# CHAPTER VI: DEPARTMENT OF FERTILIZERS

## Rashtriya Chemicals and Fertilizers Limited

### *6.1 Failure to safeguard the interests of RCF*

**Failure to adhere to the terms and conditions of tender coupled with supply of raw materials to contractors in excess of their requirements resulted in blockage of ₹4.85 crore.**

Rashtriya Chemicals and Fertilizers Limited (RCF) entered (April 2011) into a contract with M/s. Devyani Phosphates Private Ltd. (DPPL) for manufacture of Single Super Phosphate (SSP). RCF would provide rock phosphate, sulphuric acid and bags to DPPL. DPPL would manufacture SSP and deliver it to RCF. RCF would claim subsidy from Government of India (GoI) for the SSP produced.

As per the general terms and conditions of the tender issued by RCF, the successful bidder was to provide security deposit in the form of bank guarantee valuing ₹1 crore and also obtain "no charge" certificate from all lenders. Audit noticed that though these conditions were not satisfied by DPPL, the contract was signed with them by relaxing the conditions in the following manner:

- The Board of Directors (Board) of RCF (July 2011) waived the requirement of submission of bank guarantee of ₹1 crore despite the poor financial condition of DPPL. Subsequently, in May 2012, DPPL agreed for deduction of 20 *per cent* from its running bills and to convert EMD[1] of ₹4 lakh into security deposit. By April 2013, RCF had accumulated a security deposit of ₹94.06 lakh.
- DPPL has informed RCF (July 2011) that properties of DPPL were fully mortgaged with State Bank of Bikaner and Jaipur (SBBJ), the lender to DPPL and that the bank had already given notice under SARFAESI Act for recovery of its dues. The Board of RCF directed that an agreement be signed with SBBJ securing the material supplied by RCF and the finished goods of RCF. Accordingly, a tripartite agreement was signed between DPPL, SBBJ and RCF on the basis of which a "No Objection Certificate" was obtained from SBBJ.

RCF started supplying materials to DPPL from September 2011. The closing stock at DPPL was to be reconciled by RCF on a monthly basis. During reconciliation in October 2012, RCF observed that the closing stock of rock phosphate (raw material supplied by RCF) reported by DPPL did not tally with the physical closing stock.

Audit observed that even after noticing this discrepancy, RCF continued to supply rock phosphate to DPPL during November 2012 to January 2013. It was seen that the opening balance of rock phosphate in November 2012 was 5,232.72 Metric Tonne (MT) while the average monthly consumption of rock phosphate had been 1,382.91 MT over the past year (November 2011 to November 2012). As such, the opening stock of rock phosphate available in November 2012 was sufficient for average consumption of more than three

[1] *EMD: Earnest Money Deposit*

months. Additional supply of 5,459.45 MT rock phosphate during November 2012 to January 2013 was beyond the actual requirement.

RCF issued a notice for termination of the contract with DPPL in January 2013 and the contract was finally terminated in April 2013. Though DPPL did not issue any rock phosphate after issue of notice in January 2013, there remained a balance stock of rock phosphate at the time of termination of the contract (April 2013). DPPL did not return the balance stock to RCF, the unreturned stock being 4,568 MT valuing ₹4.85 crore.

RCF has claimed an insurance for the stock not returned and the matter regarding recovery of this amount is presently under dispute. The blockage of ₹4.85 crore could have been avoided by RCF, had additional supplies of rock phosphate not been sent to DPPL over November 2012 to January 2013.

The Management stated (September 2016) the following:

(i) RCF became aware of the distressed financial conditions of DPPL only in July 2011 when the same was brought to the notice of the Company by DPPL. The Board had agreed for a temporary waiver of bank guarantee and the bank guarantee value was deducted from running bills enabling collection of a large chunk of the bank guarantee till termination of the contract. The production commenced only after entering into a tripartite agreement with the bank to ensure safety of RCF material.

(ii) The safety of the material supplied to DPPL was ensured by dedicating the entire unit of DPPL to RCF over the contract period. The safety of RCF material was also ensured by way of insurance of the material supplied. The rock phosphate misappropriated by DPPL is covered under insurance and claim has already been lodged.

The reply of the Management is not acceptable in view of the following:

(i) After being made aware that DPPL was in financial distress, significant relaxations vis-à-vis tender conditions were made by the RCF Board for entering into the contract with DPPL which were not in the interests of RCF.

(ii) Though the entire unit of DPPL was dedicated to RCF for manufacture of SSP, it did not ensure safety of the rock phosphate supplies and there remained a considerable un-returned stock of rock phosphate with DPPL.

(iii) After discrepancies in stock were noticed in the closing stock of rock phosphate with DPPL (October 2012), further release of rock phosphate should have been strictly as per production requirement. Failure to do so resulted in excess supply of rock phosphate to DPPL, which was not returned by them at the time of termination of contract.

Thus, failure to adhere to the terms and conditions of tender/contractual provisions and supply of raw materials to the contractors far in excess of the requirements resulted in blockage of ₹4.85 crore.

The matter was reported to the Ministry in October 2016; their reply was awaited (January 2017).