CHAPTER VIII: MINISTRY OF DEVELOPMENT OF NORTH EASTERN REGION

North Eastern Regional Agricultural Marketing Corporation Limited

8.1 Operational Performance

8.1.1 Introduction

The North Eastern Regional Agricultural Marketing Corporation Limited (Company) was incorporated in March 1982 as a Government of India (GOI) Enterprise. The Company is under the administrative control of the Ministry of Development of North Eastern Region (Ministry). The Company has its Corporate Office at Guwahati, eight zonal offices[1] in the North-Eastern region and three processing units[2]. The primary objectives of the Company are to support farmers/ producers of the North-East in getting remunerative prices for their produce thereby bridging the gap between farmers and the market, and to enhance the agricultural, procurement, processing and marketing infrastructure of the North-Eastern region of India.

8.1.1.2 The Company was referred (December 1996) to the Board for Industrial and Financial Reconstruction (BIFR). On the direction of BIFR, the GOI approved (February 1999) a revival scheme for the Company which was sanctioned by BIFR in June 1999. The financial performance of the Company during the last four years ended on 31 March 2013 was as shown below:

(₹ in crore)

Particulars	2009-10	2010-11	2011-12	2012-13
Paid up capital	7.62	7.62	7.62	7.62
Accumulated losses	6.29	4.81	3.81	6.63
Net worth	0.86	2.33	3.46	0.66
Cash and bank balances	5.40	5.48	5.92	5.73
Sales	89.65	99.91	96.04	43.71
Profit after tax	1.12	1.47	1.00	(2.82)

Source: Annual accounts of the Company

8.1.2 Audit objectives

The audit was conducted to assess whether:

- the directions of BIFR and the provisions of the revival scheme were complied with by the Company/GOI;
- the Company was able to obtain necessary financial support from GOI for carrying out its mandated activities; and
- the Company carried out its activities with a view to achieving its main objective of providing marketing support to farmers.

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1 ***8 zonal offices at Assam, Meghalaya, Tripura, Sikkim, Manipur, Mizoram, Nagaland and Arunachal Pradesh.***

2 ***Fruit Juice Concentrate Plant, Tripura; Cashew Processing Unit, Tripura; and Ginger Processing Plant, Meghalaya.***

8.1.3 Sources of audit criteria

- Policies and guidelines of the company relating to its marketing activities.
- MOU with the Administrative Ministry and plan implementation reports.
- Corporate plan, study reports, directions of Board of Directors of the Company.
- Terms and conditions of the sales contracts.

8.1.4 Scope of audit

Audit reviewed implementation of the revival scheme of BIFR and marketing and processing activities undertaken by the Company during the period 2009-10 to 2011-12. The audit observations have been updated to the year 2012-13.

8.1.5 Audit findings

8.1.5.1 Non-compliance of the BIFR directions

The performance of the Company was unsatisfactory since inception due to various factors such as lack of professional management and infrastructural facilities, poor capacity utilisation of plants, etc. The Company had accumulated losses of ₹ 12.74 crore as of March 1996 and was referred to BIFR in December 1996. A scheme for revival of the Company was approved (February 1999) by GOI which was sanctioned (June 1999) by BIFR at a cost of ₹ 26.70 crore comprising cash assistance of ₹ 10.36 crore for capital and other expenditure and non-cash assistance of ₹ 16.34 crore for financial restructuring of the Company. The Company/GOI did not comply with the provisions of revival scheme and subsequent directions of BIFR as discussed below:

8.1.5.2 Shortcomings in implementation of revival scheme

Following were the shortcomings in implementation of the revival scheme by the Company:

(i) Out of the funds (₹ 4.22 crore) released by GOI for capital expenditure on Pineapple Juice Concentrate (PJC) plant at Nalkata, Tripura, the Company utilised only ₹ 0.45 crore. The remaining amount of ₹ 3.77 crore was diverted to meet working capital requirements and cash losses incurred due to low capacity utilisation. As a result, the Company could not upgrade the PJC plant which continued to increase the accumulated losses to the extent of ₹ 3.71 crore during the period 2002-03 to 2010-11 after which it was closed down (May 2011) for restructuring, which was yet to be taken up (September 2013).

(ii) The Company did not utilise funds (₹ 19 lakh) released by GOI for capital expenditure on Cashew Processing Unit (CPU), Tripura and diverted the same for meeting cash losses and working capital requirements. As a result, the Company could not increase the capacity of CPU from 0.5 MT per day to 2.5 MT per day as envisaged in the BIFR scheme.

The Company stated (September 2013) that due to insurgency problems, it was decided to make minimum investment in the PJC plant so as to run the plant in day shift only. In respect of CPU, they had a view to shift it to a new place. However, the same could not be done due to non-availability of site.

However, these decisions of the Company were in contravention of the provisions of the sanctioned revival scheme. The revival scheme envisaged that the Company would incur losses upto the year 1999-2000 and the same would be wiped off during 2003-04. However, the Company continued to incur losses upto 2006-07 and thereafter earned marginal profits during 2007-08 to 2011-12 but was not able to wipe out its accumulated losses which stood at ₹ 6.63 crore as on 31 March 2013.

8.1.5.3 Non-implementation of recommendations of Consultant

BIFR discharged (August 2001) the Company from its purview as the net worth of the Company had become positive as on 31 March 2001. However, BIFR directed (August 2001) that the Company and the Administrative Ministry should look into the reasons for continued losses incurred by the Company and take appropriate action. Accordingly, the Administrative Ministry appointed (December 2003) M/s A.F. Ferguson & Co., Kolkata (Consultant) to conduct a study for turnaround of the Company. The Consultant submitted (January 2005) its report which projected a requirement of ₹ 11.13 crore for the activities proposed to be undertaken in the short/ medium-term and ₹ 62 crore for activities to be undertaken in the long-term. Based on the report, the Company submitted (March 2005) its action plan to the Ministry and sought financial assistance of ₹ 10.02 crore mainly for meeting working capital deficit, relocation and capacity expansion of Cashew Processing Unit. No further action on the Consultant's report was taken by the Ministry.

The Company accepted (August 2012 and March 2013) the audit observation. The Ministry endorsed (July 2013) reply of the company.

8.1.5.4 Non-release of sales subsidy by North Eastern Council

At the instance of the North Eastern Council (NEC), the Company set up a Fruit Juice Concentrate plant at Nalkata, Tripura in 1988. As per the detailed project report (DPR), the plant was economically viable only with an element of sales subsidy due to difficult terrain and high cost of production. The plant was commissioned in June 1988. However since its inception, it was running in losses due to non-receipt of sales subsidy from NEC. After sanction of the revival scheme by BIFR in June 1999, the Company submitted its claim to NEC for sales subsidy of ₹ 4.41 crore for the period 1988-89 to 1992-93 which was released by NEC in 1998-99. Subsequently, in line with the directives (July 2001) of BIFR for extension of budgetary support to finance cash losses, the Company requested NEC every year for release of sales subsidy. However, NEC stated (February 2009) that budget provision for release of sales subsidy to the Company had been done away with. As such, the claims of ₹ 8.66 crore pertaining to the period 1993-94 to 2008-09 had not been released by NEC (September 2013) even after lapse of 4 to 19 years.

The Company accepted (August 2012 and March 2013) the audit observation. The Ministry endorsed (July 2013) the reply.

8.1.5.5 Lack of financial support from GOI

Since, the Company had a small capital base, it submitted proposals to the Administrative Ministry for increase in authorised share capital, working capital support and funds for enhancing infrastructure. Audit observations on the aforesaid proposals are discussed below:

8.1.5.6 Non-enhancement of authorised share capital

The Company submitted (August 2008) a proposal to the Ministry for increase in its authorised share capital from ₹ 10 crore to ₹ 20 crore in order to subsequently increase the paid-up capital. The intent of the proposal was to implement its short-term plan for building marketing infrastructure and processing facilities in the North Eastern region. However, approval of the Ministry was still awaited (September 2013).

8.1.5.7 Lack of working capital support

The Company projected its working capital requirements equivalent to 20 *per cent* of the turnover committed in the annual Memorandum of Understanding (MOU) entered into with the Ministry. Details of working capital projected by the Company vis-à-vis the amount sanctioned by the Ministry during 2009-10 to 2012-13 were as below:

(₹ in crore)

Year	Working capital projected by the Company	Working capital sanctioned by the Ministry	Date of sanction	Shortage of working capital
2009-10	4.83	0.67	19.05.2009	2.83
		1.33	17.09.2009	
2010-11	5.07	2.00	15.09.2010	3.07
2011-12	5.33	2.00	23.08.2011	3.33
2012-13	5.59	2.00	10.09.2012	3.59

As may be seen from the table, the working capital sanctioned by the Ministry was not adequate to meet requirements of the Company. Though, the Ministry had directed (April 2006) the Company to make efforts to raise funds through different sources, the Company failed to make any efforts in this direction. Consequently, the Company had to shift its focus towards supplies of agricultural inputs to farmers under Government schemes where lesser amount of working capital was required and thus the mandated activities of procurement and marketing were not carried out by the Company for want of working capital.

8.1.5.8 Lack of financial support for collection and procurement centres

With a view to providing post-harvest facilities like cold storage, grading and packing of agro-horticultural produce of the farmers of the North Eastern Region, the Company submitted (July 2008) a proposal to the Administrative Ministry for setting up of nine collection and procurement centres in the States of Assam, Arunachal Pradesh, Manipur, Mizoram and Meghalaya at a total cost of ₹72 crore. The Planning Commission accorded (September 2008) 'in principle' approval for setting up these centres under the package of ₹ 500 crore announced by the then Finance Minister in the Budget speech for 2008-09 for North Eastern Region. However, funds from the Ministry were awaited (September 2013).

The Company agreed (August 2012 and March 2013) with the audit observations stated in para 8.1.5.5. The Ministry endorsed (July 2013) the reply.

8.1.5.9 Deficiencies in procurement, processing and marketing of products

The primary objective of the Company was to provide market support to the farmers of the North-Eastern region by procuring their marketable surplus of agro-horticultural products for subsequent sale. Audit observations on the procurement and marketing activities of the Company are discussed below:

8.1.5.10 Inability to provide market support to farmers

In order to achieve the objective of providing market support to farmers of the North-Eastern region in getting remunerative prices for their produce, the Company needed to expand sales of processed products and trading products by procuring the marketable surplus of agro-horticultural products from farmers. However, the Company shifted its focus from sales of trading/processed products to supplies of agricultural inputs like seeds, fertilisers, etc. to the farmers under various schemes of GOI due to lack of working capital support. Details of sales of trading/ processed products and the sales under Government schemes during 2009-10 to 2012-13 were as shown in the table below:

(₹ in crore)

Particulars	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Total sales (A)	89.65	99.91	96.04	43.70
Sales of trading/ processed products (B)	11.50	5.63	2.10	1.40
Sales under Government Schemes (C)	78.15	94.28	93.94	42.30
Percentage of (B) to (A)	12.83	5.64	2.19	3.20
Percentage of (C) to (A)	87.17	94.36	97.81	96.80

As may be seen from the above table, the percentage of sales of trading and processed products in the total sales reduced from the low level of 12.83 *per cent* during 2009-10 to an insignificant level of 3.20 *per* cent during 2012-13. Thus, the Company had gradually shifted its focus from procurement and sale of agro-horticultural products to supplies of agricultural inputs under Government schemes, thereby defeating the basic purpose for which it was established.

The quantum of sales under Government schemes was dependent upon the receipt of orders from the State Governments. The sales revenue was therefore, likely to vary accordingly as may be seen from the sudden drop in sales during 2012-13. Thus, the Company needed to focus more on the portfolio of sales of trading products and ensure market support to the farmers.

While accepting the audit observation, the Company stated (August 2012) that in the absence of huge working capital required for procurement and marketing of agro-horticultural products, it mainly focused on business with State Governments under Central schemes. The Ministry endorsed (July 2013) the reply.

8.1.5.11 Non-upgradation of pineapple juice concentrate plant

The Company established Pineapple Juice Concentrate (PJC) plant at Nalkata, Tripura (1988), with an installed capacity of 48 MT per day at a cost of ₹ 3.60 crore. The plant was incurring losses since inception due to low capacity utilisation, low yield resulting from high fruit-to-juice concentrate ratio, etc. The Company did not initiate any action to upgrade the plant to reduce losses and continued to keep it in operation upto the year 2010-11. In May 2011, the Company decided not to produce PJC till restructuring of the plant was taken up and completed. Accordingly, the plant is not in operation since June 2011. The detailed project report for modernisation and restructuring of the plant was submitted (May 2013) by the Company to the Government of Tripura which was under its consideration.

Examination in Audit revealed that the production of PJC was continued upto the year 2010-11 despite the fact that the plant had outlived its life and was consistently incurring losses due to low capacity utilisation and low yield etc. Non-upgradation of the plant and delayed decision to close it down resulted in avoidable loss of ₹ 3.71 crore during the period 2002-03 to 2010-11. Even after closing down the plant, the Company neither terminated the services of the casual labour working in the plant nor relocated all workers to other plants/offices resulting in payment of idle wages and salaries of ₹ 79.16 lakh during the years 2011-12 and 2012-13.

The Company stated (August 2012) that production of PJC was carried out during 2009-10 and 2010-11 based on approval from the Board of Directors which was also apprised that the production would result in losses. The Ministry endorsed (July 2013) the reply.

The reply is not convincing as continuation of production inspite of losses without upgradation of the plant and payment of idle wages and salaries only caused accumulated losses to persist.

8.1.5.12 Lack of effective marketing framework

The Company did not have the operational framework required to carry out its marketing operations in an organised manner as discussed below:

- The Company did not have any marketing manual laying down the policies and procedures for carrying out its trading and marketing activities.

  The Company noted (August 2012) the audit observation for compliance. The Ministry endorsed (July 2013) the reply.

- As per its Memorandum of Association and the Corporate Plan, the Company was required to develop market intelligence network which would assist in collection and dissemination of market information related to demand-supply, prevailing market prices etc. However, the Company did not establish any market intelligence system.

While accepting the audit observations, the Company stated (August 2012) that it was unable to fill the key positions like General Manager (Marketing), Marketing Managers, etc. due to lack of approval from the Administrative Ministry. The Company further stated (September 2013) that they were making efforts to put all officers on market survey and intelligence.

Conclusion

The Company diverted funds received under revival scheme for capital expenditure to meet working capital requirement and cash losses incurred due to low capacity utilisation. The Consultant's report (January 2005) for turnaround of the Company proposed infusion of ₹ 73.13 crore and the company submitted its action plan but no further action was taken by the Ministry (July 2013). North Eastern Council also did not release (September 2013) the sales subsidy claims of ₹ 8.66 crore pertaining to the period 1993-94 to 2008-09. Further, there was lack of financial support from GOI in the form of non-enhancement of the authorised share capital and deficiency in sanctioning the working capital. Also, GOI did not release ₹ 72 crore for setting up collection and procurement centres despite 'in principle' approval accorded by the Planning Commission in 2008-09. Due to lack of working capital support, the Company shifted its focus from sale of processed agro-horticultural products to supplies of agricultural inputs to farmers in the region. Thus, the Company was unable to achieve its main objective of providing market support to farmers of the region.

Recommendations

In view of the aforesaid audit findings, it is recommended that the Ministry may consider:

- ***Reviewing the operating performance of the Company and take remedial measures to resolve pending issues for making its operations self sustainable.***
- ***Revamping/phasing out loss-making plants in order to reduce unproductive expenditure.***