

## CHAPTER VI: MINISTRY OF TEXTILES

### National Textile Corporation Limited

#### 6.1 Loss due to deficiency in settlement

**Entering into settlement agreement for sharing of land with the erstwhile owner, without ascertaining commercial viability, resulted in a loss of ₹ 205.01 crore.**

National Textile Corporation (SM) Limited (the Company), functioning under the Ministry of Textiles (MOT), was declared a sick Company in 1993. Subsequently, under the provisions of Textile Undertakings (Nationalization) Act, 1995 (Act), various textile mills of the Company were nationalized including Shree Madhusudan Mills (the Mill), Mumbai. A scheme for revival of the Mill was sanctioned (2002) by the Board for Industrial and Financial Reconstruction (BIFR) and as per the envisaged scheme, the Mill was identified as unviable, which was to be closed and disposed of in order to fund revival of viable mills.

In the meantime, previous owners of the Mill viz. Hall & Anderson Limited (HAL) filed a writ petition in the High Court of Calcutta (October 2004) challenging its nationalization. HAL also challenged (2005) the rehabilitation scheme sanctioned by BIFR in the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) on the ground that the Mill should not have been declared unviable. The appeal was dismissed by AAIFR (July 2006) against which a Special Leave Petition (SLP) was filed (2006) in the Supreme Court. An interim order was passed by the Supreme Court (December 2006) directing that the property should not be sold. HAL subsequently filed an application (June 2008) in the Supreme Court requesting for taking over the Mill as SPV/JV. Supreme Court ordered (22 July 2008) that if the petitioner approached the Company with a request for amicable settlement, the same may be considered and decision taken thereon may be placed before the Supreme Court. Pursuant to the order of Supreme Court, HAL filed a proposal (02 August 2008) for revival and rehabilitation of the Mill with the Ministry of Textiles (MOT) and the Company for an amicable settlement.

MOT directed the Company to obtain legal opinion before entering into any settlement. Accordingly, legal opinion of Attorney General of India (AGI) was obtained (October 2008) by the Company. As per AGI's opinion, the Company could consider the proposal for amicable settlement after thoroughly examining and scrutinizing all aspects of the proposal including its commercial viability and worthiness within the legal framework.

A committee constituted by the Company to examine the matter decided (November-December 2008) that land of the Mill could be shared in the ratio of 65:35 between NTC and HAL in line with the settlement previously made in the case of another mill, namely Kohinoor Mill. In consideration, HAL would pay ₹ 33.05<sup>♦</sup> crore (35 per cent of ₹ 83.86

<sup>♦</sup> Including ₹2.16 crore paid to Central Bank of India and ₹1.54 crore being statutory dues.

crore plus all costs, charges, stamp duty for execution/registration of conveyance deed) based on realizable value of the land of ₹ 83.86 crore as mentioned in the BIFR Scheme. MOT approved (January 2009) the proposal on the condition that NTC should satisfy itself about the commercial viability as per AGI's advice. Further, the Company as per the decision of the Board of Directors filed the terms of settlement, in the Supreme Court (February 2009). Settlement amount of ₹ 33.05 crore was received by the Company during April to July 2009.

Audit examination revealed that:

- Despite AGI's categorical opinion to examine commercial viability and MOT's reiteration (January 2009) that the Company should satisfy itself about the commercial viability as per the Attorney General of India's advice, there was nothing on record to indicate that NTC had examined and protected its commercial interest. This is clear from the fact that the settlement amount arrived at by the Company, based on ₹ 83.86 crore as mentioned in the BIFR Scheme, was not the expected realization from the sale of assets as was claimed by NTC, but was only the balancing figure to meet the cost of the Scheme. This is corroborated by the fact that the Mill was valued in the same BIFR Scheme at ₹ 157.91 crore in 2002 and as per Stamp Duty Ready Reckoner Mumbai (2009) the rate for developed land was ₹ 86, 300 per square meter.
- Improper settlement with HAL led to loss of ₹ 205.01 crore to NTC based on rate of ₹ 86, 300 per square meter. Loss based on the reserve price fixed by NTC during the same year i.e in November 2009 for land of another mill (Bharat Mill) in the same area would work out to ₹ 577.02 crore<sup>▼</sup> (**Annexure-XX**).
- Detailed settlement terms were communicated by NTC to MOT (December 2008), including settlement amount, the basis of which was not evaluated by MOT and approval to the settlement was given by MOT (January 2009) with a condition that NTC should satisfy itself about the commercial viability as per advice of AGI.

NTC stated (Feb 2014) that as this was a settlement and not a sale transaction, the valuation of the property was not taken into account and only the sharing of the land was the ultimate outcome of the settlement.

Reply is not acceptable. Though it was a settlement and not a sale transaction, the Company/Ministry, while examining commercial viability, failed to arrive at any fair value of land, resulting in a settlement at a value much below the prevailing market price.

Thus, the decision of MOT/NTC to reach settlement ignoring the fact that the property was prime freehold land, without properly assessing its commercial viability, resulted in a loss of at least ₹ 205.01 crore to the Company.

The matter was reported to the Ministry in November 2013; their reply was awaited (March 2015).

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<sup>▼</sup> *Loss has been worked out with reference to 'Reserve Price' for Bharat Textile Mills. Bharat Textile Mills was, however, sold at ₹1505 crore (i.e. more than double of its reserve price in September 2010).*