewithal for completion of the various milestones even after formation of a separate JV company and it depended on JRP even for submission of Bank Guarantee and purchase of the Geological Report.

De-allocation of the allotment

The Inter Ministerial Group (IMG) of GOI which reviewed (October 2012) the progress of development of allocation of coal blocks and associated end use projects noted the unsatisfactory progress of the development of Naini

⁴ After allocating 14 *per cent* to the Government of Odisha.

coal block and therefore recommended de allocation of the Naini coal block allocated to PIPDIC and GMDC. GOI accepted the recommendation (December 2012) Government also invoked the Bank Guarantee to the extent of ₹ 32.50 crore being the share of 50 *per cent* to PIPDIC.

The UT replied (December 2012) that the slippages in adhering to the milestones were solely due to non-issue of Prospecting Licence by the Odisha Government. The reply is not acceptable because the IMG had clearly identified slippages at every stage and de allocated the coal block on the ground that ‘the progress of investment in respect of the coal block as well as end use plant is negligible’.

Thus, UT and PIPDIC lost an opportunity to obtain power at a reasonable cost due to hasty and irregular selection of a private partner and due to their lackadaisical approach towards execution of the project. The sequence of events clearly indicated that undue favours were shown to a private party against the interests of UT.

6.3 Sanction of Short term loan

Sanction of short term loan to a private company without adequate financial safeguards resulted in non-recovery of ₹ 2.51 crore.

Pondicherry Industrial Promotion Development and Investment Corporation Limited (Company) is engaged in the business of promotion of industrial development in the Union Territory of Puducherry and its present activities include industrial financing.

The Company sanctioned (April 2002) a short term loan of ₹ two crore to Regma Ceramics Limited (Regma) for setting up a ceramic tiles unit at Karaikal. Though the policy of the Company was to extend financial assistance to medium and small scale industries only, it sanctioned the term loan to Regma, a large scale industry, on the grounds that the unit was proposed to be set up in the backward region of Karaikal. The loan was sanctioned against the collateral security of 20 lakh equity shares of face value of ₹ 10 each of Regency Ceramics (Regency), a company from the same group. Though Regma was regular in payment of interest it defaulted in repayment of the principal. The outstanding principal amount was ₹ 65 lakh as of September 2009.

Regma requested the Company (September 2009) for another short term loan of ₹ two crore to meet its working capital requirements. The request was put up (December 2009) to Board of Directors (BOD) with the proposal that as Regma was running profitably and had also agreed to clear the outstanding dues, its request for a fresh loan might be considered

favourably. The BOD in its meeting held on 31 December 2009 approved the sanction of the short term loan of ₹ two crore to Regma subject to the conditions *inter alia*, that Regma should offer immovable property worth not less than ₹ two crore situated within the Union Territory of Puducherry as collateral security and give pari-passu charge over its Fixed and Current Assets ranking first charge with the Bankers.

Regma informed (February 2010) the Company that the terms and conditions of the sanction were acceptable except those relating to collateral security and pari-passu charge. It requested that the shares of Regency pledged by it earlier might be retained by the Company as collateral security for this term loan also. The request of Regma was put up to the BOD (March 2010) with the Company's recommendation that the shares of Regency (of face value: ₹ two crore), which continued to be in its possession might be accepted as security for the present loan also and consequently the conditions relating to collateral security and pari-passu charge be waived. This was approved by the BOD in March 2010. It is pertinent to mention that the share was being traded at ₹ 7.85 per share approximately in March 2010. The Company released the second short term loan in two instalments (April and June 2010). This loan was repayable by Regma in 12 instalments from July 2010. Regma, however, paid an amount of ₹ 63,802 only till August 2012 and the outstanding dues stood at ₹ 2.51 crore as on September 2012 (Principal: ₹ 1.99 crore and Interest: ₹ 0.52 crore).

In this connection it was observed:

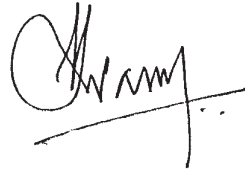
(i) When the BOD approved (March 2010) the proposal to accept the equity shares of Regency (face value: ₹ two crore) as collateral security, the realisable value was ₹ 1.57 crore only (@ ₹ 7.85 per share) which did not cover the entire sanctioned loan of ₹ two crore. Thus, the sanction of second term loan was *ab initio* faulty.

(ii) The condition relating to offering immovable property worth ₹ two crore as collateral security for the second loan was included by the Company only to safeguard its interest in case of default. It was specifically recorded in the Board note that the equity shares of Regency already pledged by Regma could not be accepted for the second loan as the share value would not be stable. This was approved by the BOD. Subsequently, based on Regma's request, the Company reversed its earlier decision and recommended that the shares of Regency pledged earlier by Regma could be accepted as collateral security for the second term loan also as the share value had gone up to ₹ 7.85 per share from ₹ 4.45 during December 2009. This was also approved (March 2010) by BOD. Thus, the Company's disbursement of second term loan of ₹ two crore to a known defaulter by accepting the equity shares of Regency, whose market price was below the face value even at the time of sanction of second term loan was not prudent and resulted in non-recovery of ₹ 2.51 crore.

The Government stated (December 2012) that it was decided to accept the share certificates offered by Regma for earlier loan taking into account the increase in the value of Regency shares during December 2009. The Government further stated that Regma requested extension of time to repay the overdues and promised to pay ₹ 10 lakh every month from October to December 2012 and ₹ 20 lakh every month thereafter but did not pay as promised and that the Company has initiated action to recover the dues under State Financial Corporation Act and also for invoking the personal guarantee.

The reply is not acceptable as the Company's acceptance of Regency shares whose market value was ₹ 1.57 crore at the time of sanction against the term loan of ₹ two crore was *ab initio* faulty. In fact, the highest market price of Regency shares in 2012 was ₹ 4.70 per share and even if the Company is able to sell the entire share holding at this price, it could realise ₹ 0.94 crore only against the dues of ₹ 2.51 crore.

To conclude, sanction of short term loan to the company, a known defaulter, without proper valuation of the shares hypothecated thereagainst led to loss of ₹ 2.51 crore.



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