

Section A (Part-II)
Chapter-IV
Performance Audit
(Non-Power Sector)

Chapter-IV

Performance Audit relating to Non-Power Sector PSU

4. Activities of Andhra Pradesh Mineral Development Corporation Limited

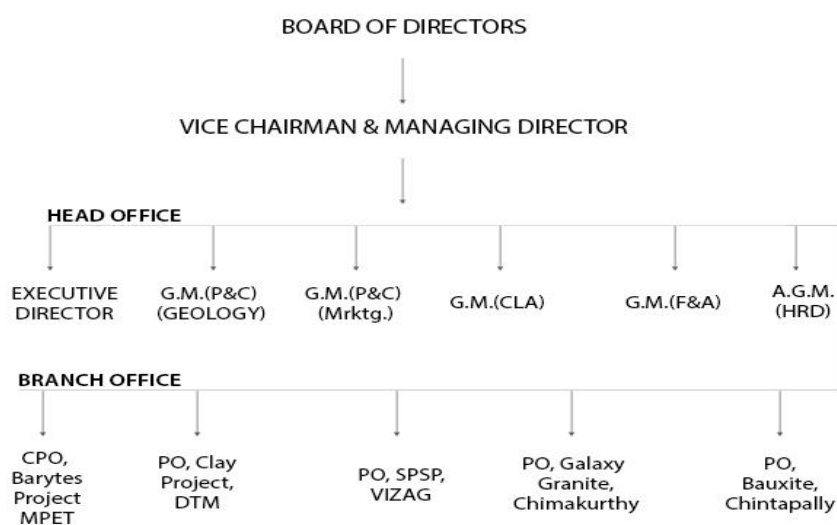
4.1 Introduction

Andhra Pradesh Mineral Development Corporation Limited (Company) was incorporated in February 1961 under the Companies Act, 1956, as a wholly owned undertaking of Government of Andhra Pradesh (GoAP). The main objectives of the Company are to develop mineral resources and to carry out exploration, exploitation, conservation, processing, beneficiation, value addition and promotion of mineral based industries and sale of ores mined.

The Company started mining barytes⁹³ at Mangampet in 1975. In 1977, the GoAP reserved the mining of barytes for public sector in view of the magnitude of the baryte deposits. The Company is also engaged in quarrying of Black Galaxy Granite in 81.669 hectares of land in Chimakurthy, Prakasam District. The Company has mining lease for Ball Clay in Dwaraka Tirumala of West Godavari District over an extent of 13.93 hectares of land.

4.2 Organisational structure

The Management of the Company is vested with the Board of Directors (Board). The Chairman and Board members are appointed by the GoAP. The Vice Chairman and Managing Director (VC&MD) is the Chief Executive Officer of the Company, and aids and advises the Chairman and the Board to take decisions. The VC&MD has administrative, statutory and financial powers and is assisted by the Executive Director and other Functional Heads. The organisational chart of the Company is as follows:



⁹³ baryte is a mineral, which is a source of barium sulfate. Barytes are used as weighting agents for drilling fluids in oil and gas exploration, to suppress high formation pressures and prevent blowouts.

The Executive Director coordinates with all Functional Heads at Head Office and with Project Officers on all technical, administrative, financial and accounts matters. The General Managers look after the functions of their respective departments and report to the Executive Director. Project Officers are responsible for the excavation, production and dispatches of the minerals under their control, as per agreements with excavation contractors and buyers of minerals. As against sanctioned strength of 481 in all cadres, there were 143 employees as on 31 March 2018. The Company had engaged 622 personnel through outsourcing and 274 tribal trainees were appointed under obligation to provide employment.

4.3 Financial Position

The authorised share capital of the Company as on 31 March 2018 was ₹ 10 crore and the paid-up capital stood at ₹ 6.31 crore. The accounts of the Company were finalised upto the year 2013-14 (1 April 2013 to 1 June 2014 i.e., till the date of bifurcation of erstwhile Andhra Pradesh). As on 30 September 2018, the accounts for the years 2014-15 to 2017-18 have not been finalised by the Company due to non-finalisation of demerger plan. As per the provisional accounts furnished to Audit, however, the Company had earned profit continuously for the last five years ended March 2018, and had paid/declared dividend @ 25 per cent. The financial performance of the Company for the five-year period ended 31 March 2018 is given in the table below:

Table 4.1 – Statement showing the financial performance of the Company

(₹ in crore)

Description	2013-14	2014-15	2015-16	2016-17	2017-18
Revenue from operations	524.00	123.00	629.00	566.00	675.00
Other Income	115.00	89.00	93.00	106.00	94.00
Gross Income (A)	639.00	212.00	722.00	672.00	769.00
Operational Expenses	130.00	52.00	203.00	298.00	180.00
Change in Inventories	(-) 32.00	(-) 29.00	8.00	(-) 56.00	78.00
Employee Cost	57.00	25.00	41.00	45.00	52.00
Other Expenses	15.00	30.00	30.00	44.00	38.00
Tax Expense	159.00	45.00	156.00	118.00	146.00
Total Expenditure (B)	329.00	123.00	438.00	449.00	494.00
Profit (A-B)	310.00	89.00	284.00	223.00	275.00

(Source: Provisional Annual Accounts of the Company except 2013-14)

The major part of the revenue from operations was generated from the sale of barytes whose contribution to the total revenue ranged from 92 per cent (2014-15) to 98 per cent (2017-18) during the five-year period ended March 2018. The major expenditure was on operational expenses⁹⁴ and employee cost apart from tax expenses. There was rising trend in the expenditure from 2013-14 to 2015-16 on account of increase in the cost of excavation.

⁹⁴ Operational Expenses include (i) Overburden and Run of Mine expenses, (ii) Royalty, dead rent and cess (iii) Consumption of packing material, (iv) Power and fuel, (v) Repairs and maintenance of machinery (vi) Milling charges (vii) Mining expenses and (viii) hire charges on machinery.

4.4 Audit Objectives

The objectives of audit were to ascertain whether:

- Mining activities carried out in own mines are effective, efficient and economical;
- Quarry activities carried out through Joint Venture Companies are effective, efficient and economical; and
- Financial management is efficient and prudent.

4.5 Audit Criteria

The audit criteria for the Performance Audit were drawn from the following sources:

- Guidelines, Rules, Regulations and provisions of mineral extraction related Acts;
- Terms and conditions of agreements with Joint Venture Companies, Sale and Raising contracts;
- Annual production plan and production reports of various projects with reference to approved mining plans;
- Company's price fixation policy/ methodology; and
- Board Agenda and Minutes.

4.6 Scope and Methodology of audit

The Performance Audit of the Company was conducted (February to June 2018) for five years' period from 2013-14 to 2017-18 covering the activities relating to mining and marketing of barytes, galaxy granite and ball clay. The audit examined the records maintained at Corporate Office and three Units i.e., Barytes Project at Mangampet, Galaxy Granite Project at Chimakurthy and Ball Clay Project at Dwaraka Tirumala. The scope, methodology and objectives of Performance Audit were explained to representatives of GoAP and the Company in an Entry Conference held in February 2018. The audit findings were reported to the State Government in September 2018, and discussed in Exit Conference (November 2018) attended by Principal Secretary (Mines), GoAP and senior officials of the Company. The responses of the GoAP have been included in the Report.

4.7 Audit Findings

4.7.1 Mining and marketing of barytes

Barytes mining was the main business to the Company, contributing more than 90 *per cent* of its turnover, during five-year period as indicated in the below Table.4.2:

Table 4.2 – Statement showing mineral wise turnover of the Company

(₹ in crore)

Year	Barytes (sales)	Galaxy Granite (Consideration)	Ball clay (Raising-cum-Sale)	Total	Percentage
(1)	(2)	(3)	(4)	(5)	(6)= (2/5*100)
2013-14	446	15	5.00	466.00	95.71
2014-15	166	15	1.11	182.11	91.15
2015-16	614	15	0.19	629.19	97.59
2016-17	546	20	0.12	566.12	96.45
2017-18	659	16	0.23	675.23	97.60

Due to non-production of barytes by the contractor during the year 2014-15, the Company could not dispatch the barytes as per demand due to which the revenue from sale of barytes had drastically come down to ₹ 166 crore from ₹446 crore in 2013-14. Subsequently, by producing the required quantity through new contractor, the Company improved its revenue from sale of barytes.

For extraction of barytes, the Company awarded (August 2008) excavation contract to M/s.VLC-SCKC JV for a period of five years extendable for a further period of two years. The contract was terminated in April 2015 due to the failure of the contractor to deploy adequate men and machinery and not carrying out excavation work as per agreement. Consequently, the Company awarded (March 2015) the excavation work to M/s.Triveni Earth Movers Private Limited. These two contracts which were in operation during the period covered in audit were examined in audit.

4.7.1.1 Non-realisation of risk and cost amount on termination of contract

In July 2008, the Company awarded the contract for excavation of barytes ore and Over Burden Removal to M/s.VLC-SCKC JV for a period of five years from 8 August 2008, extendable by two more years at sole discretion of the Company. After completion of initial contract period of five years, the Company extended the period for two years upto 7 August 2015. During the extended period, the Contractor had produced only 13.94 lakh MTs as against the target of 27.57 lakh MTs. Despite several reminders to deploy adequate machinery and manpower, the Contractor did not carry out the production. Consequently, the Company, as per terms of agreement⁹⁵, terminated (April 2015) the contract under risk and cost condition. The Company in March 2015 awarded the left over quantity to M/s.Triveni Earth Movers Private Limited on hourly production basis and incurred an extra expenditure of ₹ 11.57 crore. Under risk and cost condition, the Company had to recover this amount from the defaulting Contractor (M/s.VLC-SCKC JV). In addition to this, Company had to recover ₹ 5.43 crore towards penalties and Service Tax (ST) from the defaulting Contractor for the period from October 2014 to the date of termination. The value of the defaulting Contractor's Performance Bank Guarantee available with the Company was ₹ 3.89 crore only, which was

⁹⁵ Clause 25.7 (Part II) (A) of GCC.

forfeited. The Company, thus could not recover balance amount of ₹ 13.11 crore⁹⁶.

Government in reply stated (November 2018) that a suit would be filed in Court to recover the pending amount from the Contractor.

It is evident from the reply that the Company had not initiated any action to recover the risk and cost amount, penalty and ST from the Contractor despite lapse of three years from the date of termination of the contract.

4.7.1.2 Sales performance of barytes

The mineral produced from the mine is categorised as A, B and C+D+Waste, based on the quality of product⁹⁷. After taking into account the market demand, the buyers' requirement in export market and local market, the Company gives production targets for A and B-grade barytes to the Contractor for excavation. The details of production and sales during the five-years period are given in below table:

Table 4.3 – Statement showing the grade wise production and sales of barytes

Year	A-Grade	B-Grade	C+D+Waste Grade	Total	A-Grade	B-Grade	C+D+Waste Grade	Total	Total Difference
	Production (in MTs)				(A)	Sales (in MTs)			(B)
2013-14	6,64,800	63,227	3,17,833	10,45,860	6,95,002	74,897	5,99,620	13,69,519	(-)3,23,659
2014-15	3,47,770	1,04,378	4,18,989	8,71,137	1,89,066	45,137	3,13,919	5,48,122	3,23,015
2015-16	5,39,101	3,87,851	12,90,740	22,17,692	6,61,690	1,78,599	1,72,063	10,12,352	12,05,340
2016-17	10,67,741	2,56,303	11,41,257	24,65,301	6,25,263	1,53,246	3,75,996	11,54,505	13,10,796
2017-18	5,87,267	1,47,509	7,45,627	14,80,403	9,60,536	1,19,995	8,28,282	19,08,813	(-)4,28,410
Total	32,06,679	9,59,268	39,14,446	80,80,393	31,31,557	5,71,874	22,89,880	59,93,311	20,87,082

It can be seen from the above table that out of the total quantity produced (80,80,393 MTs) during the above five-year period, the Company sold only 59.93 lakh MTs leaving a balance of 20.87 lakh MTs of barytes unsold as at the end of March 2018. The total unsold quantity constituted 25 per cent of the total quantity produced during the period. It was noted in audit that there was 64.61 lakh MTs of stock at the beginning of the above five-year period. Considering this, the total unsold stock was 85.48 lakh MTs as at the end of March 2018.

The total unsold stock of 20.87 lakh MT included 16.25 lakh MTs of C+D+Waste grade. It was noted that due to non-setting up of Beneficiation Plants (wherein C+D+Waste grade barytes is blended with higher grade barytes to make powder) by the JV Companies (two with private parties and Oil and Natural Gas Corporation Limited (ONGC)) and delay in commencing the plant by one JV Company, the C+D+Waste grade barytes remained unsold.

Government in reply stated (November 2018) that due to lack of demand for barytes, which in turn is based on factors like demand for oil, crude oil prices,

⁹⁶ ₹ 11.57 crore + ₹ 5.43 crore – ₹ 3.89 crore = ₹ 13.11 crore.

⁹⁷ The quality of the mineral is tested by the Company in terms of specific gravity. The mineral is accordingly categorised as A-Grade (4.25), B-Grade (4.24 to 4.10) and C+D+Waste (less than 4.10).

active drilling rig count etc., C+D+Waste grade could not be sold. It further stated that action has been initiated to liquidate the inventory of C+D+Waste grade barytes.

The response of the Company is silent on the steps initiated to liquidate the inventory. The non-liquidation of the inventory of barytes leads to loss of revenue earning opportunities apart from incurring carrying cost of the inventory.

4.7.1.3 Non-establishment of barytes beneficiation plant in Joint Venture with ONGC

Company entered (April 2015) into Memorandum of Understanding (MoU) with Oil and Natural Gas Corporation Limited (ONGC) to establish Beneficiation Plant under Joint Venture to beneficiate low grade barytes (C+D+Waste). The expenditure incurred to set up the said plant was to be shared equally by ONGC and the Company. It was mutually agreed to hire the services of a consultant firm for preparation of Detailed Project Report and Detailed Feasibility Report and work towards setting up a plant capacity with 1,000 MTs per day⁹⁸. The Company incurred an expenditure of ₹ 31.25 lakh towards consultancy services. The consultancy firm in the Draft Feasibility Report (September 2015) had estimated cost of project as ₹ 110.33 crore and construction period as 15 months. There was, however, no progress in setting up of the beneficiation plant till June 2018.

It was observed that by not establishing the beneficiation plant, the Company had lost an opportunity to dispose 2.48 lakh MTs⁹⁹ of C+D+Waste grade barytes upto June 2018.

Government in reply stated (November 2018) that ONGC was actively considering to establish the beneficiation plant under joint venture with the Company. There was, however, no progress even though feasibility report was received in September 2015. Moreover, the feasibility report which was prepared in 2015 may not be relevant for decision making in 2020.

Recommendation:

It is recommended to expedite setting up of the beneficiation plants for barytes through JV Companies for beneficiating and selling the lower grade barytes.

4.7.1.4 Non-forfeiture of Performance Security Deposit

The Company entered (June 2015 to January 2016) into agreements with 142 Pulverizing Units¹⁰⁰ and 24 Barium Chemical Manufacturing Units

⁹⁸ With 3.80 specific grade barytes powder to get 1.65 to 1.80 lakh MTs per year to meet the demand of ONGC.

⁹⁹ From January 2017 to June 2018 based on 1.65 lakh MTs per annum to be beneficiated as per the MOU with ONGC.

¹⁰⁰ Pulverising Units buy barytes lumps from the Company and pulverise them into powder, which is value addition and supply the same to the Exporters of powdered barytes in India.

(Millers¹⁰¹) for sale of barytes during 2015-16. Similarly, it entered into agreements with 172 Pulverising Units and 24 Barium Chemical Manufacturing Units during 2016-17.

As per terms and conditions of agreements, the Company reserves the right to forfeit the Performance Security Deposit¹⁰² (PSD) collected from the Millers/Units if the quantity purchased by the Pulverising Millers/Units falls below 50 *per cent* of the agreed quantities during the contract period. Eighty (80) Millers failed to lift the agreed quantities and stated that there was crash in the oil prices with consequential fall in the demand for barytes. They had requested the Company for release of PSD. The Company had released the PSD amount of ₹ 14.07 crore to 72 pulverising units and eight Barium Chemical Manufacturing Units against the terms of agreements entered during 2015-16. The Company, however, recovered a meagre amount of penalty (₹ 2.71 crore). This resulted in loss of income of ₹ 11.36 crore (₹ 14.07 crore - ₹ 2.71 crore) to the Company.

Government in Exit Conference stated (November 2018) that the buyers could not lift the agreement quantity due to their precarious financial position and lack of demand in the market. It further stated with regard to release of PSD in respect of agreements for the year 2015-16 that Government had considered their case sympathetically and to do the best for the Units to recover from loss.

The response of the Company is not acceptable considering the fact that the market conditions were the same for all the millers and only 80 millers out of the total of 142 had failed to purchase above 50 *per cent*. Thus refund of PSD to those millers who lifted less than 50 *per cent* of the agreed quantity indicates clear favour extended by the Company to defaulted Pulverising Millers/Units.

Recommendations:

It is recommended to enforce the terms and conditions of agreements with regard to levy of penalties on contractors and buyers to safeguard the financial interests of the Company.

4.7.1.5 Reimbursement of penalty amount

Company entered into an agreement (30 April 2016) with M/s.Sri Vigneshwara Logistics (Contractor) for transportation of packed barytes powder from the pulverizing mills¹⁰³ to the Koduru Railway Station and loading into Railway wagons as part of supply to ONGC. As per Clause 9(iv), the Contractor was responsible for the quantity supplied by the Company, actual quantity loaded into the wagons and for any damages or losses during transit/loading or unloading and stacking. Contractor was also liable to keep the Corporation fully indemnified against such losses.

ONGC recovered (March 2016 to March 2018) ₹ 39.13 lakh from the

¹⁰¹ Millers generally purchase A grade barytes and pulverise them into powder and sell it to the Exporters of powdered barytes.

¹⁰² Company collected 5 *per cent* of the value of the contract as PSD.

¹⁰³ In and around Mangampet and Kodur.

Company towards penalties¹⁰⁴ for under/over loading of bags, demurrages, engine haulage/detention charges etc. The Company in turn recovered the said amount from the Contractor who was liable for these penalties as per terms of agreement.

It was noted that, on the request of the Contractor, who was liable for the penalties for damages or loss during transit and loading/unloading of material through railway wagons, the Company had reimbursed the amount of ₹ 39.13 lakh without recording the reasons for the same. This had resulted in extension of undue favour to the Contractor.

Government stated (November 2018) that the amounts were reimbursed as per terms of agreement and no favour was extended.

The terms of agreement quoted in the reply was, however, not in the original contract entered into with the contractor. As per the terms and conditions of the agreement with the Contractor, the Contractor was responsible for the quantity supplied by the Company, actual quantity loaded into the wagons and for any damages or losses during transit/loading or unloading and stacking and was also liable to keep the Corporation fully indemnified against such losses. Hence, the reimbursement of the amount recovered from the contractors for reasons not recorded, was not in line with the provisions of the agreement.

4.7.2 Mining of galaxy granite through JV Companies

For establishment of 100 *per cent* export oriented cutting and polishing units in Joint Venture (JV) mode, Company had selected (2008) three JV partners (M/s Gimpex Limited and its consortium, M/s Midwest Granites Private Limited and its consortium and M/s Pallava Granites Industries Private Limited and its consortium) on global tender basis for development of black galaxy granite deposits spread over in an extent of 102.104 hectares (252.30 Acres) at Chimakurthy in Prakasam district. The objective was to encourage export of value added products and also to make raw material available for local units.

The agreements with two of the three JV partners, namely, M/s Midwest Granites Private Limited and its consortium and M/s Pallava Granites Private Limited and its consortium continued to be in vogue during the period from 2014-15 to 2017-18. Audit observations with regard to these are detailed in the subsequent paragraphs:

4.7.2.1 Deficiencies in receipt of consideration from JV Companies of granite

Company formed (June 2007/March 2008) two Joint Ventures Companies¹⁰⁵ in participation with two private companies¹⁰⁶ and sub-leased mining activities of two black galaxy granite quarries. As per JV agreements, the JV companies

¹⁰⁴ Over loading of bags (₹ 14.62 lakh), demurrages (₹ 0.60 lakh), engine haulage/ detention charges (₹ 5.50 lakh).

¹⁰⁵ Andhra Pradesh Granites (Midwest) Private Limited and Pallava RED Granites Private Limited.

¹⁰⁶ Midwest Granites Private Limited & its consortium and Pallava Granites Private Limited & its consortium.

(JVCs) were to extract the black galaxy granite and export processed and value added products by establishing world class 100 *per cent* Export Oriented Processing Unit (EOU) with minimum annual capacity of 3.5 lakh MTs and 5 lakh MTs for M/s.Pallava RED Granites Private Limited and M/s.Andhra Pradesh Granites (Midwest) Private Limited respectively. The Company was to receive consideration @ 1.5 times of seigniorage fee paid against the dispatched quantities or 10 *per cent* of the annual turnover, whichever is higher. Subsequently, Company entered into a supplementary agreement (February 2014) in which the condition with regard to processing of raw blocks in 100 *per cent* EOU was amended. As per the amended condition, the JVCs were required to process only the first quality blocks selected by the Project Officer of the Company for export of polished granite and could sell the remaining either as unprocessed raw blocks or processed slabs in local market or in foreign market. The revenue earned out of the export sale of the first quality blocks processed by the JV Companies, termed as 'Actual Revenue' (AR) is applied to the remaining quantity of unprocessed raw blocks to arrive at the Deemed Revenue (DR). The total of actual revenue and deemed revenue is treated as total revenue, and would be considered to work out 10 *per cent* of the turnover, which would then be compared with 1.5 times the seigniorage fees, for deciding the consideration amount payable to the Company.

(a) Loss of revenue due to low recovery of processed blocks

From the records available, it was noticed that there was abnormal difference in percentage recovery of processed blocks from first raw blocks in respect of M/s Andhra Pradesh Granites (Midwest) Private Limited when compared with that of M/s Pallava RED Granites Private Limited. This was evident from the fact that the recovery percentage of gang saw size (300 cm x 180 cm) of M/s.Pallava RED Granites Private Limited was 71 *per cent* where as that of M/s.Andhra Pradesh Granites (Midwest) Private Limited was 64 *per cent*. For cutter size (below 75 cm) it was 78 *per cent* and 55 *per cent* respectively. It was noted that in the absence of specific clause stipulating the percentage recovery from the raw blocks the M/s Andhra Pradesh Granites (Midwest) Private Limited had taken advantage of the amended condition. This resulted in short accounting of turnover and short value of consideration amount @ 10 *per cent* of total turnover when compared to 1.5 times of seigniorage fee. Due to this short accounting of turnover, the Company lost opportunity to earn additional revenue of ₹ 1.16 crore for the year 2015-16.

It was noted that though sale prices for raw blocks and processed blocks are available in the market/industry both domestic and export the Company had made amendments to the supplementary agreement whereby the Contractor could take advantage of the amended condition to his benefit. Further, the Company had failed to evolve any scientific method to assess the possible recovery percentage instead of relying on the output shown by the JVs. In the absence of such assessment, no minimum recovery percentage was fixed in the agreement with the JVs and as such it could not maximise its revenue earning

on turnover basis and earned minimum revenue only @ 1.5 times of seigniorage.

Government in reply stated (November 2018) that it would look into the issues raised by Audit.

(b) Loss of revenue due to undervaluation of sale prices

As per Forensic Audit Report¹⁰⁷ (2015-16) the quality of granite blocks produced by M/s Andhra Pradesh Granites (Midwest) Private Limited was better than that of M/s Pallava RED Granites Private Limited. The sale price of M/s Andhra Pradesh Granites (Midwest) Private Limited, however, was lower than that of M/s Pallava RED Granites Private Limited. It also stated that the sale prices of M/s. Andhra Pradesh Granites (Midwest) Private Limited for gangsaw (300 cm x 180 cm) and mini gangsaw (below 270 cm x 150 cm) were ₹ 32,451 per cbm and for cutter size (below 75 cm) it was ₹ 22,819 per cbm. The sale prices of M/s.Pallava RED Granites Private Limited for gangsaw, mini gangsaw and cutter size were ₹ 65,023, ₹ 64,873 and ₹ 46,307 per cbm respectively.

Based on the findings of the above report and considering the comparable rates of M/s.Pallava RED Granites Private Limited, consideration that would have been payable by M/s Andhra Pradesh Granites (Midwest) Private Limited works out to ₹ 15.08 crore, indicating a possible short receipt of consideration of ₹ 2.99 crore (₹ 15.08 crore - ₹ 12.09 crore).

As already pointed out above there was no system in place to assess the market prices on regular basis in order to ensure the correctness of the sale prices shown by the JVs. The Company had instead relied on the sale prices shown by the JVs and received consideration accordingly. Thus due to lack of system to assess the market prices, the Company had received less consideration from M/s Andhra Pradesh Granites (Midwest) Private Limited compared to M/s Pallava RED Granites Private Limited.

Government in its reply stated (November 2018) that the issues raised in audit would be examined.

(c) Non-furnishing of sale invoices

As per supplementary agreement, sales invoices were to be obtained from the JV Companies to work out the actual 10 *per cent* of turnover, to calculate the correct consideration to be paid with reference to 1.5 times of seigniorage fee condition, whichever is higher, to the Company.

M/s.Pallava RED Granites Private Limited did not provide the sale invoices to audit to workout the correct amount of consideration. In the absence of invoices, the turnover could not be worked out to ensure the correct amount of consideration due to the Company. It was noted that the Company had not

¹⁰⁷ Conducted during 6 February 2017 to 18 June 2017, as per the request of the Company, to investigate into possible misrepresentations of facts by the JV Companies to the Company.

insisted for submission of the sale invoices despite providing for the clause in the agreement.

Recommendation:

It is recommended to ensure receipt of sales invoices from JV Companies as per terms of agreement for assessing amount of consideration receivable based on turnover.

4.7.2.2 Non-realisation of amounts from two JV companies of granite

According to the terms of agreement, JV Companies were to pay minimum consideration amount, 15 days in advance adjustable against the actual amount of consideration. Further, delays beyond three months were to carry an interest on prime lending rate fixed by the Reserve Bank of India from the due date of the payment of consideration amount. In case the delay is beyond 12 months, the Company has right to ask the JV Companies to suspend mining operation till the time the dues are to be paid. If the delay in payment continues beyond 24 months, the Company has right to terminate the agreement. The JV Companies shall pay 5 per cent of the consideration amount as Infrastructure Development Fee also.

The JV companies failed to comply with the above conditions of agreement. Dues outstanding as on 31 March 2018 from M/s. Andhra Pradesh Granites (Midwest) Private Limited was ₹14.48 crore¹⁰⁸ and from M/s.Pallava RED Granites Private Limited was ₹ 5.76 crore¹⁰⁹.

It was noted that the Company did not enforce the spirit of its own agreement and allowed the JV Companies to continue its mining operations despite huge amounts of consideration outstanding from them. Thus amount to an extent of ₹ 20.24 crore (₹ 14.48 crore + ₹ 5.76 crore) has not been realised so far.

In Exit Conference (November 2018) the Government assured that the JV Companies will be pursued to pay the amounts at the earliest and action would be taken as per conditions of JV agreements. It was also mentioned that notice has also been issued after having observed by Audit to recover the outstanding dues.

While acknowledging the response received from the Government, it is reiterated that the outstanding dues need to be recovered in a time bound manner.

4.7.2.3 Non-compliance with statutory provisions by JV Company of granite

As per Clause 18 of agreement (June 2007), the JV Companies shall comply with all the relevant laws applicable in respect of the contract and shall be

¹⁰⁸ Including consideration (₹ 5.21 crore), interest (₹ 2.43 crore), Service Tax (₹ 4.13 crore), interest on Service Tax (₹ 0.37 crore), GST (₹ 0.88 crore), interest on GST (₹ 0.05 crore) and Infrastructure Development Fee (₹ 1.41 crore).

¹⁰⁹ Including consideration (₹ 3.57 crore), interest (₹ 0.83 crore), interest on Service Tax (₹ 0.62 crore), GST (₹ 0.55 crore), interest on GST (₹ 0.02 crore) and Infrastructure Development Fee (₹ 0.17 crore).

solely responsible for such compliance relating to projects allotted to them. The JV Companies shall rectify violations pointed out by the concerned authority within the stipulated time at their risk and cost.

It was noted that the Company had failed to monitor the extraction of black galaxy granite. M/s Andhra Pradesh Granites (Midwest) Private Limited had extracted 1.15 lakh cbm of black galaxy between 2007 to 2012 without obtaining the environmental clearance. Further, the Company had extracted total 2.41 lakh cbm of black galaxy granite in excess of the permission obtained during the period 2007 to 2017. After this was pointed out by the Directorate of Mines and Geology and State Pollution Control Board in October 2017, the Company had issued directions to JV Company to stop the extraction of mineral. Till then, the JV Company had already extracted total 2.41 lakh cubic metres (cbm) in excess of the permitted quantity of 5,130 cbm. This indicates non-monitoring of the mining operations by the Company.

Further, as per Supreme Court orders, the extraction of mineral without proper permission is treated as illegal and penalty to the extent of sale value was liable to be imposed. As the Company is the principal lease holder of the mine, the Company will be liable to bear the penalty if the JV Company fails to pay and hence the risk of the Company being called on to pay the penalty in the instance of the failure of the JV Company to pay the penalty is high.

Government in Exit Conference, while accepting the facts in audit observations stated (November 2018) that the JV Company had stopped production on being directed by it based on the complaint made with the Government.

4.7.2.4 Non-realisation of consideration amount

The Company in April 2010 entered into Memorandum of Understanding (MoUs) with four parties¹¹⁰ for mining black granite in two reserve forest areas¹¹¹. The terms of MoU stipulated that the investor shall:

- obtain environment and forest clearance before commencement of production;
- Form a JV with the Company;
- produce the minimum quantity¹¹² of 350 cbm per annum;
- pay the minimum consideration¹¹³ of ₹ 6.12 lakh per annum;
- obtain Performance Security Deposit for ₹ 6.12 lakh from each party.

The four parties were, however, permitted (October 2008 to September 2009) to start production immediately upon getting quarry lease from the

¹¹⁰ (1) M/s.Vishnu Granites (2) M/s.Sri Sai Rocks (3) M/s.Srinivasa Granites and (4) M/s.Padmavathi Granites.

¹¹¹ 87 hectares (Ragimanipenta Reserve Forest) and 230 hectares (Paradarami Reserve Forest) in Chittoor District.

¹¹² In case of M/s.Padmavathi Granites, the minimum quantity was 210 cbm per annum.

¹¹³ 1.5 times of prevailing seigniorage fee for 350 cbm or actual quantities dispatched, whichever is higher.

Government, which was not in line with the terms of the MoU. As at February 2014, 2,047.433 cbm¹¹⁴ was produced by these four parties. While all the parties stopped production between May 2011 and February 2014, the Company was yet to receive an amount of ₹ 70.67 lakh¹¹⁵ from the three parties¹¹⁶ (September 2018). Further, as per the MOU, the private parties were authorised to produce and lift specified quantities. It was noted that one of the parties unauthorisedly lifted stocks to the extent of 48.378 cbm, which was more than the quantity specified. The value of the material had, however, not yet been realised from the party.

Government in reply stated (November 2018) that the parties were being pursued regularly to pay the due amounts and Additional Director of Mines & Geology was requested to initiate action against JV Company for unauthorised lifting.

Reply was not acceptable as no correspondence with the parties for realisation of the dues was on record after 2014 indicating lack of efforts on the part of the Company to realise its dues.

4.7.3 Financial Management

Financial Management means planning, organising, directing and controlling the financial activities such as procurement of funds in the most economic manner and employment of those funds in the most optimum way.

As per the Investment Policy of the Company, the surplus funds are to be parked in Fixed Deposits (FDs) in the notified banks. Accordingly, the Company, as per its investment policy, invested the surplus cash in FDs to earn interest. The following table depicts the total cash and bank balances, including FDs held by the Company during the five-year period ended March 2018.

Table 4.4 – Statement of Cash and Bank balances and amount invested in Fixed Deposits

Year	Total Cash and Bank Balances at the end of the year (₹)	Amount in FDs (₹)	Percentage of FDs to total cash and bank balances
2013-14	954,93,35,353	953,49,05,836	99.85
2014-15	691,14,25,996	586,26,98,739	84.83
2015-16	740,20,94,550	723,90,05,389	97.80
2016-17	759,47,09,662	734,93,75,074	96.77
2017-18	920,70,99,609	757,54,72,366	82.28

Scrutiny of records relating to FDs revealed the following.

¹¹⁴ 535.23 cbm upto May 2011 (M/s.Vishnu Granites), 745.528 cbm upto February 2014 (M/s.Sri Sai Rocks), 260.06 cbm upto February 2013 (M/s.Srinivasa Granites) and 506.615 cbm upto March 2013 (M/s.Padmavathi Granites).

¹¹⁵ ₹ 36.01 lakh (M/s.Vishnu Granites), ₹ 11.46 lakh (M/s.Sri Sai Rocks) and ₹ 23.20 lakh (M/s.Padmavathi Granites).

¹¹⁶ M/s.Vishnu Granites.

4.7.3.1 Interest free loan to Andhra Pradesh State Fibernet Limited

The Company received (November 2016) a request from Andhra Pradesh State Fibernet Limited (APSFNL) to release ₹ 100 crore as interest free loan based on the directions of GoAP (Energy, Infrastructure and Investment (Airport) Department) given in November 2016. The Company appraised (December 2016) the request of APSFNL to the Board and it was decided to release ₹ 100 crore as interest bearing loan¹¹⁷ in pursuant to the provisions¹¹⁸ of Section 186 (7) of Companies Act, 2013, considering APSFNL is a commercial entity registered under Companies Act, 2013 as State Public Sector Undertaking. The GoAP again issued (March 2017) orders directing the Company to arrange interest free loan for APSFNL towards margin money. The Company accordingly, entered (July 2017) into an agreement with APSFNL for lending the amount as interest free loan with the condition to refund the loan in four instalments¹¹⁹.

The Company instead of paying the loan amount directly to APSFNL had deposited (30 March 2017) in Government Treasury Account to pay to APSFNL directly by the GoAP. Government had however, refused to pay the loan to APSFNL directly by it and refunded (27 June 2017) the amount to the Company without any interest after lapse of 89 days and directed the Company to pay the loan amount directly to APSFNL. The Company had released ₹ 60 crore in two instalments to APSFNL so far (June 2018).

The reasons for depositing the loan amount in Government Treasury instead of releasing the same to APSFNL were not on record. The improper procedure in depositing the amount in Government Treasury account led to getting refund after 89 days. This had resulted in the Company suffering loss of interest to the extent of ₹ 1.71 crore¹²⁰.

Government in reply stated (November 2018) that as per directions of State Government and approval of Board, interest free loan was released to APSFNL. It further stated that the audit observation is, however noted and brought to the notice of the Government.

4.7.3.2 Loss of interest on advance paid to/refunded by DMG

The Company was regular in paying the royalty/seigniorage to the Department of Mines and Geology in advance for the permits it obtains before delivery of material. The Director of Mines and Geology (DMG), to meet its yearly targets of collections, requested (March 2016) the Company to deposit ₹ 100 crore in excess of due amount as refundable advance for the year 2015-16. Considering the request of DMG, the Company paid (31 March 2016) ₹ 100 crore as advance. The amount was refunded (30 June 2016) by the DMG without interest. No request was made to DMG towards interest payment though, the Company had appraised the Board about the loss of interest due to

¹¹⁷ @ 7 per cent per annum.

¹¹⁸ The provisions of Companies Act stipulated that the interest shall not be lower than that of Government Securities.

¹¹⁹ ₹ 20 crore (2nd year), ₹ 25 crore (3rd year), ₹ 25 crore (4th year) and ₹ 30 crore (5th year).

¹²⁰ For 89 days @ 7 per cent per annum.

payment of advance amount. Thus, the Company lost interest amount of ₹ 1.94 crore¹²¹.

Government in reply stated (November 2018) that in order to maintain cordial relationship, had paid the advance from current account but not from breaking the fixed deposit amounts.

Reply was not acceptable as these decisions of the Company were reflective of poor financial management and were commercially not viable for the Company.

4.7.3.3 Non-recovery of amount from SCCL and blocking of amount with District Administration.

Suliyari coal block was allotted (July 2007) to the Company under Government Dispensation route¹²². The Company entered (April 2013) into Joint Venture agreement with M/s. The Singareni Collieries Company Limited (SCCL), as per GoAP orders (October 2010) for exploration and mining in the coal block and formed (July 2013) a JV Company viz., APMDC-SCCL Suliyari Coal Company Limited. As per agreement, the expenditure was to be shared in the equity ratio 51:49 since beginning. SCCL paid ₹ 9.80 crore as its part of equity. In the development of the coal block, the Company incurred an expenditure of ₹ 311.03 crore¹²³. Considering the allotment of coal blocks as illegal, the Supreme Court quashed (August 2014) the allocation of 204 out of 218 coal blocks, which included coal block allotted to the Company.

Out of ₹ 311.03 crore, the expenditure that is to be shared by the Company and SCCL was ₹ 25.14 crore in the ratio of 51:49. The Company had to absorb ₹ 12.82 crore while SCCL was to absorb ₹ 12.32 crore. The Company had to realise an amount of ₹ 2.52 crore¹²⁴ after adjustment of equity of ₹ 9.80 crore from SCCL. Further, the Company had requested (January 2015) the District Administration for the refund of advance of ₹ 285.89 crore paid towards land acquisition, along with interest, in view of cancellation of coal block. The same was not refunded to the Company so far (October 2018). Due to non-recovery of this amount, the funds were blocked leading to consequential loss of interest to the extent of ₹ 25.73 crore¹²⁵.

Government in Exit Conference (November 2018) stated that SCCL was not accepting the due amount to be paid to the Company and demanding for refund of its equity amount of ₹ 9.80 crore. The reply is silent on non-receipt

¹²¹ ₹ 100 crore at 7.75 per cent per annum for 3 months period.

¹²² During the period 1993 to 2011, Ministry of Coal, Government of India allocated 218 coal blocks under the provisions of Coal Mines (Nationalisation) Act, 1973 through the Screening Committee and Government Dispensation route to the then erstwhile eligible Central/ State Government PSUs and private companies for specified end use projects, i.e., power, steel and cement, as well as for commercial mining by PSUs.

¹²³ Administrative & General expenses (₹ 0.12 crore), Coal drill expenses (₹ 9.79 crore) penalty amount (₹ 1.57 crore) paid to MoC as the Company failed to meet the prescribed mile stones during the period from allotment of block (2007) to the end of cancellation of block (2015). Company also deposited ₹ 285.89 crore as advance to District Collector, Singrauli for land acquisition. Company had written-off ₹ 10.77 crore having claimed as revenue expenditure in the Income Tax Returns.

¹²⁴ ₹ 12.32 crore - ₹ 9.80 crore.

¹²⁵ @ 6 per cent on ₹ 285.89 crore for 18 months from April 2015 to September 2016.

of advance amount from District Administration upon cancellation of coal block.

Reply was not acceptable as the Company did not make concrete efforts and thus could not realise the share of SCCL for a long time and amount paid to District Administration was also not recovered immediately upon cancellation of the coal block, which led to not only blocking up of funds but consequential loss of interest.

4.7.3.4 Non-realisation of ₹ 1.63 crore from APMHIDC

For laying of Cement Concrete roads¹²⁶ in Mangampet area, the Company addressed (April 2010) Andhra Pradesh Health & Medical Housing and Infrastructure Development Corporation (APMHIDC) to take up the works for a total value of ₹ 5.20 crore. The Company paid (May 2010) ₹ 2.60 crore to APMHIDC. APMHIDC, however, carried out the works for the value of ₹ 96.94 lakh only and failed to carry out the remaining works. APMHIDC retained the balance unspent amount and failed to remit it back to the Company. The amount of ₹ 1.63 crore has not been refunded to the Company so far (June 2018).

Audit observed that the Company had not pursued the matter on a regular basis with APMHIDC, which has led to non-realisation of ₹ 1.63 crore and consequential loss of interest of ₹ 39.12 lakh¹²⁷.

Government in reply stated (November 2018) that the Company is making repeated requests with APMHIDC to refund the balance amount. Fact remains that Company is yet to get its money back from APMHIDC despite lapse of four years.

4.7.3.5 Non-recovery of ₹ 2.39 crore from GoAP

For acquisition of land for mining and allied purposes at barytes project, the Company paid (August 2012) ₹ 18 crore¹²⁸ to the District Collector, Kadapa towards compensation/ex-gratia for 597 structures. Out of ₹ 18.00 crore, an amount of ₹ 16.18 crore was paid by District Collector as *ex-gratia* for land acquisition for mining and allied purposes. The Company was intimated (August 2014) that the balance amount of ₹ 1.82 crore along with interest of ₹ 56.56 lakh was remitted (May 2014) to the Sub-treasury Office, Rajampet.

It was noted that the Company had neither received the amount nor pursued the recovery of amount with the concerned Department of GoAP. Non-pursuance resulted in blocking up of funds to the extent of ₹ 2.39 crore¹²⁹ and consequential loss of interest to the extent of ₹ 57.36 lakh¹³⁰ (June 2014 to June 2018).

¹²⁶ Internal roads in APMDC premises in Mangampet and road leading from Arch to Weigh bridge and Weigh bridge to R&B Road.

¹²⁷ Worked out @ 6 per cent/annum.

¹²⁸ ₹ 10.00 crore in April 2012 and ₹ 8.00 crore in August 2012 for 348 structure and 249 structures respectively.

¹²⁹ ₹ 1.82 crore plus ₹ 56.56 lakh interest deposited by District Collector in May 2014.

¹³⁰ Worked out @ 6 per cent/annum.

Government in reply stated (November 2018) that it would look into the matter to clear the amount payable to the Company.

Recommendation:

It is recommended to pursue with the Government agencies at appropriate levels to ensure recovery of dues in a time bound manner.

4.7.3.6 Loss of interest due to non-renewal of Fixed Deposit

The Company invested (31 December 2013) in FD of ₹ 35 crore each in two banks¹³¹ at an interest of 9.25 *per cent* per annum for one year period with maturity date on 31 December 2014. Due to non-finalisation of de-merger plan after bifurcation of State¹³² into Telangana and Andhra Pradesh, Government of Telangana directed (October 2014) the banks to freeze all the accounts and FDs of the Company and restricted all the transactions on these bank accounts. Resultantly, upon maturity of FDs, all the banks, except one *viz.*, Punjab & Sindh Bank, renewed the FDs on the due dates. The Company, being the custodian of the original documents of FDs, was required to monitor the maturity dates of FDs to ensure timely renewal, as there was no possibility to encash the FDs due to freezing of the bank accounts and FDs. The FD of ₹ 35 crore made in Punjab and Sind Bank was matured on 31 December 2014 and the Bank transferred the amount to Company's Current Account without renewing on the grounds that it did not receive any communication from the Company for renewal. The Company noticed this lapse belatedly *i.e.*, after 292 days from the date of maturity and advised the Bank to convert the same amount into FD from the original maturity date *i.e.*, 31 December 2014. The Bank, however, refused to renew retrospectively and paid 4 *per cent* interest instead of at the prevailing 8.5 *per cent* from 31 December 2014. The Bank had renewed the said amount as FD with effect from 19 October 2015 (after delay of 292 days).

Thus, due to lack of monitoring the renewal of FDs and failure to get the renewal immediately upon maturity, the Company suffered loss of interest of ₹ 1.48 crore¹³³.

Government in reply stated (November 2018) that the Bank was pursued to pay the prevailing interest rate for FD for which the Bank authorities assured that the matter would be referred to higher authorities to consider the case favourably.

Reply was not acceptable. The Company had not monitored the maturity of the FD and had not pursued till 19 October 2015.

¹³¹ Punjab and Sind Bank and Indian Overseas Bank.

¹³² Under Andhra Pradesh Reorganisation Act, 2014.

¹³³ (₹ 38.35 crore * ((8.5-4 *per cent*) * 292 days / 365 days) + (₹ 38.35 crore * (8.5-7.25 *per cent*) * (365-292) / 365 days).