CHAPTER VIII: MINISTRY OF HEALTH AND FAMILY WELFARE

HLL Lifecare Limited

8.1 Efficiency and effectiveness of marketing activities

Highlights

- ❖ HLL has not evolved any distinct, separate and documented Marketing Policy

  (Para 8.1.2.2)

- ❖ In respect of realization of outstanding receivables beyond credit period, the Company did not charge any interest on delayed payments by the parties. HLL had an outstanding of ₹ 86.39 crore as on 31 March 2015 under direct marketing and exports, of which ₹ 14.43 crore was outstanding beyond a period of one year to five years and ₹ 4.69 crore was overdue, beyond five years.

  (Para 8.1.2.2)

- ❖ In Consumer Business Division, the outstanding dues beyond credit period showed an increasing trend and rose sharply from ₹ 2.58 crore in 2012-13 to ₹ 11.38 crore in 2014-15.

  (Para 8.1.2.3)

- ❖ The position of debtors {excluding Government Business Division (GBD)} ranged from 22.36 *per cent* to 58.18 *per cent* and almost all the marketing divisions had an unhealthy position in 2014-15.

  (Para 8.1.3.1)

- ❖ There was non-collection/submission of sales tax documents on sales/stock transfer valued at ₹ 3.54 crore resulting in avoidable statutory liability on HLL.

  (Para 8.1.3.2)

- ❖ HLL has no formal method of conducting market research for product change and development, to combat competition resulting in stagnant and/or dwindling market share of its products.

  (Para 8.1.4.1)

8.1.1 Introduction

HLL Lifecare Limited (HLL) under the Ministry of Health & Family Welfare was incorporated on 01 March 1966. HLL manufactures and markets a wide range of contraceptives such as condoms, intra-uterine devices, oral and emergency pills, cream, tubal-rings and also blood collection bags, surgical sutures, auto disable syringes, vitro-diagnostic test kits, shunts, iron and sanitary napkins etc. The turnover of HLL for the year ended 31 March 2015 was ₹ 1058.05 crore with a profit after tax of ₹ 31.55 crore.

HLL has distribution network covering the country through its various divisions viz., Hi-Care Division (HCD), Women Health Care Division (WHD) being operated from

Chennai and Consumer Business Division (CBD) operated from Bengaluru. The Government Business Division (GBD) mainly operates through Regional Office at Noida, which procures orders from the Central and various State Governments for contraceptives and hospital products.The International Business Division (IBD) at Kochi handles HLL's export operations.

A review of the marketing activities carried out by various divisions, for three years from 2012-13 to 2014-15 was taken up with a view to assess the efficiency and effectiveness of those operations.

8.1.2 Audit Findings

8.1.2.1Sales targets and achievements

The sales targets and achievements by the CBD, HCD, WHD, IBD and GBD, in marketing of products during the years 2012-13 to 2014-15 are given in ***Annexure-I.***

It was noticed that all the domestic divisions failed to achieve their respective targets, particularly in the last two years. Moreover, two marketing divisions viz., CBD and HCD continuously failed to attain the target since 2012-13 onwards. The IBD could achieve its target during the year 2012-13 only. However, it was observed that targets were increased to three times in 2013-14 but were subsequently brought down in 2014-15 but even the reduced targets could also not be achieved.

The shortfall in achievement of sales targets was in spite of substantial funds of ₹ 22.12 crore, ₹ 22.15 crore and ₹ 30.95 crore spent by HLL during 2012-13, 2013-14 and 2014-15 respectively on marketing of its products. It was also observed in audit that as against the Memorandum of Understanding (MOU) agreed net-worth of ₹ 491.43 crore and ₹ 531.01 crore, HLL could achieve ₹ 399.40 crore and ₹ 426.29 crore during 2013-14 and 2014-15 respectively.

The Ministry stated (March, 2016) that HLL sets challenging turnover targets for its Marketing Division and the same used to be much higher. Hence, there is bound to be slippages in the achievement of targets, but nevertheless, the turnover achieved reflects healthy growth in business year after year.

The reply is not acceptable, as it consistently failed to achieve the targets which indicate that its growth of sales was not commensurate with the overall market growth of the related products.

The contributory factors for this sub-optimal performance of HLL are discussed in the succeeding paragraphs:

8.1.2.2 Non-uniform credit policy and non-levy of interest on payments delayed beyond credit period

It was noticed that HLL had no distinct and separate documented Marketing Policy, it sold its products, both on cash and credit basis. The terms of grant of credit period and credit limit and relaxation/extension of credit period were found to be varying on a case-to-case basis. There was no uniform structure in grant of credit limit and period to its clients.

In respect of realization of outstanding receivables beyond credit period, HLL did not charge any interest for delayed payments and had an outstanding of ₹ 86.39 crore as on 31 March 2015 from clients under direct marketing and exports. Out of this, ₹ 14.43 crore was outstanding beyond a period of one year to five years and ₹ 4.69 crore was overdue, beyond five years. HLL stated that it was as per business practice existing in the market, however, it could not provide any documentary evidence to support its contention. As HLL was sourcing its funds through cash credit availed from bankers, non-levy of interest though cited as a business practice, resulted in loss of interest to the extent of ₹ 9.15 crore.

Information on the exact credit period availed by the parties and the cost of credit to the customers was not found available with the Management. Lack of above information severely curtailed HLL's ability to effectively monitor and recover outstanding amounts.

It was further noticed in audit that in WHD, the turnover actually came down from ₹ 133.51 crore in 2012-13 to ₹ 117.37 crore in 2014-15, in spite of grant of credit period and credit limit to its clients. Evidently, the credit facility, though stated to be a market practice, has failed to increase the turnover of this important division and being ineffective, requires re-evaluation.

The Management stated (January 2016) that substantial portion (₹ 81.73 crore) of the total outstanding beyond credit period belongs to the government institutions for which credit period did not exist.

The Management contention is not correct as HLL provides 90 days credit period to the government institutions and the Management in its reply of January 2016 itself accepted that an amount of ₹ 47.18 crore out of ₹ 81.73 crore was overdue i.e., outstanding beyond the permitted credit period.

8.1.2.3 Lack of monitoring in the implementation of credit terms for realization

A test check of records selected for implementation of credit terms, revealed that outstanding dues, beyond credit period, were substantial and stood at ₹ 312.92 croreon 31 March 2015. The main observations are given below:

- Products like Nirodh, Mala-D and female condoms were marketed by CBD through stockists and retail outlets. The outstanding dues beyond credit period showed an increasing trend and it rose sharply from ₹ 2.58 crore in 2012-13 to ₹ 11.38 crore in 2014-15, i.e., from 16.07 *per cent* of total dues of the division in 2012-13 to 50.64 *per cent* of total dues during 2014-15.
- In WHD, where products like female contraceptives, pregnancy test-kits were dealt with and marketed through retail outlets, the total dues beyond credit period, increased from ₹ 22.32 crore in 2012-13 to ₹ 28.09 crore in 2014-15.
- In the case of exports, the average percentage of dues beyond credit period was 49.68 *per cent* for the period 2012-13 to 2014-15.
- In the case of GBD, the payments were received after credit period of 90 days and HLL thus, had to bear the loss of interest on delayed payments. The payments were made only after certification of delivery at the receiving locations which

involved long processing time due to administrative clearances and procedural formalities.

From the above, it could be seen that the dues beyond credit period were not brought down during 2012-13 to 2014-15 which indicates that the recovery system in HLL was not effective.

The Management stated that HLL was having a robust SAP based Dynamic Credit Control System (DCCS).

The reply is not acceptable, as DCCS is activated for all customers except Govt. Department/Institution and out of dues relating to CBD and WHD 96.75 *per cent* dues pertained to Govt. Department/Institution, thus making the DCCS of limited use. This delayed collection of credit sales adversely affected the working capital position of HLL.

8.1.2.4 Heavy discounts without commensurate increase in consumer sales

In order to increase its turnover HLL offered both cash and quantity discount to its clients. Cash discount at two *per cent* on invoice value was given at the time of cash sale and quantity discount was given, both for cash and credit sales. On a test check of sales with quantity discount in 2014-15, audit observed that in respect of thirteen (13) products, though the quantity discount ranged from 19.81 *per cent* to a high of 300.88[1] *per cent*, HLL still lost sales volume. The decline in sales volume was particularly steep in the following products:

Sl. No.	Particulars	Sales unit	2012-13	2013-14	2014-15
			Quantity sold	Quantity sold	Quantity sold
1.	Moods Ultrathin 3'S	Wallet	823537	27469	7802
2.	HILCAL 500	Strip	168539	155779	73991
3.	HILZOL	Strip	89830	31864	400
4.	P-DRIVE S	Strip	26105	22256	162

HLL sells its products, with varying prices at varying levels of profitability. A scrutiny of records revealed that the prices were fixed and revised several times in a year. Though, the Chairman & Managing Director advised the Price Fixation Committee to resort to price revision either at the beginning of the calendar year or financial year as it will have an impact on the market, no corrective action was taken. HLL continued its operations without having a documented pricing policy to facilitate fixation/periodical review of prices.

Audit noticed that according to the latest available Cost Audit Report, there was negative margin to HLL during 2012-13 on supplies to the Government of condoms (₹ 2.66 crore), sanitary napkins (₹ 2.36 crore) and pregnancy test kits (₹ 1.88 crore). This was on account of increase in input costs. Though, HLL had taken up the issue with the Ministry/Tariff Commission for review and fixation of fair price, no revision was effected during the last one to two years. This led to HLL incurring recurring losses on orders received from the Government.

[1] ***Discount on order placed with extra quantity offered.***

Management agreed to the audit observation and added that the negative margin on the supplies to the Government was due to non revision of prices by the Ministry/Tariff commission inspite of repeated reminders by HLL to fix fair price for the years 2012-13 to 2014-15.

The Ministry (March, 2016) stated that discounts were offered as per the practice followed for similar products by their competitors. In a few situations, there is a requirement of offering more quantity discounts, in order to liquidate the inventory whose shelf life is nearing expiry or where the competitor becomes suddenly aggressive in pushing their product. Thus, discounts are offered to win over competition and to maintain company's position in the market.

The Management contention is not acceptable as even the high discount allowed could not improve sales of the products, therefore, the policy needs to be reviewed.

8.1.2.5 Deficiencies in monitoring of channels of distribution for supply of products

HLL established four Regional Offices[1] and fourteen stock points across India for delivery of products. The materials were dispatched from manufacturing units to these stock points for onward movement to the channel partners.

The test-check of the performance of the distributors/stockists for the years 2012-13 to 2014-15 revealed the following deficiencies:

Though HLL had eleven Carrying and Forwarding Agent (CFA) and five depots (2014-15) across the country but it conducted only *seven* surprise visits during the three year period from 2012-13 to 2014-15 and in all the cases, shortages were noticed with batch variation. The visits were made only when problems were reported and as a general procedure, verifications were not made.

Audit noticed that M/s. S.S. Logistics was working as CFA in Zirakpur, Punjab and Punchkula, Haryana for supply of products in Chandigarh, Haryana and Punjab. HLL had to terminate the arrangement (July 2013) due to theft of stock, non-reconciliation of sales and stock figures, non-filing of service tax and pending VAT assessment. HLL had no provision or clause in the manual/operating practices prescribing the number of surprise checks to be undertaken by the logistics department to ensure the safety and security of the products. Also, surprise visits/checks made by the logistics department were not documented in the form of a verification/inspection report and submitted to the top management. This was indicative of poor and ineffective supervision of depot operations especially when consumer products were stored and dealt with.

The Management stated that it was ensured to make one surprise visit per warehouse per year. The reply is not acceptable as the Management had not evolved any mechanism to prescribe the number of surprise checks in the operating practices and to document the result of surprise checks.

[1] ***Mumbai, Kolkata, Bengaluru and Noida.***

8.1.3 Debtors' Management

8.1.3.1 Debtors' and Turnover

The trade receivables outstanding as on 31 March 2015 stood at ₹ 622.61 crore of which sum of ₹304.35 crore pertained to the five Divisions viz., CBD, HCD, WHD, IBD and GBD. The details of turnover and the debtors' position in respect of various divisions for the three years ended 31 March 2015 was as below:

(₹ in crore)

Year	CBD	HCD	WHD	IBD	GBD
2012-13: Turnover	59.14	42.50	133.51	126.96	269.07
Debtors Percentage to Turnover	16.06 (27.16)	23.87 (56.16)	53.10 (39.77)	67.49 (53.16)	2.45 (0.91)
2013-14: Turnover	65.51	53.57	110.05	133.11	252.55
Debtors Percentage to Turnover	14.65 (22.36)	12.46 (23.26)	64.03 (58.18)	54.05 (40.61)	0.65 (0.26)
2014-15: Turnover	79.93	73.64	117.37	155.58	320.89
Debtors Percentage to Turnover	22.47 (28.11)	29.89 (40.59)	65.76 (56.03)	79.63 (51.18)	106.60 (33.22)

It can be seen from the table above that debtors (excluding GBD) ranged from 22.36 *per cent* to 58.18 *per cent* and almost all the marketing divisions had an unhealthy position in the year 2014-15. This adversely affected the funds management position and hampered the working capital cycle.

In both, CBD and HCD, the outstanding debtors for a period exceeding three years ranged from 10.45 *percent* to 28.44 *percent* during the three years ended 31 March 2015.

The position of provisions made in respect of doubtful debts during 2012-13 to 2014-15 was as follows:

(₹ in crore)

Year/Division	2012-13	2013-14	2014-15
Consumer Business Division	4.96	3.12	2.75
Hi-Care Division	3.05	3.57	3.26
Women Health Care Division	1.81	0.92	1.47
International Business Division	0.04	0.51	0.29
Total	**9.86**	**8.12**	**7.77**

Audit analysis revealed that though the amount of provisions had come down over the years, it was primarily due to the write-off of doubtful debts amounting to ₹3.91 crore during the last three years.

The Management in its reply confirmed write off of its debts and advances.

The Ministry (March 2016) stated that HLL reviews the credit balances of the customers regularly and takes appropriate action in March for those accounts which come under the law of limitation.

The increase in the credit balances in debtors' accounts from ₹ 2.84 crore in 2012-13 to ₹ 7.87 crore in 2014-15 contradicts the Ministry's contention regarding periodical review by the Management. Further, the main credit balances were in the accounts of National

Aids Control Organization- ₹ 1.18 crore and Directorate of Ayush- ₹ 3.99 crore in 2014-15.

(a) Audit further noticed that an amount of ₹ 5.55 crore (February 2016) was still to be recovered due to various reasons such as non-fulfilment of contractual obligations by clients, dishonor of cheques of parties, unclaimed earnest money deposits in respect of failed tenders, refund of wrong payment of service tax, incentives under Focus Market Scheme etc. as given below:

(₹ in crore)

Party/nature	Amount to be recovered	Particulars
Various parties	1.69	Non-recovery of Earnest Money Deposit on failed tenders
M/s Rama Shipping Services, Bangalore	2.00	Advance paid for purchase of iron ore for export without security.
O/o the Joint Director General, Foreign Trade	0.45	Non-realization of export incentives under Focus Market Scheme as the Organisation could not furnish the Bank Realization Certificates.
M/s Gururaj Associates	0.32	Advance paid on unsold stock of iron ore stock held for exports.
Ten Debtors	0.55	Dishonoured cheques of clients.
M/s/ Qingdao Jianbang International Trading Co. Ltd.	0.45	Non-recovery of 5 *per cent* balance on sale of rejected stock of iron ore exports.
Service Tax Department	0.09	Wrong payment of Service tax refundable by the Service Tax department.
Total	**5.55**	

Non-recovery of the above amounts affected the working capital management in HLL besides loss of interest on blocked funds. It also indicated poor monitoring mechanism for recovery of long term receivables.

The facts stated in the Audit observation were agreed toby the Management.

8.1.3.2 Avoidable additional statutory liability on sales/stock transfer valued at ₹ 3.54 crore due to non-collection/submission of sales tax documents.

Under Central Sales Tax (CST) Act, 1956, registered dealers are eligible for certain concessions and exemptions of tax on inter-state transactions on submission of prescribed declarations in Form C and Form F.

Form C: Under the provisions of the Central Sales Tax (CST) Act, 1956, every dealer who in the course of interstate Trade and Commerce, sells to a registered dealer, goods specified in the certificate of registration of purchasing dealer shall be liable to pay tax at the concessional rate if such sales are supported by declaration in Form C. If the buyer fails to furnish the sales tax concessional forms to the seller, then the sales will be assessed at full rate and tax levied at the full rate of tax.

Form F: Under the provisions of Central Sales Tax Act, 1956, every dealer is required to declare his place of business in other States at the time of seeking registration. Transfer of goods claimed otherwise than by way of sale made by a registered dealer to any other place of his business located outside the State is exempted from tax on production of *Form F*.

Audit noticed that HLL sold goods from its Kanagala (Karnataka) and Manesar (Haryana) factories but did not collect Form C from buyers for sales valued at ₹ 3.32 crore (February 2016). This was indicative of laxity in collection of requisite sales tax forms from buyers resulting in avoidable additional statutory liability on HLL and passing of undue benefit to the buyers. Moreover, HLL moved its goods from Manesar unit to other States during 2013-14 and 2014-15 and Form F for transfer of stock valued at ₹ 0.22 crore (February 2016) remained to be furnished. Evidently, documentation of sales tax records was poor even though HLL has full-fledged Regional Offices responsible for the sales, collection and submission of C and F Forms and Sales tax assessments.

The Management agreed to the facts stated in the audit observation.

8.1.4 Market Competition and improvement in market-share:

8.1.4.1 Market Research

Market research is done by way of planning, collecting and analyzing market data and is important to improve the quality of marketing decision making and attract new customers to increase market share.

Audit noticed that HLL had no formal method of conducting customized market research for product change and development, to combat competition and to plan for improvement in market share.

The CBD subscribed to A C Nielson for their study report, only for MOODS condoms in respect of domestic market. For other products, CBD was entirely dependent on the feed-back from its own agents/distributors on the products. WHD collected market data only for Emily (79 *per cent* market share), Novex (64 *per cent*) and Novex DS (48 *per cent*) brands in 2014 from institutions like All India Organization of Chemists and Druggists (AICOD). For rest of their products, there was no comprehensive data/information available for a proper market research. HCD used market reports for 2013-14 only on surgical sutures. It was noticed that CBD did not collect data for market research related to the other products handled by it.

The International Marketing Division purchased reports on 'Moods' condoms, only for Gulf market from AC Nielson for the years 2013 and 2014. In the absence of reports for other marketing countries, on the exported products, HLL could not plan its marketing strategy on export sales.

The Management replied that in respect of WHD, market details of other brands were not provided as they were in the cluttered market segment whereas for HCD which had aexperienced team, and got the market pulse in time. Further, in respect of Export division, due to non availability of Nielson reports, they had to depend on other sources like information from distributors and secondary information from online reports.

The replies of the Management were not acceptable as in respect of WHD, HLL itself had collected and furnished (reply of January 2016) the market details in respect of other products which indicate that collection of market data was possible. Moreover, the market research undertaken by HLL was only in respect of its major products like blood bags, sutures, male condoms and that too, for limited period only. It does not have an organized system for collection of market trends and hence could not plan its marketing strategies to combat competition. This reflected in the stagnant and/or dwindling market share of HLL as brought out in the report.

8.1.4.2 Market share

On review of market share of the HLL products, Audit observed that in the case of 'MOODS', there was an increase in market share from 13 *per cent* in 2011-12 to 14 *per cent* each in 2012-13 and 2013-14. However, the market share of Blood Bags came down to 39 *per cent* in 2014-15from44 *per cent* in2013-14. Audit observed that, HLL lost five *percent* market share in 2014-15 due to delayed delivery schedules, increased cost of production and absence of aggressive marketing strategies. In the case of sutures, HLL's share was a negligible 2 *per cent* in 2013-14. Audit also noticed that as no market reports/vital data on market share, trends and behavior on various other products were available, HLL failed to identify its strengths/weakness in the market and could not effectively plan its marketing strategies to increase its market share.

The Management replied that HLL is major player in the blood transfusion market with consistent market share of more than 35 *per cent* over the years. The reply is not acceptable as it has not addressed the reason for reduction in the market share which is a cause for concern.

8.1.4.3 Dependence on a single buyer

The turnover from the marketing activities of GBD for the three years ended 31 March 2015 was as given below:

(₹ in crore)

Year	Total Sales	Sales from Government business	Percentage
2012-13	648.34	269.07	41.50
2013-14	665.66	252.55	37.94
2014-15	800.62	320.89	40.08

It is evident from the above that share of government business to HLL's marketing turnover ranged from 38 *per cent* to 41.50 *per cent* during the years 2012-13 to 2014-15. The major portion of sales was from the Government supplies and hence dependence on the orders from the Government, to make the production facilities run continuously, could not be ruled out. Though, HLL has undertaken expansion of production facilities in products like condoms, blood bags and sanitary napkins, but the capacity utilization was mainly dependent on government orders to utilize the enhanced capacity.

The Management agreed to the risks of dependency on single buyer and it further added that there was increase of non government sales in 2014-15 over 2012-13. The reply is not acceptable as the increase is due to increase in turnover of HLL and the share of the Non-Government sales has remained the same during the three years.

8.1.4.4 Pending Subsidy claims from Government of India

HLL's products like Nirodh, Mala-D etc. are subsidized by the Government of India and prices were fixed by the Ministry. As HLL sells these products below their cost of production, the subsidy claims were submitted to the Government every year. However, they were released by the Government after considerable delays, extending up to two years. The delay in timely receipt of subsidy claims adversely affected the funds position. Moreover, HLL's profits were affected as the products were accounted at provisional prices due to non-revision of prices of its products controlled by the Government. The subsidy claims of ₹ 9.27 crore (including ₹ 4.80 crore for promotion of products) were pending receipt from the Government of India as on 31 March 2015.

Non-revision of provisional prices was a contributing factor for HLL not achieving the projections and promises made in the Memorandum of Understanding entered into with the Ministry.

The Management accepted and replied that the matter is continuously taken up with the Ministry.

The Ministry (March, 2016) did not elaborate upon the reasons for delay in settlement of subsidy claims.

Conclusion

The marketing activities of HLL, despite various promotional schemes like heavy discounts and relaxed credit failed to create a substantial impact on increasing the market share. Moreover, the market research undertaken by HLL was inadequate and insufficient. HLL was heavily dependent on a single buyer i.e. the Government of India where it faced issues like long pending subsidy claims and supplying products at negative margin. HLL also had substantial outstanding debtors pending recovery which hadadverse impact onits working capital.

8.2 Release of advance payments without obtaining adequate security

HLL Lifecare Limited made advance payments of ₹ 12.04 crore to M/s. Goa Mining Industries (GMI) under a contract for export of iron ore, without obtaining adequate security to protect its financial interests. Subsequently, the export of iron ore was abandoned due to ban on exports of iron ore and the risks involved in transporting large quantities. This resulted in outstanding recoverable from GMI amounting to ₹ 4.92crore on account of principal and ₹ 4.48 crore as interest on principal as on November 2015.

HLL Lifecare Limited (Company) engaged in manufacture of health/life care related products, decided (December 2005) to enter into a new line of business viz. Merchant Exports. The Board of Directors of the Company recommended (September 2006) that Memorandum and Articles of Association may be amended to enable the Company to undertake merchant exports in any goods or classes of goods whatsoever and the same was approved in the 40th Annual General Meeting of the Company held on 29 September 2006.

In the meanwhile, the Company had entered into (June 2006) a Memorandum of Understanding (MoU) with M/s. Goa Mining Industries (GMI) for execution of 60,000 Metric Tonne (MT)(+/-) 10 *per cent*of iron ore export contract at the rate of USD 42.00 per MT. The amount was to be paid in four instalments on receiving confirmation from Kudremukh Iron Ore Company Ltd. (KIOCL), Mangalore that the specified quantity had been unloaded at the nominated plot in KIOCL. Though exports were performed for only 25,047 MTs of iron ore fines by GMItill June 2007, HLL paid to GMI entire contracted amount of ₹ 12.04 crore for 60,000 MTs of iron ore fines between June 2006 and December 2006 in four instalments on confirmations from Quantity & Quality surveyors, appointed by overseas buyer and the co-seller (M/s GMI). In addition, an amount of ₹ 1.73 crore was also paid by HLL to GMI between June 2007 and March 2011 on various grounds. GMI could not export the balance quantity due to continued ban on export of Iron Ore in the States of Karnataka and Goa and offered to supply the iron ore fines from the State of Odisha. The Company declined the offer due to its unwillingness to take any further exposure in iron ore business in view of risks involved in quality of the iron ore fines or transportation of large quantities of the ore. The amount recoverable from GMI as on November 2015 stood at ₹ 4.92 crore on account of principal and ₹ 4.48[1] crore on account of interest on principal outstanding from June 2006 to 30 November 2015.

Audit observed that the Company had entered into such a high-value contract by accepting a single signed cheque from GMI as collateral security without contemplating execution of a bank guarantee or performance guarantee or letter of credit, etc. to safeguard its financial interests. It was also seen in audit that the contract with GMI was entered in June 2006 which was three months before the Company was authorized in its AGM of September 2006 to enter into this new line of business. Thus, this action was *ultra vires* the Memorandum of Association of the Company.

The Management stated (November 2015) that they had to accept the blank signed cheque as financial security as GMI was not agreeable to any enforceable securities. It also stated that the Company before entering into new line of business sought expert legal opinion from a law firm which opined that the MOA authorized the mercantile export business by the Company and it further informed that it was advisable and prudent to amend the object clause to specifically include the proposed business activity also as an object for which the Company was established. Further, the Company made provision for doubtful advances in the accounts for the year 2014-15 as after demise of sole proprietor of GMI in July 2014 the chances of recovery of the outstanding became remote and the Company had initiated legal action (March 2015). Further, as a corrective action it has issued guidelines restricting release of advances without appropriate enforceable security. The Ministry (January 2016) reiterated the management's reply and agreed that the lapses were due to lack of experience of officials in the new area of business.

The fact that iron ore export being a new business and lack of experience in the field made it all the more important that a secure form of financial security instrument such as

[1] ***Since interest rate ranging from six per cent to 10.5 per cent per annum was offered by Public Sector Banks for term deposits during September 2012 to November 2015, therefore, on conservative basis lowest applicable rate of six per cent per annum has been adopted for calculation of interest recoverable.***

a bank guarantee, performance guarantee or a letter of credit, etc. should have been taken. Instead, the Company entered into a high value contract without safeguarding financial interest of the Company which was against prudential business practices. Had the Company obtained proper collateral to safeguard its financial interests, it could have recovered its dues fully.

Thus, due to venturing into a new line of business without any in-house expertise coupled with lack of adequate security to safeguard its financial interest, the Company could not recover ₹ 9.40 crore (Principal ₹ 4.92 crore + Interest ₹ 4.48 crore) from a private party.