CHAPTER XVI: MINISTRY OF TEXTILES

National Jute Manufactures Corporation Limited

16.1 Implementation of revival scheme

16.1.1 Introduction

National Jute Manufactures Corporation Limited (the Company) was registered under the Companies Act 1956 in June 1980 after Government of India (GoI) took over the management of six jute mills[1](June 1980) and vested the same in the Company. The Company had been suffering losses since inception and was referred (August 1992) to Board for Industrial and Financial Reconstruction (BIFR). BIFR declared (June 1993) the Company sick and subsequently, approved its revival scheme in April 2011.

The approved BIFR scheme envisaged (a) revival of three mills viz. Khardah, Kinnison and RBHM and closure of the other three mills viz. Alexandra, National and Union mills; (b)financial restructuring as approved by Cabinet Committee on Economic Affairs (CCEA); (c) Liquidation of all loans and arrears of statutory dues; (d) sale of surplus land and other assets; (e) payment to pressing creditors;(f) reliefs and concessions from various institutions/authorities and (g) payment of Voluntary Retirement Scheme (VRS) to employees.

The approved scheme of financial restructuring was for ₹1,562.98 crore including cash loss of ₹141.45 crore. Source of finance was considered as interest free GoI loan of ₹1,551.26 crore and ₹11.72 crore towards adjustment of Government of West Bengal (GoWB) dues. As per the scheme, the company was to start making operating profit from the fourth year of operation.

16.1.2 Audit Findings

16.1.2.1 Sale of surplus land and other assets

It was envisaged in the BIFR scheme that an amount of ₹284.78 crore would be realised from sale of surplus assets (land and plant and machinery). Surplus assets were to be sold by forming an Asset Sale Committee. For sale of land, such committee was to include representative of the concerned State Government where the land is located.

Audit observed that only three meetings of Asset Sale Committee have been held in February 2012, May 2014 and June 2014 but there was no representative from the Government of West Bengal (GoWB) and Government of Bihar (GoB) on the Committee. GoWB nominated its representative to the committee in September 2014 who stated that conversion of land from industrial use to commercial use was not permissible under West

[1] *(a) National Company Limited, (b) Alexandra Jute Mills Limited, (c) Union Jute Company Limited, (d) Khardah Company Limited, (e) The Kinnison Jute Mills Company Limited, and (f) RBHM Jute Mills Pvt. Limited*

Bengal State policy/guidelines. Audit also noticed that the land of Alexandra Jute Mill was not mutated in the name of the Company (March 2016).

The Management (March 2015)/ Ministry (January 2016) stated that collection of municipal tax in the name of the company was sufficient evidence to establish ownership of the Company and a consultant had been engaged for advising the company for alternative use of the land. The consultants' report was under examination at the Ministry.

The reply of the Management/ Ministry needs to be viewed in light of the fact that no land can be sold until mutation is done in the name of the seller to establish its ownership. Even after more than five years after approval of BIFR scheme, there has not been much progress towards disposal of surplus land.

16.1.2.2 Payment towards VRS

The Company paid ₹42.75 crore to 163 officers under VRS after approval of the revival scheme. However, basic records (*i.e.*, service book, personal files, salary registers, leave records etc.) relating to the officers (who opted for VRS) were not made available to audit by the Management despite repeated reminders. In the absence of basic data, accuracy of the VRS payments (including arrears of salaries) could not be ascertained in audit. However, the following irregularities were noticed in audit from the examination of calculation sheets of VRS and salary arrears:

- The Company made excess payments due to incorrect fixation of basic pay in violation of Department of Public Enterprises (DPE) norms. The quantum of such excess payments could not be ascertained in the absence of records.

- The Company paid ₹0.23 crore towards arrear LTC/LTA to 204 officers who either opted for VRS or superannuated after April 2010 in respect of two block years 2001-03 & 2003-05 @ ₹5,600 per block year which was irregular.

- The Company followed CCS (Leave) Rules, 1972. Though annual leave encashment was not allowed under these rules, the Company paid ₹3.44 crore to 205 officers towards 40 *per cent* annual leave encashment. The Company also allowed encashment of casual leave for nine days each to 163 officers who opted for VRS which was in violation of CCS (Leave) Rules and DPE guidelines, which resulted in irregular payment of ₹0.23 crore. Audit noticed that the Company had irregularly also allowed commutation of half pay leave on retirement.

- Management considered City Compensatory Allowance of ₹300 per month for each officer who opted for VRS in addition to basic pay and DA for payment of leave encashment which was not admissible under CCS (Leave) rules.

- The Company had paid arrear interim relief to the officers for the period from September 1998 to January 1999 (five months). However, the same were not adjusted/ recovered while working out the final payment.

- The Company paid ₹1.33 crore towards interest on employees' contribution to PF in respect of 205 officers which was irregular in the absence of any specific approval for the same.

The Ministry (January 2016) accepted these observations and stated that the Company has been asked to verify the claims and ensure that they are as per the prescribed norms/rules and take appropriate remedial action.

16.1.2.3 Revival of the three mills

(I) Capital expenditure & renovation

In the approved revival scheme, an amount of ₹191.23 crore was allocated for capital expenditure for three mills (Khardah, Kinnison and RBHM) which included (a) civil, electrical & other repair works (₹41.10 crore), (b) Renovation, replacement & overhauling etc. (₹24.14 crore), (c) Cost of new machinery/ projects (₹110.87 crore) and (d) Computerisation (₹4 crore). However, the Company has incurred only ₹9.14 crore towards capital expenditure up to March 2016.

In the absence of envisaged capital investment, the capacity utilisation at these mills remained low. Audit observed that despite availability of detailed capital investment plan and requisite funds for the same, Management did not take effective action for actual investment. This has resulted in increasing repair and maintenance as well as power & fuel cost per MT of finished product when compared to the per MT cost envisaged in the BIFR scheme.

The Ministry, while accepting the audit observation, stated (January 2016) that initially Management was hesitant to invest funds for modernisation of plant and machinery. However, some machinery was procured subsequently on the basis of recommendation of Modernisation Committee.

The Ministry's contention may be viewed against the fact that as on March 2016, expenditure incurred towards modernisation of plant and machinery was less than five *per cent* of amount earmarked in the BIFR scheme.

(II) Repair and Maintenance

The Company appointed (August 2010) M/s Engineers & Architect India (P) Ltd. as a consultant for assessment of existing condition of civil and other infrastructure and monitoring of repair and construction work. The consultant prepared a Detailed Project Report estimating a requirement of ₹41.91 crore for civil work in the three mills.

The Company awarded the repair work to M/s Panchdeep Construction Limited for Khardah and Kinnison mills at a cost of ₹15.60 crore and ₹15.99 crore respectively and awarded the work for RBHM unit to M/s Roy & Das construction at a cost of ₹6.92 crore in June 2011. The Company incurred ₹21.55 crore for such repair works till March 2014.

There were repeated complaints about quantity and quality of civil works undertaken in three jute mills. The company engaged (June 2013) M/s Texpro (India), a firm of engineers, for undertaking detailed technical and financial evaluation of civil repair/renovation work at Khardah Jute mill and preliminary examination at Kinnison Jute mill. M/s Texpro in its evaluation report stated that quality of work was poor and there was no effective supervision either by the consultant or management. Based on the evaluation report, it was decided that a joint survey of Khardah mill would be carried out by the contractor, consultant and Company officials for common understanding of the defects to be rectified. However, such joint survey has not been carried out yet. Detailed technical/financial evaluation of the repair work was also not carried out in Kinnison Jute Mills.

Audit observed that despite knowledge of poor quality of repair work done by the contractors, Management did not take any action to carry out the rectification work by the contractor.

The Ministry, while accepting the audit observation stated (January 2016) that the Company has been asked to verify the claims and ensure that those are as per the prescribed norms/rules and accordingly take appropriate remedial action.

(III) Production performance

As per the revival scheme, product mix was to consist of 50 *per cent* Sacking, 40 *per cent* Hessian and 10 *per cent* Yarn. Audit observed that the company had produced 100 *per cent* sacking instead. The revival scheme had targeted production of 73,500 MT by 2015-16. Audit observed that the actual production was only 6,861 MT, barely 9 *per cent* of the target. It had also been envisaged that with modernisation of machines, productivity would improve, reducing the number of workers per MT. As against projected reduction in number of workers from 78 per MT in 2011-12 to 50 per MT in 2013-14, the actual number of workers ranged from 81 per MT in 2011-12 to 79 workers per MT in 2013-14[1]. Thus, there was a huge shortfall in achievement of both targeted production and productivity.

The Management, while accepting the above, stated (March 2015) that productivity of labour came down because of engagement of labour much above industry norms under the influence of various extraneous and unforeseeable factors. Ministry also endorsed (January 2016) the above reply of the Management.

(IV) Financial performance

As per revival scheme, sales were to increase from ₹25.30 crore in 2011-12 to ₹404.25 crore in 2015-16. The company was to generate gross profit from the year 2014-15 after achieving the production target of 63500 MT per annum and net profit after tax in the year 2014-15 through profit from sale of surplus land/asset.

Achievement of sales target was comparatively good in the first year (2011-12) since the target was set based on projection of 100 working days whereas actual number of working days was 242. Thereafter, on account of low production, the Company could not match the sales as well as profit target specified in the revival scheme. The gap between the

[1] ***Productivity after 2013-14 could not be measured as the production was done through job contracts***.

targeted sales volume and actual sales volume widened with each passing year as tabulated below:-

Performance of the company after revival

Year	Particulars	Production (in MT)	Sales (₹ in crore)	Net profit after Tax (₹ in crore)	Net profit after Tax without considering Interest Income (₹ in crore)
2011-12	BIFR Projection	4,600.00	25.30	(50.12)	(50.12)
	Actual	4,886.00	15.76	(38.12)	(52.14)
	Over (Under) Performance	286.00	(9.54)	12.00	(2.02)
	% Over (Shortfall)	6%	(38%)	24%	(4%)
2012-13	BIFR Projection	29,000.00	159.50	(58.01)	(58.01)
	Actual	9,824.00	49.73	(16.00)	(32.73)
	Over (Under) Performance	(19,176.00)	(109.77)	42.01	25.28
	% Over (Shortfall)	(66%)	(69%)	72%	44%
2013-14	BIFR Projection	47,000.00	258.50	15.28	15.28
	Actual	10,958.00	58.12	(6.55)	(24.17)
	Over (Under) Performance	(36,042.00)	(200.38)	(21.83)	(39.45)
	% Shortfall	(77%)	(78%)	(143%)	258%
2014-15	BIFR Projection	63,500.00	349.25	54.77	54.76
	Actual	6,313.30	37.70	(48.59)	(20.23)
	Over (Under) Performance	(57,186.70)	(311.55)	(103.36)	(74.99)
	% Shortfall	(90%)	(89%)	(189%)	(137%)
2015-16	BIFR Projection	73,500.00	404.25	56.40	56.40
	Actual	6,860.89	44.82	(20.96)	(40.74)
	Over (Under) Performance	(66,639.11)	(359.43)	(77.36)	(97.14)
	% Shortfall	(91%)	(89%)	(137%)	(172%)

The Management stated (March 2015) that the actual financial performance was showing improvement over the years. Ministry also endorsed (January 2016) the above reply of the Management.

The contention of the Management/ Ministry is not acceptable as the Company failed to achieve its targets and continued to incur losses as against anticipated profits from 2013-14. Besides, the operating results of the Company would be worse, if the interest income is excluded as can be seen from the table above.

Conclusion

The revival scheme aimed at turnaround of the Company in a time bound manner. Achievement of the targets set out in the scheme was pre-requisite for successful implementation of the revival scheme. Audit observed that none of the targets set out in the scheme could be achieved by the Company so far. Surplus land and other assets, though identified, could not be disposed which affected the turnaround plan. The Company invested meagre funds in renovation and modernisation of the mills. Repair work was of poor quality. As a result, the productivity of the three running mills remained low and the Company continued to suffer losses.