CHAPTER VI: DEPARTMENT OF FERTILIZERS

The Fertilizers and Chemicals Travancore Limited and Madras Fertilizers Limited

6.1 Marketing of Products of Fertilizer Companies

6.1.1 Introduction

The Fertilisers and Chemicals Travancore Limited (FACT) was incorporated in September 1943 as a private limited company. It commenced production in 1947 and became a Government company in 1962. The paid up capital as on 31 March 2016 was ₹ 647.07 crore. FACT produces mainly Ammonium Sulphate and Complex fertilizer under the brand name of "Factamfos".

Madras Fertilisers Limited, Manali (MFL) was incorporated in December 1966 as a joint venture between Government of India (GOI) and AMOCO India Inc. of U.S.A. After disinvestment of shares by AMOCO, the paid up capital as on 31 March 2015 was ₹ 162.14 crore. MFL produces mainly Urea and complex fertilisers under the brand name of "Vijay".

6.1.2 Audit objectives, criteria and scope and methodology

Audit of marketing of products was conducted to assess whether (a) the Marketing activities of fertilisers are carried out efficiently, (b) the system of appointment of dealers, hiring of godowns/warehouses, transporters, rail head handling etc was transparent, fair and as per the sound commercial principles, (c) the internal control mechanism in the Companies was effective in transportation of finished products, hiring of godown, railhead transportation etc, and (d) the Companies claimed and received the subsidy in time as per guidelines .

Criteria for audit consisted of provisions of Fertilizer Control Order, 1973/1985, Fertilizers policy, Memorandum of Understanding (MOU) with Department of Fertilizers, Ministry of Chemicals & Fertilizers, guidelines of Central Vigilance Commission (CVC) on tendering and of GOI on subsidy.

6.1.3 Audit findings

Performance of the Companies, in marketing of fertiliser products and their production activity wherever relevant, are discussed in the succeeding paragraphs:

6.1.3.1 Performance of the Companies in Marketing

FACT and MFL separately entered into MoU with Ministry of Chemicals and Fertilisers (GOI) for production of Factamfos and Ammonium Sulphate (FACT) and Urea and Complex fertilisers (MFL) during the period of audit, viz., 2012-13 to 2014-15, based on the production capacity of the plants, performance of previous years etc. The details of targets for production/Sales as per MOU and actual production and sales in respect of these products for three years 2013-13 to 2014-15 were as detailed below:

MoU Targets and Actual Production/Sales of Urea and NPK

(In lakh MT)

Name of Company	Name of product	Period	MoU target (Production/Sales)	Production	Sales
FACT	Factamfos	2012-13	6.80	5.40	5.52
		2013-14	6.80	6.57	6.54
		2014-15	6.80	5.98	6.22
	Ammonium Sulphate	2012-13	1.80	1.26	1.35
		2013-14	1.70	1.79	1.66
		2014-15	1.80	1.20	1.11
MFL	Urea	2012-13	4.70	4.36	4.24
		2013-14	4.70	4.87	5.00
		2014-15	4.80	3.29	3.26
	NPK	2012-13	4.04	1.00	1.02
		2013-14	3.02	0.45	0.45
		2014-15	0.45	0.74	0.74

Audit observed that:

- One of the reasons for non-achievement of the sales targets during 2012-13 to 2014-15 by FACT was non-achievement of production targets in the corresponding years. The reasons for non-achievement of production targets were intermittent shutdown of plants due to shortage of raw materials and breakdown of plants. Further, the non-achievement of the production and sales target, as per MOU, was one of the reasons for the company being given adverse credit rating by the bankers which resulted in charging higher interest rate on cash credit facilities availed by the company.
- In the case of MFL, the sales targets could be achieved only in 2013-14 for Urea and 2014-15 for NPK. The company achieved target for NPK due to fixation of very low target in 2014-15. The company took a conscious decision to stop production of costlier complex fertiliser (NPK) by using Nitrogen from captive Ammonia with naptha as feedstock because the government stopped releasing additional subsidy for NPK fertiliser under Nutrient Based Subsidy (NBS) since April 2012. One of the reasons for non-achievement of targets was non-achievement of production target, reasons being intermittent shutdown of plants due to shortage of raw materials, breakdown of plants and lack of production of captive Ammonia.

6.1.3.2 Management of Marketing Contracts

(a) Award of contracts on ad-hoc basis/without tendering (FACT)

The Company has been awarding ad-hoc contracts for Railhead handling and transportation, and hiring permanent godowns without following tendering process.

A review of the railhead[1] contracts in audit for the period 2012-13 to 2014-15 in states of Kerala and Karnataka indicated that:

- The Company did not finalize permanent contracts through open tender in respect of Kayamkulam (from August 2012 to 18 August 2013, 19 February 2014 to 19 March 2014 and 28 November 2014 till date), Palakkad (from April 2013 to September 2013), Calicut (from January 2015 till date), Thrissur (from January 2015 till date) and Shimoga (never entered into permanent contracts). The Company instead carried out the Railhead activities through adhoc contracts (contracts entered into through limited tendering).
- The company could not finalize permanent railhead contracts in Kerala since the bidders quoted higher rates in the three open tenders (floated in August 2011, September 2012 and July 2014) floated by the company. The reason for getting higher rates in second and third tender was due to inclusion of shortage clause[2] in the tender conditions**.** In the case of Shimoga, the rates quoted by the bidders were found to be on higher side and the bidder did not extend the validity of their offer so that negotiation could not be carried out with the bidder.

The non-finalization of permanent railhead contracts/non-tendering of hiring of godowns, thus resulted in reduced transparency in procedures and the reasonability of rates for godowns could not be ascertained.

The Company agreed that permanent railhead contracts should be finalized at the earliest to avoid payment of higher rates on ad hoc contracts. Materials Department has been processing the tenders for Railheads and whenever the rates were high and not reasonable, finalization of contracts got delayed, and in order to move the product adhoc contracts were made.

Audit further noticed that the Company was hiring permanent godowns without following usual tendering process and was renewing the agreements for hiring of godowns at the end of the existing agreement period at renewed rates after negotiation with the owners of the godown. The value of contracts entered into for godowns (permanent & temporary) by the Company amounted to ₹ 1.32 crore (2012-13), ₹ 0.92 crore (2013-14) and ₹ 0.81 crore in 2014-15.

The company stated that the Materials Department was taking efforts in speedy processing of tenders for hiring permanent godowns as per the laid down procedures.

The company's reply should be viewed in the light of the fact that despite the orders (22 July 2014) of Deputy General Manager (Marketing) for hiring of godowns on tendering basis, the Company has not adhered to the procedure (February 2016).

[1] ***The scope of work under the railhead contract includes clearing of bagged products (such as fertilizers, gypsum or any other materials) from wagons at the RH location, unloading on to Railway Platform (if necessary) and loading on to trucks/lorries for onward movement to required destinations and also transportation of bagged products in trucks/lorries placed by contractor from Rail Head to Godowns /Stock Point Dealers and ASC's.***

[2] ***Clause for recovering cost of shortages, found between Railway Receipt quantity and delivered quantity at receiving RH, from the dues/bills of the contractor***

(b) Awarding contracts on basis of single tender without resorting to retendering

According to guidelines issued by CVC, single tender is to be resorted to only under exceptional circumstances such as natural calamities and emergencies or there were no bids to repeated tenders or where only one supplier has been licensed (proprietary item) in respect of goods sought to be procured. However, MFL did not resort to re-tendering in cases where only a single bid was technically qualified and awarded the B&S[1] contracts during the period 2012-13 and 2013-14 to a single bidder.

Audit noticed that:

- During 2012-13, two new conditions[2] were incorporated in the contracts with a view to ensure the financial capability of the contactor in making payments to labourers. However, out of the three bids received, the existing contractor, who was already irregular in making payments to the labourers, was the only qualified bidder, and was awarded the contract. This defeated the purpose of incorporation of the new conditions in the contract besides violating CVC guidelines.
- During the period 2013-14, though the tender conditions specified experience of three years, the contract was awarded to an inexperienced single bidder on trial basis. Even though the performance of the contractor was found to be not satisfactory[3], Company extended the contract up to 31 October 2013 instead of floating tenders in the trial period. The legal opinion that insisted upon experience for evaluation of bid as per the tender conditions was also ignored while awarding the tender.

(c) Post tender negotiations (MFL)

There should be no post tender negotiations with lowest bidder (L1), except in certain exceptional situation as per the CVC instructions (January 2010). Resorting to post tender negotiation on regular basis may prevent receipt of most competitive offer at the time of submission of bids. The Company appointed contractorsfor transportation and warehousing separately by inviting tenders from eligible contractors with experience in transporting fertilizers from the Railheads to various dealers. Audit scrutiny of railhead contracts awarded for 35 locations in 2012-13, 20 locations in 2013-14 and 43 locations in 2014-15 revealed that the Company negotiated with L1 in all contracts for the year 2012-13 and 2013-14 and 79 *percent* of contracts for the year 2014-15 as shown below.

Year	2012-13	2013-14	2014-15
Total no of contract awarded	35	20	43
No. of contracts where negotiations held with L1	35	20	34

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[1] ***Bagging, upkeep, handling and shipping operations***

[2] ***viz., Submission of Service tax and ESI & PF returns for 3 years in Form ST 3, Form 5 and Form 6A respectively (Earlier, the number for ST, ESI & PF only need to be provided) and the turnover of ₹ 2.00 crore for 3 years***

[3] ***Due to non-supply of required no. of workers/labourers, stoppage of work due to payment problem and delayed reporting of workers/labourers, which also led to shutdown of plant***

Every evaluation process would not be an exceptional situation and hence conducting negotiations with L1 contractors on almost every occasion was against CVC guidelines.

(d) Absence of contracts for certain locations (MFL)

The Company had 57 Railhead locations.Contracts were, however, not awarded to cover all the locations every year. The procurement Manual of the Company did not specify any norms in this regard except indicating that contracts should be awarded within three weeks of completion of earlier contract. During 2012-13, 2013-14 and 2014-15, the Company did not enter into any contracts for 24, 39 and 15 locations respectively. In the absence of contracts for such RH locations, supply for the districts / dealers was made from the nearest RH location or road movement from Plant. This entailed extra expenditure as under recovery in road movement was higher compared to railhead movement. However, additional expenditure could not be quantified in audit.

The company stated (August 2015) that it required four months for finalising the contract; hence, the contracts could not be finalised in time for all locations.

The reply is to be viewed against the fact that the Company was aware of the timelines for existing contracts and should have initiated the tender process before their expiry so that the next contract could be finalised without any delay. Further, so long as the contracts were not finalised to economise the operations, the chances of incurring higher cost by distributing to the districts from a farther railhead are not ruled out.

(e) Delay in finalising stevedoring contracts (MFL)

A review in audit of the stevedoring contracts awarded by MFL during the period 2012-13 to 2014-15 indicated the following:

(i) Tender procedures for Stevedoring contract for 2012-13 was initiated in July 2012 and the contract was awarded to SICAL in December 2012 after a delay of more than four months.

(ii) The tender procedures for 2013-14 were initiated only in November 2013. The Chief Executive approved the e-tender enquiry in May 2014 and the tender were awarded in June 2014.

The Company stated (July 2015) that the delay was due to the expected extension of the existing contract for another year not materialising.

The Company's reply should be viewed against the fact that it did not strengthen the tendering procedure to avoid delay in finalisation of contract.

6.1.3.3 Claiming and receipt of subsidy

(A) Delay in claim and receipt of price subsidy

(i) Delays in respect of FACT

Audit noticed the following delays in respect of FACT:

(a) There have been delays on the part of the Company in raising the 85 *per cent* 'on account' claim with the Government. They arose due to delays in regularization of

Supply Plan by Department of Fertiliser (DoF) and delay on the part of the statutory auditor in certifying the claims. For generating the subsidy claims in Fertilizer Monitoring System (FMS), the supplies of fertilizers in districts are to be made as per the Supply Plan and in case of deviation from the supply plan regularization of Supply Plan is required. The Company being dependent on overdraft facilities, the delay in claiming of 85 *per cent* price subsidy resulted in avoidable interest burden of ₹ 8.28 crore (at 14 *per cent*) after allowing grace period of 15 days for generation and certification by statutory auditors as shown below:

Year	Amount (₹ in crore)	Delay (Range in days)	Loss of interest (₹ in crore)
2012-13	502.44	10 - 106	5.94
2013-14	162.44	12 - 49	0.86
2014-15	252.63	5 - 29	1.48
Total			**8.28**

A test check of claims for 12 months out of 36 months (33 *per cent*) in audit revealed the following:

- There was no provision in the FMS site to allocate quantities for supply of Ammonium Sulphate in the monthly plan, which results in absence of an approved Supply Plan for Ammonium Sulphate. The movement of the Ammonium Sulphate has to be approved by the DoF subsequently which results in delay in claiming and obtaining subsidy against Ammonium Sulphate. Since Factamfos and Ammonium Sulphate produced in Udyogamandal Division comes under one license, the delay in approval of Supply Plan of Ammonium Sulphate also resulted in delay in claiming of subsidy for Factamfos produced in Udyogamandal Division.

- In four out of the 12 months, FACT could not intimate DoF on time[1], the actual quantities supplied against the supply plan, so that the Supply Plan could be regularized with actuals and claim could be generated.

- In the subsidy claims for two months, the difference of actuals from the Supply Plan was only 317.75 MT and 602.35 MT. Since the regularization of Supply Plan results in delay in claiming of subsidy, the company should have avoided the change in Supply Plan.

- Even if the movement of actual fertilizers against Supply Plan is informed to DoF in time, the regularization of the Supply Plan is delayed by the DoF and generation of claims also gets delayed.

(b) There was delay ranging from 25 days to 636 days in claiming 15 *per cent* balance subsidy amounting to ₹ 59.14 crore by the Company due to non-completion of sales within one month of supply of fertilizers, shortage finalization and delay in

[1] ***Delay of more than 10 days in intimating the correct actuals against supply plan to DoF***

certification by auditor. This delay has resulted in a loss of interest of ₹ 2.37 crore due to the delays which ranged between 25 to 636 days upto October 2012.

(c) The 15 *per cent* balance subsidy from November 2012 amounting to ₹ 163.12 crore could not be claimed by the company in time due to non-transfer of data to mFMS[1] by the DoF as shown below:

Year	Amount (₹ in crore)	Delay (Range in days)
2012-13(from Nov 2012)	39.84	518-638
2013-14	99.69	310 -522
2014-15	23.59	187 - 279
Total	**163.12**	

(d) As on 31 March 2015, subsidy amounting to ₹ 448.22 crore was pending to be received from the Government (₹ 1.16 crore for 2008-09, ₹ 2.35 crore for 2009-10, ₹ 0.47 crore for 2010-11, ₹ 0.44 for 2011-12, ₹ 40.51 crore for 2012-13, ₹ 111. 52 crore for 2013-14 and ₹ 291.77 crore for 2014-15).

The Company stated (December 2015) that the submission of proposed Supply Plan for Ammonium Sulphate was not facilitated in FMS and therefore regularization by DoF was required every month for the entire quantity supplied. Further, the supply of fertilizers as per Supply Plan would result in dumping of products in places where demand of the product was less, which would have negative impact on sales; hence submission of revised supply plan based on actual receipts was inevitable and the consequent delay is unavoidable. The acknowledgement of receipt of the fertilizers is to be done by the retailers in mFMS for claiming the 15 *per cent* balance subsidy and the data has to be transferred to the FMS since claims could be generated only from FMS site. The non-transfer of data from mFMS to FMS by DoF since November 2012 in respect of sales completed resulted in delay in claiming of the balance 15 *per cent* subsidy.

The reply of the Company is to be viewed against the following facts:

- The Company communicated change in supply plan to DoF (in 4 out of 12 cases) only after seven to 28 days after giving 10 days grace period, from the end of the month.

- Non-inclusion of supply plan for Ammonium Sulphate in FMS was not taken up with DoF to reduce the delay in claiming the subsidy.

(ii) Delays in respect of MFL

As per policy of Department of Fertilisers (Order No. 19011/59/2003-MPR (pt.) dated 12 March 2009), manufacturers/ importers could claim “On account” payment of 85 *per cent* (NPK) and 95 *per cent* (urea) on the basis of arrival of the products in the district

[2] ***Mobile Fertilizer Monitoring System***

of the State/ Union Territory upon uploading of Proforma A & C in the FMS[1] on the basis of the certification of the same by the Statutory Auditor of the Company. The State Government/Union Territory concerned would be required to submit certification of receipt of fertiliser in Proforma B within one month. The manufacturers could claim the balance subsidy upon Proforma D being uploaded in the FMS. Audit observed that:

- As on 31 March 2015, subsidy amount of ₹ 740.11 crore was pending to be received from the Government (₹ 45.26 crore for 2012-13; ₹176.08 crore for 2013-14 and ₹ 518.77 crore for 2014-15).
- The Company has generated the data for balance 15 *per cent* subsidy relating to Price Concession Subsidy (PCS) claims for ₹ 5.02 crore for the period 10/13 to 5/ 14 only in 2015 and was yet to prefer the claim (December 2015) with GoI.
- Claim for ₹ 67.41 crore being the five percent balance amount for Urea was yet to be made for want of certification from State Government (December 2015).

(B) Delay in claiming freight subsidy

(i) Delay due to failure to update system (FACT)

The Company transports fertilizers (Factamfos and Ammonium Sulphate) from Udyogamandal Plant to Kalamassery Railhead through Trucks/Lorries for further transportation by railways to respective states/districts. This being part of primary freight (Plant to respective states/districts), Company is eligible for freight subsidy. Freight claim generation was made online through FMSfrom March 2009.However, FMS does not have a provision for claiming freight subsidy for the said transportation. The company preferred manual claims for these subsidies; however, they were not admitted by DoF. The freight subsidy receivable since March 2009 on this account amounted to ₹ 8 crore.

The Company stated (December 2015) that approval of the DoF was required for incorporating the facility of updating the transportation and freight claims could be generated through FMS only after incorporating the facility. The issue has been taken up with DoF and it was expected that changes would be incorporated in FMS system soon.

(ii) Under recovery of road freight (MFL)

As per the policy of the Department of Fertiliser, movement of fertilisers by Rail and Road should be in the ratio of 80:20.Further the DoF policy stated that the company would get subsidy for primary road freight equivalent to rail freight. The primary road freight was always higher than the rail freight and therefore the higher the fertilizers transferred through road, the higher the under recovery of freight subsidy.

Audit noted that the company transported fertilizers ranging from 43 to 68 *per cent* by road during the period 2012-13 to 2014-15. Further, the increased movement of fertilizers

[1] Fertilizer Monitoring System

through road resulted in under recovery of freight subsidy amounting to ₹ 12.41 crore as detailed below:

(₹ in crore)

Year	**2014-15**	**2013-14**	**2012-13**
Urea	3.20	3.42	2.02
NPK	2.25	0.43	1.09
Total	**5.45**	**3.85**	**3.11**

6.1.3.4 Other Points

(a) Idling of infrastructure at Kochi Port due to non-allocation of Urea handling operation (FACT)

GOI awarded (May 2012) the Urea handling operations at Kochi Port to FACT for a period of three years from 2012-13. Audit noticed that

(i) Despite awarding of the contract, no allocation of Urea was made to Kochi Port from May 2012 to December 2015, which resulted in non-utilization of the infrastructure facilities of FACT Ltd. at Kochi Port optimally. The non-allocation of Urea can be attributed to lack of follow up of the company with the DoF, as corroborated by the following facts:

- FACT is the only company, which has received allocation during earlier years (2008-09, 2009-10 and 2011-12) and did not receive allocation for the period 2012-13 to 2014-15.
- The company apprised the Board (459th Board Meeting on 29 January 2014) about non-allocation of Urea to Kochi port only after lapse of almost 2 years without any urea allocation.
- There have been Urea Sales of 1.36 lakh MT, 1.44 lakh MT and 1.36 lakh MT in Kerala during 2012-13, 2013-14 and 2014-15 respectively. Since there were no Urea Manufacturers/importers in Kerala, Urea had to be supplied from other states.
- The company also failed to submit ₹ 50 lakh bank guarantee which was required for the award of contract; and

(ii) Despite having stock of 1.35 lakh Urea bags as on 31 March 2012, FACT ordered four lakh Urea bags in January 2013 (which were delivered in January 2014) though urea handling operations had not been allotted to the company during the first two years of contract. This purchase of Urea Bags resulted in blocking up of the cost of these bags at ₹ 96 lakh till March 2016. It was further noticed that the chances of utilization of these bags in future by FACT is bleak because the company has not submitted its bid to DoF against Notice Inviting Tender for Urea handling, neem coating and marketing of imported Urea shipments for the period 2015-16 to 2017-18. The Company also did not find it feasible to create facility for the mandatory neem coating at Cochin port. The nonparticipation of the company in the tender for Urea allocation points towards possible non-utilization of the urea bags.

The Company noted with concern (December 2015) that the profitable urea operations were not allotted to the Company due to lack of follow up with DoF. Company also stated that they were committed to handle urea vessel if and when allotted by DoF on short notice as per the contract and it was essential to purchase and maintain adequate stocks of bags for bagging urea.

The Company's reply is to be viewed against the fact that it had sufficient stock of bags as on 31 March 2012 for urgent use and purchased urea bags after a lapse of almost two years from the award of contract. The Company should have purchased additional bags only in the case of allocation of urea to Kochi port/assurance from DoF for allocation of Urea materialises.

(b) Inadequacies in Logistics Plan (MFL)

The freight subsidy for distribution/movement of fertilizers included Primary freight (by rail from the plant or the port to various rake points) and Secondary Movement (by road from nearest rake points to the block headquarters in the Districts). The quantum of secondary freight subsidy reimbursed was based on the average district distance in respect of Urea, whereas for complex fertilizers this was not reimbursed. The cost of secondary transportation as incurred by the company through FoL (Free on Lorry) contracts was higher than the expenses reimbursed by DoF and there was an under recovery of ₹ 15.48 crore in respect of Urea during the three years covered under audit as detailed below:

Details of freight paid, freight allowed and Under recovery				
Year	**Product**	**Expenses incurred towards FOL (₹ in crore)**	**Expenses reimbursed by GOI towards secondary cost (₹ in crore)**	**Under recovery on secondary cost (₹ in crore)**
1	2	3	4	5
2012-13	Urea	8.83	3.49	-5.34
2013-14	Urea	10.34	4.29	-6.05
2014-15	Urea	6.79	2.70	-4.09
	Total	**25.96**	**10.48**	**-15.48**

The company did not furnish to audit adequate records for scrutinizing the economics in the secondary movement of fertilizers. Hence, audit could not conclude whether the under recovery of ₹ 15.48 crore was avoidable**.**

Conclusion

The Companies did not achieve the MoU targets for production and sales effectively. The marketing performance of the Companies had overall adverse repercussions like poor rating by bankers and charging of interest at higher rates by them etc. There were delays in claiming and follow up of subsidy from Government of India due to which the Companies faced liquidity crunch. Audit also noticed cases of non-adherence to the CVC guidelines in finalisation of bids.

Recommendations

The following recommendations are made:

- ***MFL should take up with GoI issue of underutilisation of NPK plant.***
- ***Both the Companies should strive to achieve the MoU production and sales targets.***
- ***The Companies should adhere to the CVC guidelines and strengthen all the processes of tendering to ensure that they are transparent and fair.***
- ***The Companies should formulate a follow up mechanism to keep a check on requirements of Department of Fertilisers, Government of India for release of outstanding subsidies and take concrete steps to reduce the delay in claiming subsidy, and***
- ***Maintain sufficient records for the logistics plan to assess the economics of secondary fertiliser movement and reduce the under recovery.***

The matter was reported to the Ministry in February 2016; their reply was awaited (March 2016).

Rashtriya Chemicals and Fertilizers Limited

6.2 Infructuous expenditure on leasing of land

Infructuous expenditure of ₹ 9.02 crore on leasing of land from Visakhapatnam Port Trust and loss of interest of ₹ 2.67 crore

The Board of Directors of Rashtriya Chemicals and Fertilizers Limited (RCF) decided (July 2007) to acquire 10 acres of land on lease from Visakhapatnam Port Trust (VPT) for a period of 30 years for construction of storage area of about 80000 MT which could be fully utilized for storage of RCF cargo. The proposal was based on the following:

(i) Import of 1.25 lakh MTs each of Muriate of Potash (MoP) and Di Ammonium Phosphate (DAP) at Vizag and Tuticorin during 2005-06 and 2006-07 i.e. 2.50 lakh MTs per annum.

(ii) The Company was offered urea handling operation on behalf of Government of India for three years extendable for another two years.

(iii) Overall saving on account of storage, transportation and dispatch was expected to be more than ₹ 100 per metric ton after developing the infrastructure. Entire investment was expected to be recovered within a period of two years depending on the volume handled.

RCF paid ₹ 7.65 crore (₹ 7.24 crore towards upfront lease premium, ₹ 0.40 crore towards non-refundable premium, ₹ 0.004 crore towards annual rent and ₹ 0.004 crore towards refundable security deposit) in October 2007 to VPT. In addition, RCF incurred an expenditure of ₹ 1.37 crore towards registration charges, annual nominal rent, etc. between April 2009 and March 2014. Thus, total expenditure incurred on leasing the land was ₹ 9.02 crore. RCF took possession of the land in January 2008 and also entered (June 2009) into a lease deed with VPT.

After taking over the land, RCF invited (September 2010) offers for development of leased land on joint venture concept. However, the tender did not fetch desired response and it was decided (April 2011) not to pursue the joint venture approach but to develop warehouse and related facilities on Build, Operate and Transfer (BOT) basis. VPT, however, refused (August 2011) permission stating that there was no provision in the Government guidelines for development of warehouse on BOT basis. The Company, decided (October 2011) to proceed with the construction of warehouse on its own and offers were invited (November 2012) on open tender basis. The estimated expenditure based on the lowest offer was ₹ 15.56 crore. However, an inhouse viability study revealed that the proposed construction of warehouse was not feasible as the traffic at the port had considerably reduced due to diversion of traffic to nearby Gangavaram port. The project was dropped (July 2013) and instead it was decided to explore the possibility of setting up a container freight station. This project was also not found techno economically viable. RCF then proposed to install Photovoltaic Solar Power generation facility, which also did not materialise as VPT did not grant permission.

The lease agreement required RCF to develop the facilities within a period of 18 months of the lease agreement or within the further time given by VPT, failing which the Port can terminate the lease agreement without any notice. VPT notified (January 2015) RCF to vacate and hand over vacant possession of the land back to VPT immediately and also stated that no more correspondence would be entertained in this regard. VPT also intimated (November 2015) that the lease agreement did not provide for any refund or compensation if the lease was terminated on the ground of default or failing to adhere to lease conditions. RCF removed the leased land from its fixed assets schedule and charged off its carrying value amounting to ₹ 6.73 crore during 2014-15.

Audit observed the following:

- The feasibility study conducted by RCF consisted only of projected financial performance and failed to consider other critical viability factors like realistic estimation of expected volume of cargo and the impact of existing Kakinada port and Gangavaram port under construction, on cargo volume.
- The Board was apprised of the import of 2.50 MTs of MoP and DAP per annum at Vizag and Tuticorin Ports, while placing the proposal for construction of warehouse at Vizag, Tuticorin and Kandla Ports. The actual import at VPT alone during 2005-06 and 2006-07 was only 47144 MTs and 65987 MTs respectively, which was not considered by the Board.
- The Board was intimated that Company has been offered imported urea handling operations on behalf of GoI for three years with likely extension for two years. The Board was informed that the total expected import volume at the three ports viz. Vizag, Tuticorin and Kandla was 15 lakh MT per year without highlighting the fact that Urea handling contract for VPT was not awarded to RCF.

- The Board of Directors authorized (July 2007) the Chairman and Managing Director for construction either by the Company or under any other arrangement such as BOLT as may be feasible, but the Company did not seek any clarification from VPT in this regard. It was only after taking the land on lease, that the Company approached VPT for permission to develop the warehouse on BOT basis which VPT denied.

Audit further observed that after the proposal for developing the storage facility by means of JV or BOT did not materialize, RCF invited (November 2012) bids for own construction of warehouse without studying its feasibility. The viability study which was conducted (June 2013) only subsequent to invitation of bids revealed that own construction of warehouse by the Company was not feasible.

The Management and the Ministry stated (January 2016) that the investment in the infrastructure of Vizag Port Trust was RCF's backward integration plan made for handling the anticipated increased imports of urea, rock phosphate, potash and other chemicals which RCF was expected to meet to fulfill the country's requirement. RCF had after acquiring the land initiated various steps to utilise the Vizag land, but subsequent developments did not proceed as per the envisaged plan of Government of India, Port and RCF and land could not be utilised for the desired purpose due to various unforeseen factors beyond their control and viability issues in spite of best efforts. They added that had the godown been constructed by investing huge money, it would have remained idle and the Company would have continued to incur expenditure on import through other ports (as rates were lesser) in addition to the cost incurred for construction of the godown and its maintenance. They have further stated that they have asked for refund of the amount paid and have also taken up the matter with the Ministry of Shipping and response is awaited.

The reply of the Management and Ministry are not tenable as the decision to take the land on lease was based on incorrect, inflated and inadequate information. The various attempts made for utilising the land on joint venture, build operate transfer basis, self construction of facilities only indicated that they had no concrete plans to put in place the import handling facilities within the sanctioned period of the lease. Also the limited feasibility study did not examine the potential prospects of construction/utilization of storage facility.

Thus, inadequate planning for development of warehousing facilities and utilization of leased land at Vizag Port Trust, resulted in infructuous expenditure of ₹ 9.02 crore besides loss of interest of ₹ 2.67 crore (October 2007 to March 2015) (based on minimum fixed deposit interest rates for each year). RCF's efforts to get back refund of the upfront lease premium paid to VPT looks bleak as the Port has refused the refund of ₹ 7.65 crore since the lease was terminated due to failure to adhere to lease conditions.