

Chapter-V

Compliance Audit Observations relating to State PSUs (other than Power Sector)

This Chapter includes important audit findings emerging from test check of transactions of the State Government Companies and Statutory Corporations relating to other than Power Sector.

Rajasthan Financial Corporation

5.1 Management of Non Performing Assets (NPAs) in Rajasthan Financial Corporation

Introduction

5.1.1 Rajasthan Financial Corporation (Corporation) was constituted (17 January 1955) under the State Financial Corporations Act, 1951 (SFCs Act) for providing financial assistance to micro, small and medium scale industries¹ in Rajasthan. As per the State Financial Corporations (Amendment) Act, 2000, the Corporation can provide financial assistance to industrial units having paid up capital and free reserves not exceeding ₹ 30 crore within the limits prescribed in the Act. Accordingly, the Loan Policy 2018-19 of the Corporation provides for extending financial assistance of ₹ 20 crore to a corporation, company or co-operative society and ₹ eight crore in any other case. The Corporation intimates a schedule of recovery to the borrowers as per the loan agreement to ensure recovery of loans in time by way of equated quarterly instalments along with applicable interest. In the event of default, the Corporation is empowered to re-fix, postpone, defer and re-schedule the instalments/loan in case the borrower has valid reasons for non-repayment of dues. The Corporation may also initiate action for recovery of dues under various Sections of the SFCs Act.

The general superintendence, direction and management of affairs of the Corporation vests with the Board of Directors (BoD). As on 31 March 2019, the BoD consisted of eight Directors including a Chairman and a Managing Director. The Managing Director is the Chief Executive Officer of the Corporation and is assisted by two Executive Directors, General Managers, Deputy General Managers (DGMs), Departmental heads and Branch Managers. The Corporation has 22 Branch Offices² as on 31 March 2019.

Reserve Bank of India (RBI) prescribed (July 2015) that if interest or instalment of principal remains due for more than 90 days, loans are classified as Non Performing Assets (NPAs). The Corporation sanctioned total loans

1 For the industry engaged in production, manufacturing and processing or preservation, Micro, Small and Medium industries refers to an industry where investment in plant and machinery does not exceed ₹ 25 lakh, ₹ 25 lakh to ₹ 5 crore and ₹ 5 crore to ₹ 10 crore respectively whereas for the industry providing services, it refers to an industry where investment in equipment does not exceed ₹ 10 lakh, ₹ 10 lakh to ₹ 2 crore and ₹ 2 crore to ₹ 5 crore respectively. It includes hotel, resorts, guest houses, multiplexes, hospitals and commercial real estate projects also.

2 The Corporation merged (December 2018 and February 2019) two Branch offices *i.e.* Chittorgarh in Bhilwara Branch office and Rajsamand in Udaipur Branch office during 2018-19.

amounting to ₹ 6175.06 crore since its incorporation and total outstanding dues to be recovered from borrowers were of ₹ 868.47 crore (2950 loan accounts) as on 31 March 2019. Of these loan accounts, 1652 loan accounts having dues of ₹ 666.99 crore (76.80 per cent) and 1298 loan accounts having dues of ₹ 201.48 crore (23.20 per cent) were categorised as Standard Assets and NPAs respectively. Thus, the level of NPAs was very high which resulted in accumulation of losses in the Corporation.

Audit Objectives and Scope

5.1.2 The present study was conducted (January 2019 to June 2019) to evaluate whether recovery of dues and action taken in case of default was as per provisions of the SFCs Act, 1951 and policies framed by the Corporation, classification of NPAs was in accordance with the guidelines issued by Government of India, RBI and the Corporation, the Corporation had made adequate efforts for reduction of NPAs and recovery of old dues, settlements of dues were made in accordance with the approved policies and One Time Settlement (OTS) schemes implemented from time to time were able to achieve their intended purposes.

The study assessed management of NPAs in the Corporation during 2015-16 to 2018-19. The audit involved scrutiny of records for the period 2015-16 to 2018-19 at the Head Office and eight³ selected Branch offices out of 24 Branch offices of the Corporation. The Branch offices were selected by adopting multi-level selection methodology by selecting 25 per cent of the Branch offices using random sampling from each of the seven administrative divisions of the Corporation. At the time of sample selection (February 2019), the selected Branch offices had total 554 cases of NPAs of which 169 cases (30 per cent) were selected for detailed study on the basis of highest monetary value along with all the seven cases⁴ of NPAs under the Commercial Real Estate (CRE) Sector.

Framework of the SFCs Act 1951 and other relevant laws for conducting recovery in NPA cases

5.1.3 The Corporation has been empowered and endowed with legal remedies under provisions of Section 29, 30, 31 and 32 of the SFCs Act 1951 as given below:

- Section 29 provides the right to take over the management or possession or both of the industrial concern as well as the right to transfer by way of lease or sale and realise the property pledged, mortgaged, hypothecated or assigned to the Corporation;
- Section 30 allows the Corporation to call for entire repayment before agreed period;

³ Abu Road, Bhiwadi, Bikaner, Jaipur (Central), Jhalawar, Kishangarh, Sawaimadhopur and Udaipur.

⁴ Three of these cases are covered in 169 selected cases relating to selected Branch offices and remaining four cases pertained to other Branch offices of the Corporation.

- Section 31 provides special provisions for enforcement of claims by filing of civil suit; and
- Section 32 states the procedure in respect of application to be filed under Section 31. Section 32-G (*i.e.* inserted during amendment of the Act in August 1985) allows the Corporation to recover its dues as an arrear of land revenue in the manner prescribed by the State Government.

The detailed provisions under Section 29, 30, 31 and 32-G are given in **Annex-19**. Besides, the Corporation may opt to take recovery action under provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, Insolvency and Bankruptcy Code (IBC) 2016 *etc.*

Audit Findings

5.1.4 The audit findings broadly cover issues relating to share of the Corporation in industrial loan, high level of NPAs, deficiencies/irregularities in extension and recovery of loans, delayed/inadequate legal action for recovery of dues, delay in disposal of units in possession *etc.*

These audit findings are based on our analysis of sample cases only and there is a possibility of more such cases occurring in the Corporation. Therefore, the Government/Corporation is expected to review all the other cases having possibility of similar deficiencies/irregularities and required to take corrective action in cases where similar deficiencies/irregularities are found.

The paragraph has been finalised after considering the views of the management expressed during the exit conference (14 August 2019) and the reply furnished (November 2019) by the Government.

Share of the Corporation in industrial loan

5.1.5 The Corporation was established to provide financial assistance to micro, small and medium scale industries in the State. Since, the Corporation was not authorised to obtain deposits without prior approval of the Reserve Bank of India, it arranged for re-finance facility from Small Industries Development Bank of India (SIDBI). The re-finance facility from SIDBI was discontinued from the FY 2013-14 and thereafter the business of the Corporation has reduced significantly. An analysis of performance of the Corporation in providing financial assistance (loans outstanding) with outstanding loans of Scheduled Commercial Banks in Rajasthan was done as detailed below:

Table 5.1.1: Share of the Corporation in industrial loan

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19
Net outstanding loans after provision				
Rajasthan Financial Corporation	480.95	525.20	629.07	715.72
Scheduled Commercial Banks	39900.00	42200.00	49000.00	-NA-
Total Net Outstanding loans	40380.95	42725.20	49629.07	-
Share of RFC in total outstanding loans (%)	1.19	1.23	1.27	-

Besides, to examine the efficiency of the Corporation, a comparative analysis of the employee cost of extending financial assistance with two other SFCs *i.e.* Kerala Financial Corporation and Karnataka State Financial Corporation was also carried out. The details are as under:

Table 5.1.2: Employee cost of extending financial assistance

(₹ in crore)

Particulars	2015-16	2016-17	2017-18	2018-19
A. Sanctioned amount				
Rajasthan Financial Corporation	328.20	410.22	386.68	314.89
Kerala Financial Corporation	1025.99	385.31	723.93	1644.95
Karnataka State Financial Corporation	731.94	733.43	842.13	1098.73
B. Employee Cost				
Rajasthan Financial Corporation	39.04	39.31	47.23	43.16
Kerala Financial Corporation	27.01	28.63	34.08	36.10
Karnataka State Financial Corporation	66.52	66.72	68.38	83.59
C. Percentage of employee cost to total Sanctioned amount				
Rajasthan Financial Corporation	11.90	9.58	12.21	13.71
Kerala Financial Corporation	2.63	7.43	4.71	2.19
Karnataka State Financial Corporation	9.09	9.10	8.12	7.61

The Corporation was not able to keep pace with the growing demand for industrial loans to MSME sector as the portfolio of the Corporation ranged between 1.19 *per cent* and 1.27 *per cent* of the total industrial sector outstanding loans during 2015-18. Further, the employee cost of the Corporation to total sanctioned loan was much higher and ranged between 9.58 *per cent* and 13.71 *per cent* during 2015-19 as compared to employee cost of Kerala Financial Corporation (ranged between 2.19 *per cent* and 7.43 *per cent*) and Karnataka State Financial Corporation (ranged between 7.61 *per cent* and 9.10 *per cent*) during this period. Audit observed that the performance of Karnataka State Financial Corporation was good as the loan portfolio of the Corporation increased from ₹ 732 crore to ₹ 1099 crore during 2015-19 whereas the portfolio of the Corporation decreased from ₹ 410 crore to ₹ 315 crore during 2016-19. Though, the Corporation earned marginal profit in the year 2017-18 and 2018-19 but considering the accumulated losses, negligible market share and high employee cost of lending, the Corporation was not able to achieve its prime objective.

High level of Non Performing Assets

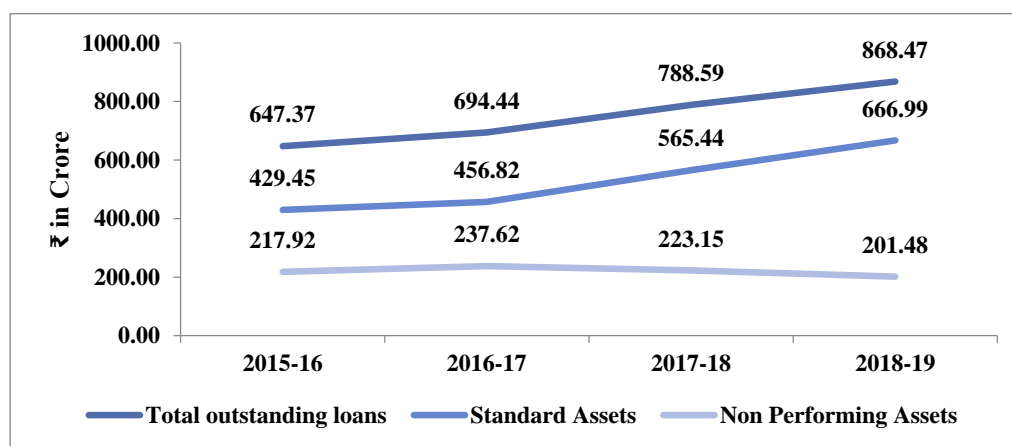
5.1.6 The position of NPAs in any financial institution is one of the most important indicators of financial soundness. The RBI prescribes norms for classification of NPAs from time to time. As per norms prescribed in master circular⁵ issued (July 2015) by the RBI, if interest or instalment of principal remains due for more than 90 days, loans are classified as NPAs. The Sub-Standard Assets include those assets which remained NPA for a period upto 12 months while Doubtful Assets includes assets which remained Sub-Standard for a period of 12 months. Further, Loss Assets are those where loss has been identified by the Corporation but the amount has not been written off wholly. In other words, such an asset is considered uncollectible and of such

5 Master Circular- Prudential norms on Income Recognition, Assets Classification and Provisioning pertaining to Advances.

little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value. Besides, Doubtful Assets are further classified into three categories *i.e.* Doubtful A, Doubtful B and Doubtful C on the basis of periodicity of default. Corporation's norms⁶ provides that slippage of account into NPA should be watched through close follow up and regular monitoring of non defaulting units. It further provides that if any indication about default is noticed the same should be reported to the higher authorities.

Total loans which remained outstanding at the end of the year and their classification into Standard and NPAs for the period 2015-16 to 2018-19 are given below in chart:

Chart 5.1.1: Total outstanding loans, Standard assets and NPAs during 2015-16 to 2018-19



The closing balance of total outstanding loans and Standard Assets increased from ₹ 647.37 crore to ₹ 868.47 crore and ₹ 429.45 crore to ₹ 666.99 crore respectively during 2015-16 to 2018-19. The closing balance of NPAs increased from ₹ 217.92 crore in 2015-16 to ₹ 237.62 crore in 2016-17 which decreased to ₹ 201.48 crore in 2018-19. Although, the level of NPAs improved from 33.66 *per cent* to 23.20 *per cent* during 2015-16 to 2018-19 but the same were still very high as NPAs still constituted almost one fourth part of the total outstanding loans.

Audit observed that the closing balance of NPAs as on 31 March 2019 consisted Sub-Standard, Doubtful and Loss Assets of ₹ 48.43 crore, ₹ 73.70 crore and ₹ 79.35 crore respectively where 83.13 *per cent* (₹ 61.27 crore) of the total Doubtful Assets had been categorised under Doubtful C category due to defaulting in repayment of loans for more than four years. Thus, major part (69.79 *per cent*) of total NPAs as on 31 March 2019 either remained unrecovered for a long period or was considered unrecoverable by the Corporation looking to very remote chances of its recovery. For the Corporation as a whole, the NPAs on account of loans sanctioned to Real Estate Sector constituted 16.70 *per cent* of the total NPAs.

Further, out of 169 cases selected for detailed scrutiny, 143 cases (*i.e.* 115 cases under 'Loss Assets' category and 28 cases under 'Doubtful-C' category) involving recovery of ₹ 48.12 crore (excluding interest amounting to ₹ 191.92 crore) were pending for a period ranging from four years to 28 years.

6 FR circular-515 dated 29 April 2008.

The Government accepted the facts and stated that the Corporation had made strenuous efforts during the period and introduced OTS Scheme for reducing NPAs due to which its NPA portfolio had been reduced during 2017-19. It also accepted the fact that most of the cases are under Doubtful C and Loss Assets category where efforts are being made for recovery of dues under Section 32-G.

The fact however remains that efforts made by the Corporation were not yielding desired results and the Corporation was not prompt in taking action against 32-G cases (discussed in detail at paragraphs 5.1.19 to 5.1.22) as such level of NPAs is still significant.

Sector wise position of NPAs

5.1.7 In eight selected Branch Offices, total dues outstanding towards all the 554 cases of NPAs were ₹ 291.15 crore which included of ₹ 80.69 crore and ₹ 210.46 crore on account of principal and interest respectively. In case of 169 cases of NPA selected for detailed scrutiny, total outstanding dues were ₹ 258.60 crore which included ₹ 61.27 crore and ₹ 197.33 crore on account of principal and interest respectively. Of these the principal dues have been recognised in the books of accounts of the Corporation whereas amount of overdue interest has not been recognised as per accounting policy adopted by the Corporation for revenue recognition. Sector wise break up of total outstanding towards all the 554 NPA cases as well as selected 169 NPA cases is depicted in charts given below:

Chart 5.1.2: Sector wise breakup of total outstanding dues (554 cases of NPAs)

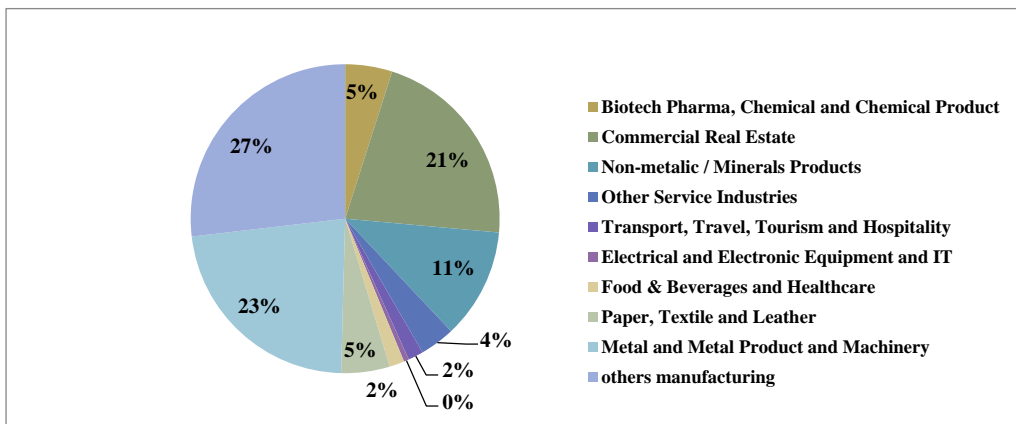
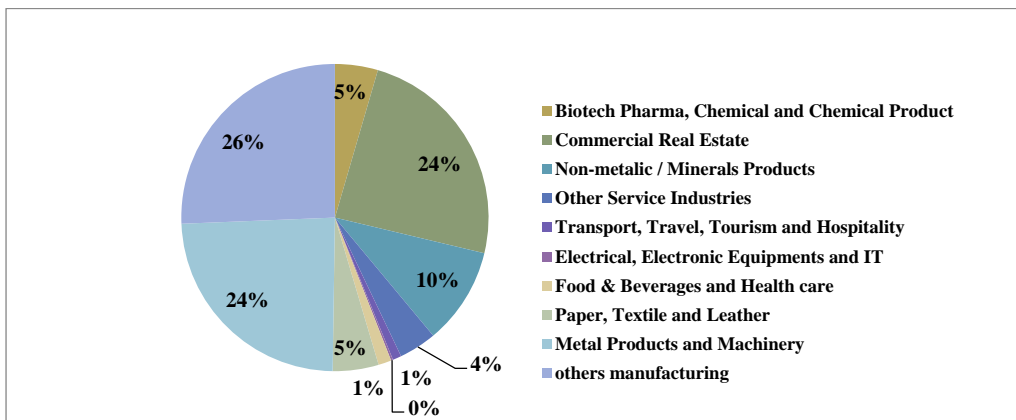


Chart 5.1.3: Sector wise breakup of total outstanding dues (169 cases of NPAs)



Sector wise breakup of total outstanding dues in all the cases as well as selected cases of selected Branch offices reflect that dues mainly pertained to other manufacturing sector, metal products and machinery sector and CRE sector. Further analysis of sector wise dues and number of respective loan cases disclosed that CRE sector was the major defaulter as there were three CRE loans⁷ which comprised of approximately 21 *per cent* (₹ 62.62 crore) of the total outstanding dues and 24 *per cent* (₹ 62.62 crore) of the 169 selected cases respectively.

Deficiencies/ irregularities in extension and recovery of loans

5.1.8 During detailed scrutiny of NPA cases, audit observed following five cases where the Corporation allowed sale of partial mortgaged property without recovery of committed dues, extended loans against property occupied by tenants, did not take prompt recovery action against defaulter suspected in '*Syndicate Bank Scam*', released fourth loan to a borrower who had defaulted in previous three loans and released loan without ensuring requisite collateral security which resulted in accumulation of outstanding dues worth ₹ 28.50 crore⁸ and obtaining lesser collateral security worth ₹ 0.38 crore.

Allowing sale of partial mortgaged property without recovery of committed dues

5.1.9 The Corporation sanctioned (March 2008 and September 2010) two loans of ₹ 10 crore and ₹ 6 crore respectively in favour of the borrower (Loan Account Number: 3205953679). On the request of the borrower, the Corporation decided (September 2013) to issue '*No Objection Certificate (NOC)*' in its favour for sale of 50 *per cent* of the property consisting hotel, shops and showrooms subject to depositing ₹ 11.39 crore towards sale of partial property (₹ seven crore), balance of estimated project value (₹ 3.17 crore) and preceding quarter's overdue amount (₹ 1.22 crore) before handing over possession of the hotel area to the purchaser. However, the Corporation/Branch office issued NOC to the borrower for sale of hotel and multiplex in October 2013 and November 2013 respectively on deposit of ₹ nine crore in September/October 2013 and took assurance that the borrower will deposit remaining amount of ₹ 2.39 crore before handing over possession to the purchaser. However, the borrower handed over possession of the hotel area to the purchaser without depositing the remaining amount to the Corporation. Belatedly, the Corporation took over (February 2016) possession of the unsold part of the borrowing unit due to further defaults in repayment of loans which is still in possession of the Corporation. The total dues recoverable from the borrower worked out to ₹ 14.10 crore in March 2019.

Audit observed that the Corporation extended undue favour to the defaulting borrower by issuing NOC for sale of partial mortgaged property and allowing handing over of possession to the purchaser without ensuring deposit of committed dues. However, the Corporation has not fixed accountability in this case where there was a clear violation of HQ orders by the Branch office. Audit also observed that despite non-deposit of the committed dues and

⁷ Having Loan Account Numbers 3205953679, 2705192835 and 2705010302.

⁸ ₹ 14.10 crore + ₹ 2.17 crore + ₹ 9.26 crore + ₹ 2.97 crore.

defaulting in further repayments, the Corporation delayed taking over possession of the unsold part of the unit and could not dispose of the same upto June 2019. Thus, undue favour to the borrower and delay in required recovery action resulted in accumulation of outstanding dues amounting to ₹ 14.10 crore.

The Government accepted the facts and stated that after depositing the partial amount, the borrower requested to re-fix the instalment of outstanding dues which was not considered in view of laid down norms and it did not deposit the remaining amount despite continuous pursuance. It further stated that the Corporation could not sell the property taken into possession as no bidder turned up in the auctions held by it, however market realisable value (MRV) of this property is sufficient to recover the outstanding dues. The reply was however silent on the issue of allowing the borrower to hand over possession of the property without deposit of committed dues due to which the outstanding dues are still remained unrecovered.

Extension of loans against property occupied by tenants

5.1.10 The Corporation sanctioned (March 2010 and March 2011) two loans (*i.e.* loan of ₹ 55 lakh for renovation of existing hotel and loan of ₹ 94 lakh for purchasing of showroom and commencing restaurant activity at the ground floor of the premises where its hotel existed) in favour of the borrower (Loan Account Number: 2705195367). After the borrower defaulted in repayment of both the loans, the Corporation decided (August 2014) to take possession of the entire property against which both these loans were extended. However, while visiting the unit, the Corporation found that the property was not free from encumbrances as most of the mortgaged area was occupied by the tenants. After taking (May 2015) measurements of the total area mortgaged (3679.25 square feet) by the borrower, the Corporation took over (July 2015) actual possession of the area (1857.46 square feet) which was free from any encumbrances and paper possession of the area (1821.79 square feet) occupied by the tenants. At the time of taking over possession of the property, total dues recoverable from the borrower worked out to ₹ 1.27 crore. The Corporation assessed (October 2015) MRV of the property wherein MRV of the entire property and property taken in actual possession was assessed at ₹ 1.13 crore and ₹ 0.38 crore respectively. Belatedly, the Branch office, Jaipur (Central) reported (July 2018) to the management that the property taken in possession could not be put to auction as it was occupied by the tenants. Despite this, the Corporation invited (January 2019) bids for auctioning the property but no offer was received. Resultantly, the outstanding dues towards the borrower mounted to ₹ 2.17 crore (March 2019).

Audit observed that while sanctioning the loans, the Corporation ignored the fact that the property being mortgaged by the borrower against these loans had been rented out to many tenants and in case of any default in repayment of these loan, it would not be available for possession. Thus, extension of loans against a property not free from encumbrances without safeguarding the interest of the Corporation, resulted in non-recovery of ₹ 2.17 crore.

The Government stated that the Corporation carried out site inspection and obtained undertaking from the promoter wherein the promoter declared that the respective property was free from encumbrances and there was no pending

litigations relating to it. Further, the Corporation could not sell the property as no bidder participated in the auctions held by it.

The reply was not convincing as tenants showed in the declaration made (August 2009) by the former owner of the property who sold out the mortgaged property to the borrower and in the possession report (July 2015) were common which reflects that these tenants were in possession of the mortgaged property even prior to sanctioning of these loans and the site inspection report by Corporation officials and undertaking given by the promoter were not correct. Further, the system of regular inspection of borrowing units was also not functional in the concerned Branch office as the Corporation could not identify the misrepresentations till it went for taking over the possession of the unit. The Corporation also did not take effective steps for fixing accountability and initiating legal recourse in this case which led to non-recovery of dues till date.

Lack of prompt action against defaulter suspected in ‘Syndicate Bank Scam’

5.1.11 The Corporation sanctioned (November 2014) a loan of ₹ 7.72 crore to *Guman Builders and Developers (Private) Limited (Borrower)*. After the borrower defaulted in repayment of quarterly instalment (June 2016), the Corporation issued (June 2016) a legal notice under Section 30 of the SFCs Act for depositing the outstanding dues of ₹ 5.54 crore but the borrower did not deposit the amount within the notice period. As per the notice, in case of non-deposit of dues, the borrowing unit was to be taken under possession but the Corporation instead of taking over possession of the borrowing unit, allowed (July to October 2016) several opportunities to the borrower by extending the date for depositing the overdue amount. However, the borrower did not deposit the amount within the extended period and the Corporation took over possession of the borrowing unit on 28 November 2016. Meanwhile, the Enforcement Directorate, Government of India (ED, GoI) informed (25 November 2016) the Corporation that an investigation against the main promoter of the borrower was under progress in case of First Information Report (FIR) registered (March 2016) by the Central Bureau of Investigation (CBI), GoI. The ED also restricted the Corporation to release any documents of the property charged with it which belonged to the concerned promoter, his relatives and firms associated to him. Later, ED attached (May 2018) the mortgaged property by issuing a provisional attachment order which was retained (November 2018) by the Adjudicating Authority⁹. Against the attachment order, the Corporation filed (December 2018) an appeal with the Appellant Tribunal, Prevention of Money Laundering Act which issued (January 2019) a stay order in this case and the matter is still pending with the Appellant Tribunal. (June 2019)

Audit observed that the Corporation was well aware of the facts that CBI had registered (March 2016) an FIR in Syndicate Bank scam where the main promoter of the borrowing unit was also suspected to be involved. Despite this, the Corporation instead of promptly taking over the possession, allowed several extensions to the borrower for depositing the overdue amount. Audit also observed that the property was situated at a prime location of Jaipur and had substantial MRV (*i.e.* ₹ 19.65 crore assessed in January 2017). Had the

⁹ Prevention of Money Laundering, Department of Revenue, Ministry of Finance, Government of India.

Corporation taken prompt action for taking over and disposing of the property, it could have recovered its dues. However, allowing extension for repaying dues to a defaulter suspected in a Bank Scam resulted in unwanted legal proceedings and non-recovery of outstanding dues worth ₹ 9.26 crore.

The Government accepted the facts and stated that the borrower had informed (22 July 2016) the Corporation that its bank account had been blocked by the CBI due to which the bank dishonoured its cheque due on 1 June 2016. Further, three more cheques furnished by the borrower during August 2016 were also dishonoured. It further stated that the Appellate Authority had allowed for auctioning the fixed assets of the unit and accordingly, property will be disposed of to recover the dues.

The fact remained that the Corporation was well aware of the fact that the promoter of borrowing unit was suspected in a Bank scam and CBI had lodged an FIR against him in March 2016. However, the Corporation did not furnish any justification in respect of allowing several extensions to the borrower during July to October 2016 instead of initiating prompt action to take over the property which led to non-recovery of significant dues.

Release of further loan to a defaulter borrower

5.1.12 The Corporation sanctioned (August 2007, October 2008 and May 2010) three loans of ₹ 65 lakh, ₹ 35 lakh and ₹ 71 lakh respectively in favour of the borrower (Loan Account Number: 0505012643). After the borrower defaulted in repayment of these loans, the Corporation issued (July 2012) a legal notice to the borrower under Section 30 of the SFCs Act to deposit outstanding/overdue amount. The borrower instead of depositing the dues, filed (October 2012) a petition before the Hon'ble High Court, Jaipur. Responding to the petition of the borrower, the Court ordered (November 2012) the borrower to deposit ₹ 20 lakh with the Corporation within a period of four weeks and to deposit the remaining overdue of ₹ 50.13 lakh within first week of January 2013. It also provided that in case the borrower defaults in repayment of dues as per this order, the Corporation would be free to take possession of the hotel. The borrower deposited (December 2012) ₹ 20 lakh as per the prescribed schedule but it did not adhere to the orders of the court for depositing the remaining dues. The Corporation issued (March 2013 to December 2018) notices to the borrower from time to time but kept on providing opportunities to the borrower for repaying the loan accepting partial payments made by it. The Corporation rescheduled (December 2014) all the three existing loans by re-fixing the repayment of quarterly instalments from last quarter of the year 2016 and sanctioned and released (April-May 2015) another loan of ₹ 1.15 crore in its favour. The borrower defaulted in repayment of the fourth loan also. Thus, the overdue amount and total outstanding amount against all the four loans worked out to ₹ 1.85 crore and ₹ 2.97 crore respectively (March 2019).

Audit observed that despite continuous defaults in repayment, the Corporation not only provided several opportunities to the defaulting borrower in repayment of the first three loans extended during 2007-08 to 2010-11 but also granted another loan even before commencement of revised repayment schedule of previous loans. Thus, lack of proper action for recovery of existing

loans and imprudent decision of releasing another loan led to non-recovery of ₹ 2.97 crore.

The Government stated that the Corporation issued (January 2015) a circular wherein certain criteria (including no interest overdue in the existing loan account) had been laid down for extension of further loans to hotels and hospitals where re-schedulement had been made and project had not been implemented and requires further loan. It further stated that in the instant case, the fourth loan was extended after ensuring fulfilment of these criteria as there was no overdue towards the borrower as on 31 March 2015. Further, due to regular pressure, the borrower is now approaching for rehabilitation and its application is under examination.

It could be seen that the policy of the Corporation is not sound enough to safeguard its financial interest as the criteria under which the Corporation allows further loans to a defaulting borrower, was defective as it allows a borrower to obtain new loans of higher amounts as compared to amount cleared against the overdues. This is also evident from the instant case where the existing three loan accounts of the defaulting borrower were rescheduled in December 2014 and a new loan was sanctioned and disbursed (April-May 2015) immediately after regularising the existing loans. Thus, the Corporation needs to review its existing policy.

Releasing loan without ensuring requisite collateral security

5.1.13 The Corporation sanctioned (March 2014) a loan of ₹ 1.02 crore to the borrower (Loan Account Number: 2105950073) with the conditions that the borrower has to submit Collateral Security of MRV not less than 50 *per cent* of the sanctioned loan. The title documents of prime security as well as collateral security shall be examined by the Corporation. As MRV of the collateral security furnished by the borrower was less than the limit prescribed during sanction of loan, the collateral security was not considered adequate and the sanction of loan was cancelled (January 2015). Subsequently, the borrower requested (April 2015) for revival of cancelled loan and submitted documents of another collateral security. Considering the request of the borrower, the Corporation revalidated (May 2015) the sanction of loan and disbursed ₹ 0.69 crore to the borrower after ascertaining the MRV of the collateral security at ₹ one crore.

Audit observed that the Corporation incorrectly assessed the MRV of the collateral security as the correct MRV was ₹ 0.13 crore only and thus, released the loan without obtaining the requisite collateral security. The Corporation realised (November 2016) the fact that it has obtained collateral security of lesser value due to incorrect computation of MRV. Despite this, the Corporation neither made any effort to obtain security of requisite value nor recovered the dues by calling back the total outstanding amount. Further, possibility of involvement of fraud/collusion in assessing MRV cannot be ruled out.

The Government accepted the facts and stated that it was reported that MRV has been calculated on a higher side and the matter is being examined. It further stated that MRV of the prime security is worth ₹ 0.92 crore and the

Corporation had initiated legal action against the borrower and putting all efforts to recover the dues.

The fact remained that the Corporation did not observe due diligence while disbursing the loan. Further, despite noticing the mistake of obtaining inadequate security, it did not take action for obtaining collateral security of requisite value or for cancelling the loan by recovering the outstanding dues. Further, the land component of the prime security was worth ₹ 0.09 crore only whereas rest of the prime security (*i.e.* building, plant and machine *etc.*) was of depreciable nature. Thus, it would not be prudent to consider the loan as fully secured as the loan had already been categorised under Sub-Standard Assets. During the exit conference, the Management directed the subordinate staff to review the case and to take necessary action which is awaited despite lapse of more than three months (December 2019).

Delayed/ inadequate legal action for recovery of dues

5.1.14 Audit observed three cases where the Corporation inordinately delayed initiating the legal action against the defaulting borrowers due to which recovery of outstanding dues/deficit amounting to ₹ 16.37 crore (₹ 14.60 crore + ₹ 1.38 crore+₹ 0.39 crore) could not be effected. These are discussed below:

Case-1

The Corporation extended two loans of ₹ 39.50 lakh and ₹ 25.27 lakh in favour of the borrower (Loan Account Number: 3205014022) in the year 1987 and 1990 respectively. Due to default in repayment of loans, the Corporation issued (1999) legal notice to the borrower but did not take further action as one of the creditors of the borrower had filed a winding up petition (WUP) in the court against the borrower in the year 1997. The concerned court dismissed (2005) the WUP. Official Liquidator (OL) intimated (June 2015) the Corporation that he has already released the assets in 2005. On receipt of intimation regarding release of assets of the borrower in the year 2005 itself, the Branch office worked out the outstanding dues towards the borrower at ₹ 4.27 crore (till June 2015). Considering substantial outstanding dues of other Government departments/PSUs *viz.* Central Excise Department, JVVNL, RIICO *etc.* towards the borrower, the Corporation decided (November 2016) to initiate recovery action as per provisions of the SARFAESI Act, 2002. The concerned Branch office completed procedural formalities relating to initiating action under SARFAESI Act, 2002 in April 2017, however, the Management inordinately delayed the approval (April 2018). Thereafter, the Branch office issued (July 2018) notice to the borrower under the SARFAESI Act, 2002. After enactment of IBC 2016 *w.e.f.* 11 May 2016, the Corporation decided (September 2018) to take action against the borrower under IBC 2016. However, the Branch office did not initiate action under IBC 2016 as it was not acquainted with its provisions. Belatedly, the Corporation again reversed (February 2019) its decision and decided to take action under SARFAESI Act, 2002 considering that proceedings under IBC 2016 to be expensive. Resultantly, outstanding dues towards the borrower mounted to ₹ 14.60 crore against market realisable value of borrowing unit assessed at ₹ 3.08 crore. Further, possession of the borrowing unit was not taken over till March 2019.

Audit observed that the Corporation did not monitor the case as it remained unaware of dismissal of WUP by the court and releasing of assets of borrowing unit by the Official Liquidator (OL) for a period of 10 years and resultantly, did not initiate any action to take over possession of assets of the borrowing unit of the borrower till March 2015. The Corporation further not only delayed in taking decision for initiation of action against the borrower under the SARFAESI Act, 2002 but also kept on reversing its decisions due to incorrect and contradictory inference presented by its law section on applicability of SARFAESI Act, 2002.

The Government stated that the Corporation initially decided to move to NCLT for recovery

of maximum dues but looking to the expenses involved in the process, it decided to recover the dues under the SARFAESI Act, 2002. It further stated that the Corporation had taken over the assets in September 2019 and will dispose it through auction. During the exit conference, the Corporation also accepted that there was confusion on applicability/existence of SARFAESI Act, 2002. However, the reply was silent on the issue of Corporation's failure to be aware of the dismissal of the WUP for a period of ten years and inordinate delay in initiating requisite action of recovery.

(Branch office, Bhiwadi)

Case-2

The Corporation sanctioned (December 2000) a loan of ₹ 75 lakh to the borrower (Loan Account Number: 3205014907). After extension of loan, the borrower could not repay the loan as per the prescribed terms and conditions of loan agreement. Due to default, the Corporation took over (December 2003) possession of prime security and made efforts for its disposal through auction but it could not dispose of the prime security of the borrower till November 2007. Meanwhile, the borrower obtained (November 2007) stay from the Hon'ble High Court, Jaipur against disposal of the prime security. The Corporation filed (December 2007) a writ petition in the Hon'ble High Court against the stay order which is still pending with the court. Belatedly, the Corporation also filed (February 2018) an application in the Hon'ble High Court for early hearing in this case which is also pending with the court (June 2019). The outstanding dues towards the borrower worked out at ₹ 1.38 crore upto March 2019.

Audit observed that the Corporation could not ensure disposal of the prime security despite lapse of a period of four years from taking over its possession till grant of stay order by the court. The advocate appointed by the Corporation did not respond to the several requests made by the Corporation for obtaining vacation of the stay and submitting actual status of the case during 2008-18. However, the Corporation did not take any corrective action in this regard. Besides, the Corporation filed a petition with the court for early hearing of the case after lapse of more than 10 years from grant of stay order which indicates that the case was not monitored regularly by the Branch office as well as Head office despite clear guidelines/ directions for regular monitoring of the cases having stay in operation for over three months. Audit also observed that as per MRV assessed in September 2012, the value of prime security and collateral security were ₹ 69.65 lakh (including depreciable assets worth ₹ 43.88 lakh) and ₹ 1.08 crore respectively, however the Corporation did not make efforts to recover its dues through disposal of collateral security.

The Government accepted the facts and stated that after consultation with the panel advocate, the unit will be put up for auction to realise the dues. During the exit conference, the Corporation also assured to review the cases where stay orders had existed since long and to work on finding alternate options for vacating the stay.

(Branch office, Bhiwadi)

Case-3

The Corporation extended a loan of ₹ 40 lakh to the borrower (Loan Account Number: 1205014248) in the year 1997. Due to default in repayment of loans, the Corporation took over (December 2003) and disposed of (June 2007) the prime security for ₹ 19.25 lakh. The deficit in the case was worked out at ₹ 38.88 lakh. Belatedly, the Corporation initiated (December 2009) efforts for disposal of collateral security. While visiting the property mortgaged as collateral security for assessing its MRV, the Corporation found (December 2011) that the borrower had already sold that property.

Audit observed that the Corporation inordinately delayed the process for disposal of collateral security. Further, while mortgaging the collateral security, the Corporation did not safeguard its financial interest as it did not ensure recording of endorsement relating to mortgage of property in its favour in the records of the concerned revenue authority. Resultantly, the borrower disposed it off without intimation and approval of the Corporation. Audit also observed that despite illegal disposal of collateral security, the Corporation did not take prompt action against the borrower as the FIR was filed (November 2017) with a delay of more than six years whereas no court case has been filed against the defaulting borrower for getting the unauthorised sale of collateral security declared as 'Null and Void' till June 2019. Resultantly, the deficit remained unrecovered despite lapse of more than 12 years from

disposal of prime security.

During the exit conference, the Corporation acknowledged that it did not ensure recording of endorsement of mortgaged property in its favour in the records of the concerned revenue authority. Further, Government in reply stated that in this case, Corporation had made continuous efforts to recover the deficit, the Branch office, Dungarpur sent (May 2013) an FIR to the police authority concerned for unauthorised sale of collateral security and lodged an FIR in November 2017. Thus, the Corporation did not delay in initiating action for disposal of collateral security.

The reply was not convincing as the Corporation did not furnish documents in support of registration of FIR in May 2013 and in case the Branch has sent the request to Police why did it wait for four years for the FIR to be registered. The fact thus remained that the FIR was lodged with a delay of more than six years. Thus, it was a case where the Branch officers did not perform their duties diligently.

(Branch office, Abu Road)

Delay in disposal of assets in possession

5.1.15 The Corporation issues a Recovery Strategy & Risk Management Policy every year. As per this policy, assets in possession of the Corporation should be disposed of in a timely manner and proactive efforts are required to be made for locating suitable buyers for units in possession so as to ensure quick disposal of assets at the competitive prices. No assets should remain indisposed after six months from taking into possession until and unless there are specific reasons.

As on 31 March 2019, there were 28 units in possession of the Corporation and possession of these units were taken over during November 1987 to March 2019 as detailed in *Annex-20*. A brief age-wise analysis of these units is given below:

Table 5.1.3: Age-wise break up of units in possession as on 31 March 2019

(₹ in crore)

Period of possession	Number of units	Total outstanding dues as on 31 March 2019			
		Principal Amount	Interest Amount	Other Money	Total
Less than one year	6	1.36	0.71	0.02	2.09
1 to 5 years	4	12.99	12.47	0.13	25.59
From 5 years to 10 years	5	19.89	89.56	1.21	110.66
From 10 years to 20 years	8	6.41	3.27	1.43	11.11
More than 20 years	5	0.33	0.42	0.09	0.84
Total	28	40.98	106.43	2.88	150.29

Of these 28 units, there were only three units where possession did not exceed the limit of six months till 31 March 2019 whereas the remaining 25 units were under possession for a period which ranged between seven months and 32 years. These units included five¹⁰ units which were under possession for a period ranged from three years to 11 years without any litigation and several auctions were held to sell these units but the Corporation could not dispose of these units till March 2019. Out of remaining 20 cases, 14 units involved litigations against recovery action and in six cases, the Corporation did not initiate requisite recovery action upto March 2019. Thus, due to delay in

10 S. No. 1, 2, 3, 10 and 11 of *Annex-20*.

initiating action for disposal of units in possession, non-disposal of units despite several auctions and long pending litigations, outstanding dues worth ₹ 150.29 crore remained unrecovered despite the Corporation having possession of these units.

Audit observed that the Corporation did not analyse reasons for poor response in auctions held for sale of assets. Further, inordinate delay in disposal of these units resulted in substantial decrease in MRV of the assets in cases where depreciable assets *viz.* plant and machinery are involved. Audit observed that in one case¹¹, MRV of the assets reduced from ₹ 4.22 crore in October 2012 to ₹ 2.65 crore in November 2018 as the plant and machinery become obsolete with lapse of more than 11 years.

The Government while accepting the facts stated that out of these 28 units, 24 units could not be disposed of due to non-receipt of bid, non-receipt of adequate offer, stay granted by court *etc.* whereas possession of two units were taken recently whereas remaining two units were handed back to the promoter. Further, in one case where MRV of the assets pertained to the borrowing unit had been reduced, matter is under consideration for re-ascertaining/revising the MRV of the respective assets. However, the fact remained that the Corporation did not analyse the reasons of poor response to overcome the problem of non-disposal of units in its possession and resultant decrease in MRV of such assets.

5.1.16 Audit further observed a case where the Corporation could not dispose of the unit despite receipt of an offer exceeding its dues as detailed under:

Borrowing Unit (Loan Account Number: 2505010688)

The Corporation sanctioned (September 2008) a loan of ₹ 1.85 crore to the borrower. On default in repayment of the loan, the Corporation took over (September 2011) possession of the unit where the total dues of the borrower worked out at ₹ 1.31 crore. The Corporation evaluated MRV of the unit from time to time where MRV assessed by the Corporation itself increased from ₹ 3.83 crore in December 2011 to ₹ 6.04 crore in June 2018 and MRV assessed through the private valuer increased from ₹ 2.42 crore in June 2012 to ₹ 6.41 crore in July 2018. Both the MRVs differed as the Corporation adopted rate of land as fixed by respective District Level Committee whereas the private valuer adopted the market rate of land. The Corporation attempted to dispose of the unit time and again but the unit remained unsold till date. (June 2019)

Audit observed that the Corporation received an offer of ₹ 2.66 crore in May 2014 which exceeded the outstanding dues of the Corporation at that time and the MRV assessed by the private valuer (*i.e.* ₹ 2.36 crore in October 2013). However, as it was lesser than its own assessed MRV (*i.e.* ₹ 5.07 crore in April 2014) therefore Corporation rejected the offer. Thus, the Corporation could not utilise the opportunity to dispose of the unit despite adequate offer quoted by the bidder, accepting it would have enabled the Corporation to recover its dues.

The Government accepted the facts and stated that the offer was rejected as it was found inadequate as compared to MRV assessed by the Corporation as MRV calculated by its own officer was based on DLC rate and the same was more accurate. Further, the Corporation assured to put up the unit in auction during 2019-20.

The fact remained that the Corporation lost the opportunity of recovering its dues through disposal of the unit which led to non-recovery of dues till date.

(Branch office, Jaipur-South)

Non-disposal of Commercial Real Estate (CRE) Units

5.1.17 Of the 28 units in possession as on 31 March 2019, five¹² units belonged to CRE Sector where possession of the units were taken between January 2010 and November 2016 but none of these units could be disposed of till March 2019 due to litigations, imposition of restriction on sale or non-receipt of requisite offers for purchasing the unit. Audit observed that the total dues outstanding towards these units at the time of taking possession were ₹ 36.26 crore which increased to ₹ 132.48 crore as on 31 March 2019 due to charging of interest for possession period. The latest MRV assessed (from January 2017 to September 2018) for these units was ₹ 114.25 crore. Audit also observed that due to delay in disposal, in three¹³ of these five cases, the dues outstanding towards these units (₹ 109.12 crore) exceeded the MRV assessed for these units (₹ 53.17 crore) which may affect recovery of dues.

The Government while accepting the facts stated that the CRE sector units could not be sold due to recession in the sector for the last four to five years. It further stated that out of three major CRE units, there was stay against auction in two CRE cases (S. No. 18 and 19) whereas the third CRE case (S. No. 2) was in litigation. During the exit conference, the Corporation assured to review the policy of charging interest during possession period in CRE cases.

The fact remained that the Corporation did not make adequate efforts to dispose of the property in one CRE case (S. No. 2) and to vacate the stay in remaining two CRE cases (S. No. 18 and 19). Further, reply was silent on the issue as to how the Corporation will ensure recovery of its entire dues in such cases where the outstanding dues had already exceeded MRV of the assets in possession. The reply was also silent on the issue of taking action to review/revise the policy.

Allowing frequent opportunities to defaulting borrowers

5.1.18 During review of selected cases, three cases were observed where the Corporation ignored continuous defaults of borrowers and kept on providing opportunities to them for repaying the loans/overdues instead of taking recovery action under Section 29/30 of the SFCs Act. The deficiencies noticed in these three cases are discussed in detail in **Annex-21**. Audit noticed that due to deficiencies in dealing these cases, the Corporation could not recover dues worth ₹ 1.91 crore.

During the exit conference, the Corporation assured to frame a policy where minimum amount for not taking possession of the property was to be fixed so as to avoid unnecessary litigations and delays. The Government while accepting the facts stated that one case is sub-judice before the Rajasthan High Court, Jodhpur. In case of remaining two cases, the Corporation assured to recover the dues in settlement/re-scheduling. However, reply was silent in respect of deficiencies pointed out by Audit as well as action taken to frame the requisite policy in this regard.

12 S. No. 2, 3, 9, 18 and 19 of **Annex-20**.

13 S. No. 2, 18 and 19 of **Annex-20**.

Recovery under Rajasthan Land Revenue Act, 1956 (RLR Act)

5.1.19 Section 32-G of the SFCs Act empowers the Corporation to recover its dues as an arrear of land revenue. After disposal of prime security, the Corporation can initiate action under Section 32-G for recovery of its dues through disposal of collateral security or other assets belonging to the promoters with the help of revenue authorities. To initiate action under Section 32-G, the Corporation sends requisition in prescribed format along with copies of loan document and notices issued under Section 30 to the concerned District Collector. The process of registering the cases with the District Collector under section 32-G is handled at the Head Office of the Corporation on the basis of cases forwarded by the Branch offices.

Audit noticed that after disposal of prime security charged with the Corporation, a notice is served to the concerned borrower to furnish objection, if any, against the action to be taken under Section 30 of the SFCs Act within a period of 15 days from issue of the notice. Thereafter, notice is served to the borrower under Section 30 for making payment of dues/deficit amount failing which legal recourse for recovery of dues is to be taken under Section 32-G. The 'Requisitions of Demand' (RoDs) are expected to be filed after a period of 15 days from the issue of notice for initiating recovery action under Section 32-G.

Delay in issuing notice for recovery under Section 32-G

5.1.20 Of the 169 cases of NPAs selected for detailed scrutiny, 115 cases involving recovery of ₹ 88.57 crore as on 31 March 2019 were categorised under Loss Assets and the same were eligible for initiating recovery action under Section 32-G. Audit observed that in 12 cases, the Corporation did not issue the requisite notice for initiating recovery action under Section 32-G. Further, the 103 cases where notices were issued by the Corporation, timely notices were issued in seven cases only whereas in another seven cases, the delay could not be ascertained due to non-availability of date of disposal of prime security. The delay in issuing notice in remaining 89 cases is detailed below:

Table 5.1.4: Delay in issuing notices for recovery under Section 32-G

Period of Delay	Number of cases	Outstanding dues (₹ in crore)
Upto five years	69	57.64
Five to ten years	12	6.62
More than ten years	8	2.57
Total	89	66.83

Thus, the Corporation was not prompt in initiating action for recovery under Section 32-G. The Government stated that after disposal of prime securities, the Branch offices issued notices to the concerned promoters/directors/guarantors under Section 30 of the SFCs Act as and when the decisions were taken to invoke the provisions of Section 32-G. Further, it accepted that there was delay in issue of notices in those cases where addresses of promoters were not traceable.

The fact remained that the Corporation not only delayed in taking requisite decisions for initiating action under Section 32-G but also failed in tracing the

requisite details relating to the concerned promoters/directors/guarantors in time.

Delay/deficiencies in taking action for recovery under RLR Act

5.1.21 During review of the 115 cases eligible for recovery through RLR Act under Section 32-G of the SFCs Act, Audit observed that:

The Corporation filed RoDs in only 74 cases involving recovery of ₹ 64.01 crore upto March 2019. RoDs in these 74 cases were filed with delay which ranged from one month to 137 months. Further analysis of these cases revealed that in 65, seven and two cases, the delay in filing of RoDs ranged upto five years, five to ten years and more than ten years respectively.

Of these 74 cases where RoDs were filed, the Revenue Authorities returned 16 RoDs for want of further details of property and antecedents of promoters/guarantors whereas two cases involving ₹ 1.53 crore were settled by the Corporation for ₹ 0.35 crore. Remaining 56 cases involving recovery of ₹ 50.39 crore (including those seven cases worth ₹ 7.69 crore where the borrower had proceeded to courts against recovery action) were still pending with the Revenue Authorities for recovery of dues.

Age wise analysis of 49 cases¹⁴ pending with the revenue authorities as on 31 March 2019 is given below:

Table 5.1.5 (a): Cases pending with revenue authorities as on 31 March 2019

Period for which cases are pending	Number of pending cases	Outstanding dues towards the pending cases (₹ in crore)
Upto five years	1	0.77
Five to ten years	10	28.30
More than ten years	38	13.63
Total	49	42.70

Audit observed that 26 of these cases were pending with the revenue authorities due to not providing requisite/correct details of property/antecedents of concerned promoters/guarantors by the Corporation. In absence of requisite/correct information, the revenue authority could not initiate recovery action under RLR Act.

In 16 cases where RoDs were returned by the concerned revenue authorities, the Corporation could not re-file RoDs in absence of further details of property and antecedents of promoters/guarantors. Age wise analysis of these 16 cases pending for re-filing of RoDs with the revenue authorities as on 31 March 2019 is given below:

Table 5.1.5 (b): Cases pending for re-filing of the Requisitions of Demand (RODs)

Period for which cases are pending	Number of pending cases	Outstanding dues towards the pending cases (₹ in crore)
Upto five years	1	0.62
Five to ten years	7	3.98
More than ten years	8	7.49
Total	16	12.09

14 Total cases lying pending with the revenue authorities (56 cases) – Cases pending with courts (seven cases).

In remaining 41 cases¹⁵ involving recovery of ₹ 24.56 crore, the Corporation settled two cases worth ₹ 0.61 crore and effected recovery of ₹ 0.42 crore whereas in other cases, the Corporation neither effected recovery nor filed RoDs with the revenue authorities till date due to absence of details of property and other antecedents of promoters/guarantors. (June 2019)

Besides these 115 cases, there was another case (Loan Account Number: 0605012892) where the possession of the unit was taken over in April 2008 and its MRV was assessed (June 2008) at ₹ 5.74 crore against total outstanding dues worth ₹ 6.59 crore. Despite knowing the fact of lesser MRV in this case, the Corporation did not initiate simultaneous action for recovery under Section 32-G/RLR Act. Audit further observed that the Corporation initiated (October 2015) the action for recovery of dues under Section 32-G/RLR Act after lapse of more than seven years from taking over possession of the unit which is still under progress. Thus, due to inordinate delay, the Corporation could not ensure recovery of dues till June 2019.

During the exit conference, the Corporation assured to take action for accepting records in digital mode. Further, the Government in reply accepted that there was delay in filing of RoDs which was mainly due to non-availability of requisite details in respect of the promoter/guarantor and their other properties. Further, in some cases, the promoter/guarantor and their properties were located out of the State. It further stated that the Corporation had constituted (June 2019) a team of its officials for tracing out the whereabouts of the properties/promoters and ensuring prompt recovery action in these cases. However, the reply was silent on the issue of initiating action for taking records in digital mode.

In yet another case (Loan Account Number: 0605012892), the Corporation accepted the facts and stated that action for recovery of dues under Section 32-G was initiated to in compliance of the directions given (August 2015) by the Committee on Public Undertakings. The fact remained that the Corporation initiated the action under Section 32-G with a delay of more than seven years which led to inordinate delay in recovery of dues.

Non-recovery of dues despite having collateral securities

5.1.22 As per Loan Policy 2018-19 of the Corporation, while sanctioning of loan at field level, it should be ensured by the sanctioning authority that if the loan amount is more than the MRV of existing and proposed land and building, collateral security will invariably be obtained. Further, Recovery Strategy and Risk Management (RS&RM) Policy 2018-19 provided that visit/verification of collateral securities is required to be done quarterly so as to ascertain whether the assets are intact or have been diluted. The Corporation also provided (Circular No. FR-528 dated 5 July 2008) that a register of collateral security needs to be maintained and updated from time to time.

During review of records, Audit noticed four loan cases where the Corporation obtained collateral securities at the time of sanctioning of these loans but while proceeding for recovery of deficit, the Corporation could not identify/trace out the collateral securities/antecedents of the concerned promoters/guarantors as

15 Total cases eligible for registration under Section 32-G (115 cases) – Cases wherein RoDs had been filed (74 cases).

detailed in *Annex-22*. Of these four cases, in one case (S. No. 1) the Corporation did not file RoD with the respective revenue authority, in two cases (S. No. 2 and 3) the RoDs filed by the Corporation were returned by the respective revenue authority whereas in remaining one case (S. No. 4) the RoD was with the respective revenue authority till June 2019. Resultantly, the Corporation could not ensure recovery of dues worth ₹ 1.02 crore. During review of these cases, documents/records relating to verification of collateral securities while sanctioning of these loans were not found in the records of the Corporation.

The Government accepted the facts and stated that the Corporation is making efforts to identify/trace the collateral securities/antecedents of the concerned promoters/guarantors. It further stated that in these cases, requisite action will be taken on identification of the property/promoters/guarantors.

Monitoring mechanism

5.1.23 The Corporation issues a RS&RM Policy every year which directs the Branch Managers for monitoring and inspection of each and every case of default irrespective of the loan amount as per recovery strategy detailed in Circular (FR Number 498) issued from time to time and for deciding line of action in each case and taking follow-up action on regular basis during the year.

Ineffective system for monitoring of defaulting units

5.1.24 The Circular (FR No. 498 dated 19 February 2008) provided that each Branch office should visit the assigned borrowing units (including defaulting units) on regular basis. It further provided that in case of each defaulting unit where overdue is above ₹ five lakh, the Branch Manager should (a) visit the unit once in a period of six months and (b) carry out detailed inspection once in a year. In case of each defaulting unit where overdue amount is above ₹ one lakh, the unit should be visited once in a year and detailed inspection should be carried out for 25 per cent units each year.

The visit to defaulting units carried out by selected eight Branch offices during the period 2015-16 to 2017-18 are detailed below:

Table 5.1.6: Defaulting units visited and Visit Reports prepared during 2015-18

Year	Total number of defaulting units to be visited by respective Branch office during the year	Number of defaulting units visited by the respective Branch office during the year	Number of cases where Visit Report has been prepared during the year	Number of defaulting units due for visiting but remained unvisited during the year	Number of defaulting units where Visit Reports were not prepared during the year
1	2	3	4	5=2-3	6=3-4
2015-16	428	178	5	250	173
2016-17	389	162	26	227	136
2017-18	325	194	34	131	160
Total	1142	534	65	608	469

Audit observed that out of 1142 defaulting units due for visits during 2015-16 to 2017-18, the selected Branch offices visited only 534 units (46.76 per cent).

Further, during this period, these Branch offices prepared visit reports relating to 65 units which worked out to only 12.17 *per cent* of the total units visited by these Branch offices. The selected Branch offices also did not provide any detailed inspection report relating to the units visited by them during 2015-16 to 2017-18. This indicates that the Branch offices did not monitor the defaulting units as per the norms laid down by the Corporation. Further, the monitoring mechanism was not sound enough to ensure strict compliance of the directions issued as no action against non-compliance of these norms was found on record.

During the exit conference, the Corporation assured to institute online system for monitoring of performance of Branch offices. Further, Government stated that the Corporation had issued (June and August 2019) guidelines/directions to the Branch offices for regular monitoring and inspection of assisted units as per laid down norms. However, the reply was silent on the issues of non-compliance of the laid down norms by the selected branch offices, lack of action taken by the Corporation against them and action taken for adopting online monitoring system.

Meetings of Default Review Committee/ Follow-up and Recovery Committee

5.1.25 The Corporation also constituted (April 2012 and June 2017) ‘Default Review Committees’ (DRCs) at the level of Head office as well as Branch offices for monitoring of the units. As per procedure laid down in the order (June 2017), meetings of Branch level DRCs were to be held monthly at the level of concerned Branch Manager whereas meetings of Head office level DRC were to be held quarterly at the level of General Manager (Operations). These DRCs were required to review and analyse the causes of defaults in each and every case under their jurisdiction and were to be responsible/accountable for timely recovery of Corporation’s dues, new defaults and slippages. In case of Branch level DRCs, minutes of each meeting were to be submitted to the concerned Deputy General Manager (Follow-up and Recovery) every month for further examination and issuance of necessary instructions for taking effective action for recovery of dues. The Deputy General Manager (Follow-up and Recovery) was to ensure conducting of meetings of DRCs on regular basis. Besides, each Branch Manager was to conduct a meeting of Follow-up and Recovery Committees (FRCs) every Monday to review each and every case as prescribed in Procedure & Guidance (P&G) issued by the Corporation.

During review of records at the eight selected Branch offices, Audit observed that these Branch offices (except Branch office, Udaipur) did not conduct even a single meeting of Branch level DRCs and FRCs during 2015-19. The Branch office, Udaipur also did not conduct the meetings as per prescribed norms as it conducted only three meetings of Branch level DRC (i.e. July 2017, November 2017 and March 2019) and did not conduct any meeting of FRC during the same period. The concerned competent authority also did not take any action against the defaulting Branch office for not conducting the meetings of DRCs in violation of the laid down directions. This indicated that the mechanism prescribed for monitoring of the cases of defaults by the borrowers was defunct as it was not being followed by the Branch offices as well as Head office of the Corporation.

During review of 554 NPA cases pertained to the selected Branch offices, it was noticed that outstanding dues were worth ₹ 291.15 crore¹⁶. Audit observed that most of these cases (*i.e.* 483 cases having total outstanding dues worth ₹ 268.55 crore) were categorised under NPA prior to April 2015 but the Corporation could not effect recovery in these cases during 2015-19. This indicated that the Corporation did not make adequate efforts for recovery of dues during this period. Further, in absence of effective monitoring, cases of defaults were not being properly analysed and the Corporation could not control its level of NPAs to the expected level.

During the exit conference, the Corporation assured to institute online system for submission of minutes of meetings by the Branch offices. The Government accepted the facts and stated that all the Branch offices had been instructed (August 2019) to conduct the meetings as per laid down norms. However, the reply was silent in respect of action taken for adopting online monitoring system.

Absence of opening/operating of Escrow Account

5.1.26 The sanction letters relating to the loans extended to the CRE Sector provided that the borrower shall create and maintain an Escrow Account during the currency of loan in favour of Corporation with a scheduled bank wherein 'Sale proceeds' of the areas of complex shall be deposited. While reviewing the selected cases pertained to the CRE Sector, Audit observed that in the first case, the Escrow Account was not opened by the concerned borrower (Loan Account Number: 2705010302) despite lapse of 10 years from sanction of the loan (November 2008). Despite this, the Corporation did not pursue with the borrower for opening the requisite Escrow Account till June 2019. Further, in the second case, although the Escrow Account was opened by executing (March 2008) the tripartite agreement but the Corporation did not monitor operation of Escrow Account after default by the borrower (Loan Account Number: 3205953679) in repayment of dues which resulted in accumulation of outstanding dues worth ₹ 14.10 crore.

Audit observed that the condition of opening Escrow Account was included in the respective sanction letters for safeguarding the financial interest of the Corporation in case of default in repayment of loans but the Corporation did not devise a mechanism to monitor compliance of this condition and thus could not safeguard its financial interest properly.

In the first case, the Government accepted the facts and stated that in view of audit observation, a letter was issued to the borrower for executing the Escrow Agreement. However, it could not be executed as the project is incomplete and the unit is under possession of the Corporation as on date. The Corporation further assured that opening/execution of escrow account/agreement will be ensured at the time of handing back possession of the unit to the borrower.

In the second case, the Government stated that the borrower could not sell the commercial area without obtaining NOC from the Corporation and it repaid the loan as per norms of the Corporation before issue of NOC against sale of the commercial area. Therefore, operation of escrow account was not continued.

16 Includes outstanding principal dues worth ₹ 80.69 crore and outstanding interest worth ₹ 210.46 crore.

The fact remained that the Corporation extended the loan to the first borrower without ensuring compliance of the conditions laid down in the sanction letter. In case of the second borrower, the reply was not convincing as the sale proceeds were not processed through the escrow account as per laid down norms. Further, the Corporation did not ensure deposit of committed amount by the second borrower before handing over possession to the purchaser (as highlighted in paragraph 5.1.9). Had the Corporation ensured processing of sale proceeds through escrow account it could have recovered the substantial dues.

Non-maintenance of register for other properties of promoters/guarantors

5.1.27 The Corporation provided (Follow-up and Recovery (FR) Circular No. 678 dated 09 January 2012) that besides maintaining register for primary and collateral securities, a separate register for keeping details of the other properties owned by the promoters/guarantors, details of which are obtained along with loan application as well as at the time of execution of loan documents may also be maintained at the concerned Branch office. This will enable the Corporation to keep track of the properties of the promoters/guarantors.

While reviewing the records of selected Branch offices, Audit observed that none of the eight selected Branch offices maintained the requisite register for other properties which belonged to promoters/guarantors. Thus, the Branch offices did not adhere to the directions issued by the higher management which may hamper recovery of dues in case of defaults in repayment. Further, the management did not take action for not complying with the laid down norms/procedures.

The Government accepted the facts and stated that necessary instruction have been issued (August 2019) to the Branch offices in this regard.

Internal Control

Missing records hampered recovery of outstanding dues

5.1.28 During review of records relating to selected Branch offices, Audit observed following two cases where action for recovery of outstanding dues amounting to ₹ 5.96 crore could not be advanced due to non-availability of relevant records/files with the Corporation. In the first case, the original loan file and other documents could not be retrieved from the concerned advocate whereas in the second case, the loan file could not be traced till March 2019:

A. Borrowing unit (Loan Account Number: 0105046232) (Outstanding dues as on 31 March 2019: ₹ 5.17 crore)

Loan file of the case was missing in this case. Later, it came to the notice (October 2009) that the original file and other documents relating to this case were lying with the advocate appointed in this case since 1987. However, the Corporation could not obtain the file and other documents from the advocate despite issuing several reminders in absence of which status of property remained unascertained and comprehensive action for recovery of dues could not be taken. (June 2019)

The Government accepted the facts and stated that efforts are being made to get back the original records of the case from the panel advocate and to trace out the whereabouts of the promoter and their properties.

B. Borrowing unit (Loan Account Number: 3005017987) (Outstanding dues as on 31 March 2019: ₹ 0.79 crore)

As per order (September 2014) of the Head office of the Corporation, this deficit case was transferred from the Branch office, Jaipur (North) to the Branch office, Jaipur (South) and therefore, entire records relating to this case was required to be transferred to the Branch office, Jaipur (South). Audit observed that the Branch office, Jaipur (North) transferred (September 2015 and December 2016) the follow-up file and court case file relating to this case to the respective Branch office but despite several correspondence, it could not provide the original loan file till June 2019. Thus, as the original loan file/documents is missing, comprehensive action for recovery of dues under Section 32-G of the SFCs Act 1951 could not be taken till June 2019.

The Government stated that for recovery of deficit, the Corporation issued (April 2010) a letter to the Collector, Morena, Madhya Pradesh and since then, it is regularly monitoring the case.

The reply was not relevant to the audit observation as the Corporation was silent on the observation which highlighted that the original loan file/documents was missing due to which comprehensive action for recovery of dues was not taken.

Non-compliance of the laid down norms/directions

5.1.29 Major defaulting cases are to be reviewed at Head office level by the BoD. Apart from this, Corporation's norm (FR circular dated 29 April 2008) provides that progress of NPA cases will be reviewed by the General Manager (Development) on monthly basis either by visiting or by conducting the review at Head Office and report will be submitted to the CMD. However, it was noticed that the provision relating to monthly review of NPA cases at Head office level was not complied with by the concerned authority during 2015-16 to 2018-19.

The Government stated that summarised position of top 50 defaulters is regularly placed before the BoD and these cases were dealt through the concerned files for taking necessary action as per directions of the BoD.

The reply was not relevant as the Corporation was silent on the observation which highlighted that the Corporation did not ensure compliance of the provision relating to monthly review of NPA cases at Head office level.

Other deficiencies/ shortcomings

Delay in convening meetings of State Level Committee (SLC)

5.1.30 The State Level Committee (SLC) of the Corporation is a committee constituted for hearing and settling the appeals against fresh decision of Head Level Committee (HOLC), redressal of grievances of entrepreneurs, other matters where borrowers are aggrieved by any order of the Managing Director of the Corporation. The SLC¹⁷ of the Corporation was reconstituted in June 2015.

As on 31 March 2019, 17 cases involving recoverable dues of ₹ 3.76 crore were pending for settlement with the SLC where nine, four and four cases involving recovery of ₹ 1.57 crore, ₹ 1.22 crore and ₹ 0.97 crore respectively

17 Comprises the Managing Director (MD), Executive Director (ED) and ED (Finance), General Manager (GM)-Operations, GM-Development, Deputy GMs of FMD, Law and RRMD sections from the Corporation and MD-RIICO, GM-SIDBI and three nominee members on behalf of LIC, shareholders bank and other shareholders.

were pending for settlement for a period ranging upto 12 months, from 12 to 24 months and more than 24 months respectively. Audit observed that these cases could not be settled due to non-placement of cases before the SLC in the meetings held upto August 2017 and non-convening any meeting of the SLC since August 2017. Audit also observed that in one case (Loan Account Number 3405027275) where the borrower was ready (since October 2017) for settlement as per the decision (May 2017) by the SLC but could not settle as no meeting was convened thereafter.

The Government accepted the facts and stated that after August 2017, meetings of SLC were scheduled time and again but the Corporation could not hold the meetings due to Model Code of Conduct or other reasons. It further assured that the next meeting of SLC will be held shortly and the cases which were not placed before SLC during earlier meetings, will also be placed before it.

The reply was not satisfactory as in reply, the Corporation neither specified reasons of not placing the pending cases before SLC in its earlier meetings nor provided any specific details of the 'Other Reasons' for which the scheduled meetings were cancelled. The fact remained that the Corporation did not ensure settlement of pending cases in time to ensure recovery of its dues.

Non-recovery of apportioned dues from other government entities

5.1.31 The Corporation provides joint finance with other financial institutions/PSUs involved in providing loans to industrial sector viz. RIICO and IFCI Limited etc. In such cases, possession of prime and/or other security is to be taken over and disposed of by the primary financing entity and amount so recovered is distributed among all the joint finance entities.

During review of records relating to selected Branch offices, Audit observed following three cases where the borrowing unit had already been wound up/ disposed of but the concerned prime financing entity/Official Liquidator (OL) did not release the share of the Corporation till 31 March 2019:

Table 5.1.7: Joint finance cases pending for recoveries as on 31 March 2019

(₹ in crore)

S. No.	Loan Account Number of the borrowing unit	Amount recoverable towards share of the Corporation	Recoverable from
1.	2305015356	0.91	RIICO and OL
2.	3205011601	0.28	RIICO
3.	2605086739	0.44	IFCI Limited
	Total	1.63	

Audit observed that in one case (S. No. 1), share of the Corporation worth ₹ 10 lakh and 81 lakh were to be recovered from RIICO from the year 2003 and the OL of the unit from the year 2014 respectively. Further, in case of remaining two borrowers (S. No. 2 and 3), share of the Corporation remained unrecovered since November 2006 and March 2017 respectively. Thus, the Corporation could not ensure recovery of its share worth ₹ 1.63 crore despite lapse of a period ranging between two and 16 years from disposal of these borrowing units. It indicated that in these cases, the Corporation did not make adequate efforts to recover its share from the joint finance entities.

The Government accepted the facts and stated that in all the three cases, the concerned joint finance entities (RIICO/IFCI Limited) are being persuaded for remitting the share of the Corporation.

Conclusion and Recommendations

Conclusion

The Corporation was not able to keep pace with the growing demand for industrial loans to MSME sector as the portfolio of the Corporation ranged between 1.19 per cent and 1.27 per cent of the total industrial sector outstanding loans during 2015-18. Besides, the employees cost of the Corporation was higher as compared to other SFCs. The Corporation did not take adequate and timely legal actions for recovery of dues. Deficiencies in sanction of loans by not adhering to the laid down parameters led to grant of loans to ineligible borrowers were noticed. The Corporation did not undertake regular pursuance with the revenue authorities and also failed to identify the properties of the defaulter. Despite continuous defaults and false commitments, frequent opportunities were allowed to the borrowers. Further, the Corporation failed to dispose of the properties taken into possession which resulted in accumulation of dues. In CRE cases, due to litigations and non-disposal of the properties significant dues were accumulated and exceeded beyond MRVs of the properties. Monitoring & inspection at Branch level was deficient as unit visits were not conducted as per the prescribed norms.

Recommendations

We recommend that the Corporation may:

- take immediate steps to enhance its loan portfolio by providing increased financial assistance to MSME sector.
- Ensure compliance to the laid down rules/procedures for evaluation of securities before grant of loans;
- Closely monitor the Standard Assets to ensure prevention of slippages of accounts into NPAs;
- Ensure compliance to the laid down rules/procedures for monitoring of the NPA cases;
- Take prompt and effective action for recovery of dues as per Rules and should make concerted efforts for tracing the properties in deficit cases; and
- Review the causes of failure of auctions of units in possession and seek means of recovery in CRE cases.

In case, the financial health and operational performance of the Corporation do not improve within a targeted time frame, the State Government may review the purpose of continuing the operations of the Corporation.

Rajasthan State Ganganagar Sugar Mills Limited

5.2 Construction and operational performance of New Integrated Sugar Complex

Introduction

5.2.1 Rajasthan State Ganganagar Sugar Mills Limited (Company) was incorporated (1 July 1956) as a wholly owned Government company with the objective to manufacture sugar from sugarcane and sugar beet and to trade in sugar, sugarcane, sugar beet and molasses; produce and raise sugar cane, sugar beet and other crops; and carry on the business as distillers, manufacturers and dealers in Rectified Spirit, Country Liquor and Indian Made Foreign Liquor (IMFL).

Pursuant to budget declaration of 2007-08 of Government of Rajasthan (GoR), the Company decided (2010) to develop an Integrated Sugar Complex (ISC) consisting of a new sugar factory, a 4.95MW co-generation plant and distillery at Kaminpura, Sriganganagar. The Company acquired (November 2008) 37.70 hectare of land at Kaminpura for setting up of Integrated Sugar Complex. The Company prepared an initial draft project report (DPR) wherein the estimated cost of the project was assessed (September 2010) at ₹ 95 crore which was revised (September 2012) to ₹ 145.35 crore and again revised (August 2014) to ₹ 180 crore. GOR funded the project and has accordingly released (up to March 2016) an amount of ₹ 177.56 crore as equity to the Company. Further, the Company also decided (March 2015) to wind up the old sugar factory and distillery.

The audit was carried out to assess the overall performance of the Company in construction of ISC, its commissioning and operation of new sugar factory, cogeneration plant and distillery during 2016-19 with reference to the objectives envisaged for its development.

Audit findings

5.2.2 The audit findings broadly cover issues relating to setting up of the ISC; operational efficiency of the sugar, co-generation and distillery plant; and compliance with the Environmental Rules and Regulations. A draft paragraph incorporating the audit findings was issued to the State Government and the Management on 11 September 2019 on which reply of the Government was received on 1 November 2019.

Setting up of New Sugar Factory and Distillery

5.2.3 The Company conducted several studies for setting up of new sugar factory and distillery. Further, after a decision taken by the State Government to set up the project in public sector, the Company appointed (October 2010) a Technical Consultant and an Architect Consultant. In the process of deciding the scope of various works as per reports and suggestions of the consultants and considering the fact that the estimates prepared earlier were not realistic, the cost estimates were revised in the DPR 2012.

The major contracts awarded by the Company for setting-up of the new sugar factory and distillery, were as under:

(₹ in crore)

Details of Work orders/contracts	Date of issue of the work order	Amount of work order
Consultancy Work	5 October 2010	0.42
Civil work of construction of Sugar Plant/Distillery	7 February 2013	Estimated cost (actual cost plus 7.5 per cent agency charges) of ₹ 45 crore
Work of installation of 1500 TCD Sugar Plant with Cogeneration Plant	29 July 2013	68.75
Installation of Distillery Plant	19 July 2013	42.85
Operation & Maintenance of Sugar and Cogeneration plant for the period 2016-18	14 November 2016	Season: 0.46 pm Off Season: 0.91 (for entire off season)
Operation & Maintenance of Sugar and Cogeneration plant for the period 2018-20	18 October 2018	Season: 0.71 pm Off Season: 0.24 pm

Time overrun in execution of ISC

5.2.4 The time schedule decided for execution of ISC is tabulated below:

Sl. No.	Work Particulars	Contractor	Date of Award/Memorandum of Understanding (MOU)	Time period allowed	Work completion date/commencement of plant	Delay
1.	Civil work of construction of Sugar Plant/Distillery	State PSU	7 February 2013	24 months	16 January 2016	11 months
2.	Installation of 1500 TCD Sugar Plant with Cogeneration Plant	Contractor A	29 July 2013/ 7 August 2013	14 months	16 January 2016	15 months
				14 months	9 May 2016	19 months
3.	Installation of Distillery Plant	Contractor B	19 July 2013/ 1 August 2013	8 months	24 November 2016	32 months

Note: Delay has been worked out from date of agreement to commencement of operation of Sugar Plant and Distillery as work completion certificates were not made available to audit.

The civil work of new sugar factory, sugar plant, cogeneration plant and distillery were, however, commissioned after delay ranging between 11 and 32 months.

Reasons attributable for delay in completion of the project are given below:

i. Civil work

5.2.5 There was a considerable delay of 12 months in execution of MOU with the State PSU after submission of estimates by it. Further, the site for the civil work and drawings were provided five months after the execution of MOU.

Clause 7 of MOU executed with the State PSU stipulated that the work was to be completed within a period of 24 months after the scope of work is defined by the Company. However, the date on which the scope of work was defined by the Company was not available on record.

The Government stated that the civil and foundation work of any project can be determined only after finalisation of drawings, necessary clearance from the concerned authorities etc. It further stated that the approval of Ministry of Environment and Forest (MOEF) and Rajasthan State Pollution Control Board (RSPCB) for ISC was received in January 2013 and May 2013 respectively and hence the civil work could be commenced in January 2014.

The reply was not acceptable as for implementation of any project all the activities associated with it are required to be undertaken simultaneously, however, the Company could not ensure this. Further, the reply was silent on the issue of date on which the scope of work of the State PSU was defined.

ii. Sugar Plant and Cogeneration Plant

5.2.6 Due to non-completion of civil works by the State PSU, the Company extended (February 2016) the completion period by five months i.e. up to 8 June 2016, however, Contractor A could not complete many works till date (June 2019) as shown in *Annex-23*.

The Government stated that it had forfeited the security amount of ₹ 3.43 crore of Contractor A due to non-completion of remaining work by June 2019. The reply was not satisfactory as the performance of the plant was affected adversely due to non-completion of the entire works. Further, the available financial hold was also not sufficient to meet out the loss incurred on account of poor performance of the plant.

iii Distillery Plant

5.2.7 The Company also extended (February 2016) the completion period of distillery plant up to 8 June 2016, however, Bio Methanation Plant and Condensate Polishing Unit worth ₹ 2.25 crore and ₹ 0.45 crore were not stabilized by Contractor B till May 2019.

The Government stated that action has been initiated against Contractor B by recovering the liquidated damage and issue of legal notice (May 2019) for non-completion of work. The reply was not convincing as due to non-completion of Bio Methanation Plant and Condensate Polishing Unit, the Company not only violated the environment norms but was also deprived of from saving of fuel to be used in the boiler of Distillery.

Cost overrun in execution of ISC

5.2.8 The Company prepared an initial DPR wherein the estimated cost of the project was assessed (September 2010) at ₹ 95 crore which was revised (September 2012) to ₹ 145.35 crore and again revised (August 2014) to ₹ 180 crore. Audit noticed that the ISC was commissioned at a total cost of ₹ 208.28 crore which was exceeded by 16 *per cent*. Reasons attributable to increase in cost were incurring higher cost on civil works and cogeneration plant. Deficiencies noticed in execution of the project are discussed in subsequent paragraphs:

Contract for Civil work of the Project

5.2.9 The Company invited bids for (April/May 2011) awarding the work order for civil construction works for integrated Sugar Complex. Four bidders participated in the bid and technical bids of all the bidders were opened on 30

June 2011. Further, the financial bids of three technically qualified bidders were opened on 17 August 2011 wherein the lowest (L₁) bidder quoted ₹ 45.17 crore (41.40 per cent premium on estimated cost of ₹ 31.95 crore as per BSR 2009) which was reduced to ₹ 43.77 crore after negotiation. As per clause 6.3.3.0 of the tender, the rates stated in the schedule of rates were not subject to escalation or increase on any account whatsoever. The rates were found reasonable and hence the sub-committee consisting of four Directors recommended (18 November 2011) to the BoD to accept the offer of the L₁ bidder. However, the BODs decided (24 November 2011) to give counter offer to the L₁ bidder on the estimates as per BSR 2011 plus 2.4 per cent premium which was equal to BSR 2009 plus 25.04 per cent. The bidder did not accept the offer and hence the management decided (January 2012) to cancel the tender and to get the work done through the State PSU at an estimated cost of ₹ 45 crore on actual cost plus 7.50 per cent agency charges basis. Accordingly, after getting the environment clearance from the Ministry of Environment and Forest in January 2013, the Company executed (7 February 2013) an MOU with the State PSU with completion period of 24 months.

Audit noticed that:

- i. The counter offer (2.4 per cent premium on estimated cost as per BSR 2011) apprised to the BoD by the Finance Wing of the Company was incorrect due to consideration of non BSR items.
- ii. The State PSU agreed to execute the work at an estimated cost (actual cost plus 7.5 per cent agency charges) of ₹ 45 crore *i.e.* 40.84 per cent premium on estimated cost of ₹ 31.95 crore as per BSR 2009 whereas the L₁ bidder had agreed to execute the work at 37 per cent premium without any escalation. Further, the State PSU also charged three per cent and one per cent of the cost for contingency and quality control respectively.
- iii. Besides as per tender clause, the L₁ bidder was also required to observe a Defect Liability Period of three years from the date of completion of work, however, as per clause 21 of MOU, the State PSU was liable for removing all defects observed within a period of six months from the date of completion of work at its cost. In addition, the State PSU charged 5 per cent of completion cost to maintain the structure for 5 years.
- iv. The State PSU completed the work at a total cost of ₹ 75.68 crore; excluding the works worth ₹ 13.25 crore envisaged subsequently.

Thus, the Company incurred extra expenditure of ₹ 31.91 crore¹⁸ on civil works due to making the counter offer to L₁ bidder at lower rates without adequate justification. Further due to delay in completion, the cost of the works also increased.

The Government stated that the rates quoted (June 2011) by the L₁ bidder were 37 per cent above the BSR-2009 rates and hence a counter offer of 25.04 per cent above the BSR-2009 was given to the firm which was not accepted by it. Subsequently looking to the necessity of early completion of civil work, the work was done by the State PSU. It further stated that MOU for civil work

18 ₹ 75.68 crore {Actual cost of civil work envisaged in DPR (including agency charges of the State PSU)} – ₹ 43.77 crore (Negotiated Firm Price of L₁ bidder).

was executed with the State PSU wherein the estimated cost of civil work, to be executed as per the consultant's report, was worked out to ₹ 45 crore, however the actual quantity of material could be assessed after approval of drawing and design of machineries, therefore cost of civil work was revised to ₹ 61.55 crore in 2014.

The reply of Government was not acceptable as the counter offer given to L₁ bidder was worked out on incorrect data. Further, the management also did not apply financial prudence before awarding the work to the State PSU as the work was awarded on cost plus premium basis which was higher by ₹ 5.05 crore as compared to counter offer given to L₁ bidder on estimated cost of ₹ 31.95 crore as per BSR 2009.

Contract for installation of sugar plant and cogeneration plant

5.2.10 The Company invited (April 2011) bids for installation of 1500 TCD Sugar Plant with cogeneration plant of 4.95 MW, however, no bids were received. Hence on the advice of the Technical Consultant, bids were re-invited in August 2011, however, the same was scrapped (May 2012). Thereafter, the Company revised the DPR and accordingly invited (27 February 2013) bids for installation of 1500 TCD Sugar Plant expandable up to 2500 TCD with cogeneration plant. This tender was also scrapped as the rates (₹ 78.17 crore subsequently reduced to ₹ 73.30 crore during negotiation) quoted by L₁ bidder were higher than internal estimates (₹ 56.60 crore) prepared by the Company. In the next tender, the financial bids of four bidders were opened (12 July 2013) wherein the price quoted (₹ 74.01 crore) by Contractor A was the lowest. After negotiation, Contractor A reduced its price to ₹ 68.75 crore which was agreed to by the Company and accordingly a letter of intent was issued (29 July 2013) to Contractor A.

Audit noticed that before awarding the work, an Apex Committee¹⁹ was constituted to assess the performance of an earlier Sugar Factory installed by Contractor A. The committee visited (May 2011) the Sugar Factory located in Rohtak, Haryana. The Committee reported that the performance of the sugar factory was totally unsatisfactory and it was utter failure during trial and full run. However, the findings of the Apex Committee were ignored during technical evaluation of the bids. Further, the adverse findings were never apprised to the Board of Directors before awarding the work in favour of Contractor A.

Thus, due to awarding the work to a technically unqualified and inexperienced firm despite being aware of its poor performance in other projects led to inefficiencies in installation of machinery/equipment of sugar plant by the firm as discussed in subsequent paragraphs **5.2.11 to 5.2.17**.

The Government while accepting the fact of adverse opinion of the committee stated that the work of new sugar plant was awarded on turn-key basis and hence taking offer from other suppliers at minimum price after opening of price bids, as suggested by the committee, was against laid down rules and Transparency Act. Further, the work was awarded to Contractor A as there was no recommendation of the Committee that it was a black listed firm or was prohibited from participation in the tender. The cost of plant and

19 General Manager (HO), Financial Advisor, General Manager (Sriganganagar) and Chief Project Officer.

machinery increased because of change in the scope of work in the tenders invited in 2011 and 2013. The reply was not acceptable as the Company not only ignored the recommendation of the Committee but awarded the work to a firm whose performance at other plant was totally unsatisfactory.

Execution of the project

Installation of Sugar Plant with Cogeneration Plant

5.2.11 Audit scrutiny of records related to installation of sugar plant with co-generation plant disclosed that Contractor A did not install certain parts of the plant and machinery according to the stipulated make and configuration decided in the contract agreement:

- Self-manufactured Centrifugal Machines was installed instead of NHEC/WIL/ Thyssen krupp Ind./Port/FCB-KCP/uttam batch type.
- VFD Panel (ABB/Crompton/L&T make) was installed instead of Siemens, Eurotherm, Schneider, Emersion make.
- Certain other parts of machinery installed such as S.S. Condenser, Boiler safety valve, Butter Fly Valve were not of the manufacturers stipulated in the contract agreement.

Audit observed that the Management allowed the changes in the make/configuration of the machinery without approval of the competent authority *i.e.* the BoD of the Company. Audit also observed that Contractor A was required to supply the bought-out items as per suppliers list approved by the technical consultant and attached with the agreement. However, Contractor A added its name in initials as manufacturer/supplier in the list and supplied various items²⁰ manufactured by it.

The Government stated that the work of Sugar Plant was awarded on turnkey basis and the centrifugal machine/clarifier/Vacuum Filter of Contractor A were included in the list of critical equipment by National Cooperative Development Corporation (NCDC), hence, the approval of BoDs was not required. However, it accepted the fact that the boiler safety value and butter fly valve were not supplied as per the tender. The reply is not acceptable in view of the fact that the items were not installed/supplied as per make/type specified in the contract agreement.

Operational Performance of New Sugar Plant

5.2.12 The Company commenced (January 2016) operation of new sugar plant during cane crushing season 2015-16 despite it not being completely ready for operation and even its trial run was not done. The performance of the sugar plant was not found satisfactory during crushing seasons 2015-18 as discussed below:

20 C/F machine, V. filter, clarifier, cane unloader, Feeder table, cane carrier EOT and Hot cranes, PRDS *etc.*

Excessive break downs

5.2.13 The Company did not prescribe norms for break down for loss of hours in proportion to actual crushing hours in DPR. However, it prescribed norms of stoppage as maximum two *per cent* in every crushing season while awarding (14 November 2016) the contract for operation and maintenance of the new sugar plant to Contractor C. The details of operation of plant, hours lost due to break-downs are given in the table below:

Table 5.2.1: Available hours for crushing vis-a-vis actual crushing hours

Particulars	2015-16	2016-17	2017-18	2018-19
Total hours available for crushing	2792.60	2808.50	1599.75	2469.35
Actual crushing hours	1994.42	2182.50	1275.05	2068.40
Hours lost	798.18	626.00	324.70	400.95
% of total hours lost of total crushing hours	28.58	22.29	20.30	16.23
Excess hours lost than norms (%)	26.58	20.29	18.30	14.23

It could be seen that the hours lost due to break-down were much higher than the prescribed norms. Audit observed that the main reasons for stoppage of sugar plant were nuisance tripping in power house breaker, breakdown of MBC (Main Bagasse Carrier) and trouble in RBC (Return Bagasse Carrier). Audit further observed that there were frequent instances of turbine tripping, however, the same was not resolved by Contractor A till April 2019.

The Government accepted the facts and stated that in 2015-16 season, excessive break down was due to commissioning and trial session and also the performance trial was not completed by Contractor A as per the contract agreement for which deductions have been made from the running bills. It further stated that recoveries were made from O&M contractor (Contractor C) for excessive break down than norms during the season 2016-19. The reply was not convincing as the penalty²¹ imposed for non-achievement of performance parameter (Stoppage) during a season was insignificant against the loss incurred due to excessive break downs. The Company did not analyse the reasons of excessive breakdowns and also did not rationalise the penalty with the loss in operational performance.

Excess consumption of bagasse

5.2.14 DPR of Sugar Plant and Co-generation Plant envisaged bagasse generation and consumption at 19.60 Ton per Hour (TPH) and 13.06 TPH respectively. Thus, there would be a saving of 6.54 Ton per Hour (TPH) of bagasse which was equal to 9.41 *per cent* of cane crushed during the season. The details of year-wise operation of plant, cane crushed, bagasse generated, bagasse utilised as fuel, bagasse purchased from open market are given in the table below:

21 ₹ 2 lakh per season during 2016-18 and ₹ 4 lakh to ₹ 6 lakh per season during 2018-19.

Table 5.2.2: Consumption of bagasse during 2015-16 to 2018-19

Year	Cane crushed	Estimated savings	Bagasse generated	Purchase bagasse consumed	Total bagasse consumed	<i>(Quantity in quintal)</i>	
						Consumption as per norms	Excess consumption
2015-16	888864	83642.10	312556	60698	373254	260471	112783
2016-17	1189328	111915.76	383913	58823	442736	285035	157701
2017-18	773505	72786.82	245222	67148	312370	166522	145848
2018-19	1161153	109264.00	362140	58821	420961	270133	150828

Source: Final manufacturing report for the season shown in Form RT-8C, DPR and purchase detail of bagasse.

It could be seen that the performance of the plant was extremely poor. As against savings of 9.41 per cent of cane crushed as envisaged in DPR, not only the total bagasse generated through cane crushed was consumed but the Company had to procure 245490 quintal of bagasse from market during the last four seasons ending on 10th April 2019. Audit observed that the consumption of bagasse was in excess of the norms envisaged in DPR in all the four cane crushing seasons. The excess consumption of bagasse was mainly attributable to non-completion of insulation work by Contractor A due to which heat radiation loss from various equipment was more than normal; improper working of hydraulic pressure in mill resulting in excess moisture content (which ranged between 50.16 per cent and 51.92 per cent as against norms ≤ 50 per cent) and higher consumption of steam in boiler and frequently tripping in turbine.

Audit further observed that due to poor performance of the plant, the Company had to bear extra expenditure of ₹ 8.40 crore²² on procurement of bagasse.

The Government accepted the facts and stated that remedial action has been initiated to reduce the consumption of bagasse by instrumentation setting in governor of the turbine to overcome the problem of nuisance tripping and by completing the insulation work which was not done by Contractor A. The fact remained that the performance of the plant remained unsatisfactory due to incomplete work which led to excess consumption of bagasse.

Recovery of Sugar from Sugar Cane

5.2.15 DPR of Sugar Plant and Co-generation Plant envisaged (estimated) recovery of 9.50 per cent of sugar from cane during the next five years. The details of cane crushed and recovery of sugar in previous four season *i.e.* up to 10 April 2019 as follows:

Table 5.2.3: Recovery of Sugar from Sugar Cane

Particulars	2015-16	2016-17	2017-18	2018-19
Total Cane crushed (quintals)	888864	1189328	773505	1161153
Actual recovery of Sugar from Sugarcane (in %)	5.88%	8.55%	9.02%	9.18%
Actual recovery of sugar (quintal)	52265.20	101687.54	69770.15	106593.85
Sugar loss % cane (as per DPR)	1.85	1.85	1.85	1.85
Sugar loss of cane in quintal (as per DPR)	16443.98	22002.57	14309.84	21481.33
Actual sugar loss (%)	3.63	2.58	2.23	2.20
Actual sugar loss (quintal)	32265.76	30684.66	17249.16	25545.37

22 Purchase quantity consumed *Average issue rate per quintal during the season {2015-16 (60698* ₹ 377.16), 2016-17 (58823*₹ 342.94), 2017-18 (67148*₹ 330.209) and 2018-19 (58821* 319.45)}.

Excess loss (in quintals)	15821.78	8682.09	2939.32	4064.04
Rate of Sugar per quintal/₹ (as on 31 st March)	3147.12	3541.36	2973.95	2956.91
Loss due to short recovery of Sugar (₹ in lakh)	497.93	307.46	87.41	120.17

Source: Final manufacturing report for the season shown in Form RT-8C, DPR and information provided by the Company.

It could be seen that the recovery of the sugar was less than the norms and the percentage of sugar loss was more than the norms. Audit observed that due to production loss in excess of the norms, the Company sustained a loss of ₹ 10.13 crore during 2015-16 to 2018-19.

Audit also observed that the Company awarded (18 October 2018) the contract of operation and maintenance (O&M) of sugar factory for the year 2018-19 to Contractor D. Contractor D after reviewing the short comings suggested for improving the operational efficiency of the sugar plant at an estimated expenditure of ₹ 4.19 crore. However, no decision was taken by the management till June 2019.

Thus, the overall performance of the sugar factory during all the four crushing seasons was not satisfactory.

The Government accepted the facts and stated that Contractor A had not completed the works as per performance trial agreement and hence the sugar recovery was affected adversely due to more breakdowns than prescribed norms during 2015-19 season. However, recoveries were done from the O&M contractors (Contractor C and D) for low recovery of sugar as per agreements. The fact remained that the sugar loss was more than the norms in all the four seasons due to poor performance of sugar plant. Besides, the contention of Government that recoveries were done from the O&M contractors was not convincing as the recovery effected was minimal as compared to loss of sugar.

Performance of bagasse-based Cogeneration Plant

5.2.16 DPR envisaged that 4.95 MW (4950 KW) bagasse-based cogeneration plant would be operated through the steam generated from boiler. Further after meeting its requirement of 2100 KWH power (subsequently revised to 2800 KWH) during cane crushing season and 700 KWH during off-season, the remaining power would be fed into the grid. Accordingly, Power Purchase Agreements were executed (30 December 2015) with the three DISCOMs²³. The cogeneration plant was commissioned on 9th May 2016.

Audit noticed that the turbine was operated for 2167 hours up to 8 May 2016 from the date of commencement of operation of the sugar plant i.e. 16 January 2016. However due to non-connectivity with the grid, the Company could not export the electricity to DISCOMs during the season 2015-16. The estimated/actual generation and export of electricity generated through Cogeneration plant during 2016-17 to 2018-19 is detailed below:

23 Jodhpur Vidyut Vitran Nigam Limited, Jaipur Vidyut Vitran Nigam Limited and Ajmer Vidyut Vitran Nigam Limited.

Table 5.2.4: Generation and export of electricity from Cogeneration Plant

Year	Actual operation of turbine (in hours)	Estimated generation at installed capacity (in KWH)	Actual generation (in KWH)	Percentage of actual generation	Surplus power to be available for export after captive use (2800 KWH) as per DPR (in KWH)	Power exported (in KWH)	Shortfall in power exported (in KWH)
1	2	3	4	5	6	7	8=6-7
2016-17	2427	12013650	8636100	71.88	5218050	2561951	2656099
2017-18	1413	6994350	5593317	79.97	3037950	2019717	1018233
2018-19	2228	11028600	7741645	70.19	4790200	2490180	2300020

It could be seen that the performance of the cogeneration plant was not satisfactory during crushing season 2016-17 to 2018-19 as actual generation ranged between 71.88 *per cent* and 79.97 *per cent* only. Audit observed that due to non-generation of power at full capacity, there was a shortfall in power exported to DISCOMs during FY 2016-19. Thus, the Company sustained revenue loss of ₹ 3.40 crore²⁴. Audit also observed that the Company failed to operate cogeneration plant during off-season due to non-availability of bagasse.

The Government stated that the shortfall has been worked out considering the home load as 2.1 MW whereas the home load of Sugar Plant was 2.8 MW as various components were not considered at the time of preparation of DPR. The reply is not acceptable as the shortfall was worked out on the basis of operation of plant at full capacity (4950 Kwh per hour) and after considering Company's own consumption of 2800 Kwh per hour.

Utilisation of press mud

5.2.17 Press mud is utilized to provide a nutrient rich, high quality organic matter; when it is applied to the soil as manure results in better sustainable yield. Press mud is soft, spongy, amorphous and dark brown white material containing several nutrients. The spent wash²⁵ obtained from distilleries is utilized with press mud through composting process. Further, ratio of 1:3.5 of compost press mud and spent wash application is optimum for bio-composting.

The details of operation of sugar plant, press mud produced and actual production of bio-compost are given in the table below:

Table 5.2.4: Production of Press Mud and Bio-compost

Season	<i>(Quantity in quintals)</i>		
	Press mud produced	Cumulative production of press mud	Production of bio-compost
2015-16	21401.20	21401.20	-
2016-17	33726.33	55127.53	18000
2017-18	18850.00	73977.53	22400
2018-19	37938.90	111916.43	-

24 2656099 units* ₹ 5.53 per unit (i.e. Fixed charges: ₹ 2.43 per unit and variable charges: ₹ 3.10 per unit), 1018233 units* ₹ 5.685 per unit (including annual escalation of five *per cent* in variable charges) and 2300020 units* ₹ 5.8478 per unit as per tariff determined by Rajasthan Electricity Regulatory Commission.

25 A waste water of distillery industry is of purely plant origin and contains large quantities of soluble organic matter and plant nutrients, but not contains any toxic compounds.

Audit observed that bio-compost could not be produced during crushing season 2015-16 and 2018-19 as the distillery did not operate in 2015-16 whereas it was closed during 2018-19. Thus, the huge quantity of press mud could not be used in production of bio-compost.

The Government stated that the production of bio compost commenced after operation of the distillery and 12000 quintal of bio-compost has been sold. It further stated that tenders have been invited for sale of bio compost produced during 2018-19. The reply was not acceptable as the Company could not consume the entire press mud produced during 2015-16 due to non-availability of spent wash. Further the Distillery was closed during 2018-19 and hence there was no possibility of production of bio compost.

Performance of New Distillery Plant

5.2.18 The Company commissioned a Distillery Plant having capacity of 30 KLPD in the Integrated Sugar Complex along with the sugar mill. The distillery plant was to be operated 330 mandays (140 days and 190 days on molasses mode and grain mode respectively) in a year. The required molasses for operation of the plant was to be produced from the sugar mill whereas for operation of plant on grain mode, the Company procured broken rice from the open market. The plant commenced operation on molasses mode and grain mode with effect from 24 November 2016 and 31 January 2018 respectively. The details of operation of plant are given in the table below:

Table 5.2.5: Operation of New Distillery Plant

Particulars	2016-17		2017-18	
	Molasses mode	Grain mode	Molasses mode	Grain mode
Total available operation hours	2904	-	3360	936
Actually operated hours	1705	-	1848	535
Forced outages	1199	-	1512	401
Percentage of forced outages to total hours available	41%	-	45%	43%
Anticipated production (in lakh Bulk Litre)	23.10	-	23.10	12.29
Actual production (in lakh Bulk Litre)	15.95	-	14.56	3.27
Percentage of actual production to anticipated production	69.05		63.03	26.61

Note: Anticipated production was worked out for the days when the plant was in operation instead of total available hours.

Audit noticed that the plant did not operate during FY 2018-19. The forced outages of plant were significantly higher due to deficiency in the boiler such as tube leakage, chain problem in main biomass carrier, low steam, deck control system problem and mechanical fault in machinery.

The Government while accepting the facts stated that legal notices were issued to Contractor B and also security deposit was deducted for under performance of plant. It further stated that full payment has not been released to earlier O&M contractor for not performing as per norms/agreement and now the O&M contract has been awarded (March 2019) to a new Contractor wherein the production of rectified spirit was found as per contract conditions. The fact remained that the performance of the distillery plant was not satisfactory.

Operational viability of distillery plant

5.2.19 The Company envisaged production of rectified spirit on molasses mode and grain mode through molasses produced in sugar mill and broken rice purchased from open market respectively. The details of production of rectified spirit during 2016-17 and 2017-18 are given below:

Year	Production of Rectified Spirit (in BL)		Production cost of rectified spirit (₹ per BL)		Purchase cost of rectified spirit (₹ per BL)		Loss due to higher cost on production of rectified spirit (₹ in crore)	
	Molasses base	Grain base	Molasses base	Grain base	Molasses base	Grain base	Molasses base	Grain base
1	2		3		4		5 = {(3-4)x2}/10000000	
2016-17	1595000	-	80.61	-	43.82	-	5.87	-
2017-18	1456000	327000	109.25	221.73	41.75	41.75	9.83	5.89
Total	3051002	327000					15.70	5.89

Audit observed that the production on molasses base was considerably low at only 69 per cent and 63 per cent during 2016-17 and 2017-18 respectively. Further, the production of rectified spirit from grain was only 26.61 per cent of envisaged production. Audit further observed that the production of rectified spirit on molasses mode and grain mode was not financially viable as the Company sustained a loss of ₹ 21.58 crore on production of rectified spirit during 2016-18. Further, the plant was not operated during 2018-19 but the Company had to pay license fee of ₹ 25 lakh to the Excise Department for operation of Distillery. Further, the performance of the plant was not satisfactory as several works pertaining to distillation, boiler, turbine, milling, liquefaction and fermentation section were either pending or were not optimally working up to April 2018; still the Company decided to operate the plant. The Company served various notices to Contractor B, however, the work was not completed till May 2019.

The reply of the Government was silent on the issue of higher cost on production of rectified spirit on molasses mode/grain mode during 2016-18. However, it stated that the new Contractor has been operating the Distillery at the conversion cost of ₹ 19.35 (plus GST) per BL during 2019-20. Further License Fees is required to be deposited annually as per rule of Excise Policy. Besides, action is in process to complete the left over works of Distillery at the risk and cost of Contractor B. The reply was not convincing as it mentioned the conversion cost only for the contract awarded recently which did not include the administrative cost and overhead charges.

Environmental issues

5.2.20 Sugar factory and distillery plant significantly impact the local environment. Direct impact of operation of these plants includes:

Air Pollution: use of bagasse as a Sugar mills fuel in boilers, produces particulate matter, oxides of nitrogen, carbon, sulphur and water vapours. The particulate matter, usually referred to as fly ash, consists of ash, unburnt bagasse and carbon particles.

Water pollution: Sugar factory generate about 1,000 litres of wastewater for per tonne of cane crushed, the effluent is mainly floor washing wastewater and condensate water. Similarly, spent wash is generated from distillery.

The MoEF, GoI accorded (January 2013) Environmental Clearance (EC) to the Company for setting up Integrated Sugar Complex including distillery plant. Further, the Rajasthan State Pollution Control Board (RSPCB) issued (18 December 2015) Consent to Operate (CTO) for the Sugar Plant and Distillery Plant. The terms and conditions of EC and CTO *inter-alia* included setting up of the effluent plant for treatment of waste water of sugar factory as well as bio-methanation plant for treatment of spent wash.

Effluent Treatment Plant (Distillery)

5.2.21 The DPR of the Distillery Plant also envisaged installation of an Effluent Treatment Plant (ETP) for spent wash discharged from the distillery during operation on molasses mode. The ETP was divided in to three parts (A) bio-methanation plant (B) bio composting plant (C) condensate polishing unit. The bio-methanation plant was to be installed to reduce the effluent load and to produce methane rich biogas for meeting the auxiliary fuel requirement²⁶ of the distillery plant. The biogas has a high calorific value and is used to produce power in biogas based power plant.

Contractor B constructed (November 2016) the bio-methanation plant, bio-composting plant and condensate polishing unit at a total cost of ₹ 3.40 crore²⁷.

Non-stabilization of Bio-Methanation plant

5.2.22 It was envisaged that the bio-methanation plant would produce the biogas after 15 days of operation of distillery on molasses mode.

Audit observed that the bio-methanation plant did not stabilize till May 2019 and even the trial run of the plant was not conducted. Audit further observed that the treatment of spent wash generated during operation on molasses mode was also not done and thus the possibility of untreated spent wash being drained out cannot be ruled out.

Further, the Company released the entire payment despite the fact that the plant did not stabilize/commence operation. Audit also observed that due to non-operation of the plant, the envisaged production of 136400M³ biogas could not be ensured and therefore the distillery plant was operated on mustered straw only. Thus, the Company had to incur extra cost of fuel amounting to ₹ 0.95 crore during operation of distillery plant on molasses mode in FY 2016-17 and 2017-18.

The Government accepted the facts and stated that action has been initiated against Contractor B by issuing legal notices and by deducting the performance guarantee. The fact remained that in absence of Bio-Methanation Plant, the spent wash produced by the distillery could not be treated and hence the Company could not comply with the environmental norms.

26 Envisaged production of biogas on operation of bio-methanation plant can meet 1/3 of the auxiliary fuel requirement of distillery plant whereas remaining 2/3 fuel requirement was to be met through mustered straw.

27 Bio-Methanation Plant (₹ 2.25 crore), Bio-Composting Plant (₹ 0.70 crore) and Condensate Polishing Unit (₹ 0.45 crore).

Condensate Polishing Unit

5.2.23 According to the scope of the work Contractor B was required to install Condensate Polishing Unit (CPU) and RO plant to remove the organic matter present in the effluent and to ensure availability of water for non potable usages. The CPU and RO plant were to be commissioned at a cost of ₹ 45 lakh and ₹ 48.40 lakh respectively. Contractor B constructed the plants and accordingly the Company released the cost of the plants (except ₹ one lakh for CPU).

Audit, however, observed that both these plants were not stabilized till date (May 2019); several works of CPU were still pending due to which the Company could not achieve the prerequisite environmental norms for operation of distillery.

Thus as the bio-methanation plant and CPU had not stabilized, the Company violated the environmental norms as the spent wash generated could not be treated.

The Government did not furnish reply to the issue.

Compliance of terms and conditions of 'Consent to Operate'

5.2.24 The terms and conditions of the 'Consent to Operate' issued (December 2015) by RSPCB for Sugar Plant and Distillery Plant provided that the air emission and disposal of domestic sewage and trade effluent shall be done in a manner so as to conform to the standards prescribed under the concerned laws/rules/regulations. Further, the Company shall submit quarterly analysis/ monitoring report of source of emission/ambient air/waste water/ noise from the State Board Laboratory or any laboratory approved/recognised by MoEF, GoI.

During review of records relating to Sugar Plant, Audit noticed that the reports for ambient air (*i.e.* Stack Monitoring Reports) from approved/ recognised laboratory were submitted to RSPCB from January 2019 whereas evidence of submission of reports in respect of maintaining level of noise within applicable norms was not found in the records of the Company.

The monthly waste water analysis reports (for the period upto December 2018) submitted to RSPCB, appeared to have been prepared at the level of the Company itself. There was no evidence that these reports were prepared on the basis of documents from the State Board Laboratory or a laboratory approved/recognised by MoEF, GoI.

In respect of Distillery Plant, the Company did not provide documents related to submission of requisite reports to RSPCB upto 2018-19. During review of records, Audit observed that RSPCB issued (October 2018) a 'Show Cause Notice' as the Company did not submit the compliance report including analysis and monitoring report from the State Board Laboratory or approved/recognised laboratory as prescribed under the Consent to Operate.

The Government stated that RSPCB inspected the Sugar Factory/Distillery and issued consent to operate up to 31 August 2023 and necessary compliance of all instructions given in consent to operate is being ensured. The reply was not satisfactory as the Company did not furnish any document in support of quarterly analysis/ monitoring report of source of emission/ambient air/waste

water/noise from the State Board Laboratory or any laboratory approved/recognised by MoEF, GoI for the period 2016-18.

Financial Management

Financial hold against Contractor A

5.2.25 According to the terms of the contract agreement executed, Contractor A was required to furnish two bank guarantee (BG), each equal to five *per cent* of the contract value (₹ 68.75 crore) towards timely delivery (BG-I) and performance security for satisfactory operation of sugar plant and co-generation plant (BG-II). Contractor A furnished (August 2013) BG-I amounting to ₹ 3.44 crore whereas the Company decided on (May 2013) *prorata* deduction from the bills towards the BG-II according to the tender conditions.

Audit noticed that the Company belatedly decided (December 2018) to invoke BG-I amounting to ₹ 3.44 crore as Contractor A did not complete the works related to Sugar factory and cogeneration plant despite several reminders. Audit observed that though the Company invoked BG-I for non-completion of work but action was not taken for unsatisfactory performance of sugar factory and cogeneration plant as discussed in paragraphs **5.2.12 to 5.2.15**. Further, the performance parameters listed in Annexure-III of the contract agreement *i.e.* to achieve crush rate of 1500TCD/22 hours continuously for 5 days and generation of 4950KW power through power turbine were never achieved. Contractor A belatedly conducted (20 February 2018 to 25 February 2018) the performance trial of the sugar factory and cogeneration plant, however, the same were unsuccessful and hence both the plants have not been declared as successfully commissioned till June 2019. Audit observed that the Company sustained a loss of ₹ 21.93 crore²⁸ due to unsatisfactory performance of the sugar factory and cogeneration plant. However, after invoking the BG-I amounting to ₹ 3.44 crore, the Company had financial hold of ₹ 3.29 crore only (deducted towards 5 *per cent* from the bills towards satisfactory performance BG-II). Although the Company has retained bills amounting to ₹ 2.52 crore yet decision was not taken to effect recovery. Audit also observed that the total financial hold against Contractor A was not sufficient to recoup the loss.

The Government stated that BG-I of Contractor A has been forfeited and directions have been issued to forfeit BG-II as per tender condition. The reply was not satisfactory as the Company did not have sufficient financial hold to recoup the loss.

Non-extension/renewal of Performance Bank Guarantee of Contractor B

5.2.26 According to the terms and conditions of the contract agreement, Contractor B was required to furnish Performance Security (PS) I & II each equal to five *per cent* of the contract price of ₹ 42.85 crore towards satisfactory performance of the plant and machinery of distillery. Contractor B furnished (29 July 2013) PS-I amounting to ₹ 2.14 crore whereas amount of PS-II was to be deducted from the bills on *prorata* basis according to the

28 ₹ 8.40 crore (Paragraph 5.2.14), ₹ 10.13 crore (Paragraph 5.2.15) and ₹ 3.40 crore (Paragraph 5.2.16)

tender conditions. The validity of PS-I was upto 29 January 2016. Further as per terms of the contract, the PS were required to be released after 90 days of satisfactory performance of plant & machinery in all respect for a period of 24 months from successful commissioning.

Contractor B completed the major works up to March 2017 whereas works amounting to ₹ 59.60 lakh were pending till April 2019. The Company paid an amount of ₹ 41.86 crore to Contractor B and deducted ₹ 2.03 crore towards PS-II.

Audit observed that the performance of the distillery installed by Contractor B was unsatisfactory in view of excessive loss of hours due to forced stoppage, low production of rectified spirit, non-stabilization of effluent treatment plant as discussed in paragraphs **5.2.21** and **5.2.22**. Audit further observed that the performance trial of the distillery plant was not yet conducted by Contractor B. Audit further observed that the PS-I furnished by Contractor B expired on 29 January 2016 and it was not revalidated as per terms and condition of the contract agreement. The Company decided to deduct the amount towards PS-I from the running bills of Contractor B. It was, however, observed that deduction was not done from the running bills despite the fact that the bills amounting to ₹ 4.90 crore were passed after January 2016. Audit also observed that Contractor B failed in successful commissioning and performance of the plant and equipment in accordance with the terms and conditions of the contract agreement and hence the entire performance security was required to be forfeited. Further, the Company has also worked out recovery of ₹ 1.10 crore from Contractor B on account of local purchases, electricity charges, advance given, liquidated damages and pending works required to be executed at its risk and cost. However, the Company did not have complete financial hold against Contractor B as PS-I has already expired and thus only ₹ 2.03 crore under PS-II was available with it.

The Government accepted the fact and stated that liquidated damages for delay in completion of work amounting to ₹ 5.96 lakh has been adjusted and an enquiry is being conducted for not deducting the amount from bills as well as for non-renewal of PS-I. Further, legal action is being initiated for non-conducting the performance trial and forfeiture of BG-II. The fact remained that the Company could not affect the recovery due to its lacklustre approach in dealing with these critical issues.

Payment of bills without verification

5.2.27 The Company created (September 2014) a separate cell under the control of Chief Project Officer (CPO) to monitor the overall execution of Integrated Sugar Complex and to ensure specification of the plant and machineries as per tender conditions/scope of work and to verify the bills of the suppliers. Further, the Company also constituted (January 2013 and January 2014) Technical, Financial and Store Committee for technical work, financial work and monitoring of the project respectively.

Our scrutiny of records disclosed that the Company made payment of ₹ 37.28 lakh to Contractor B Limited on account of three invoices²⁹ which were not verified by the Committee constituted for this purpose as well as CPO cell.

29

Invoice Number 14000089 dated 30 December 2013, 14000090 and 14000091 dated 6 January 2014.

Audit also observed that the Company made payment of ₹ 83.79 crore (between February 2013 and September 2018) to the State PSU for the civil works on receipt of utilisation certificate only and detailed bills were not available with the Company. In absence of the bills item wise BSR/non BSR rates charged by the State PSU for the civil work could not be verified by the Company.

The Government while accepting the facts stated that the payment was released after verification of receipt of material by the Store Committee. Further, the Government has also enclosed the list of BSR/Non BSR items as provided by the State PSU. The fact remained that the Company did not ensure the prescribed procedure of payment of bills as it released payment on the basis of utilisation certificate and the list of BSR/Non-BSR items was provided only after the issue was raised by audit.

Avoidable payment for operation and maintenance

5.2.28 The Company awarded (14 November 2016) the work of complete operation and maintenance of sugar factory in favour of Contractor C at the rate of ₹ 45.77 lakh per month during season and ₹ 90.85 lakh for off season (eight months) including applicable taxes for the year 2016-17 and 2017-18. As per the scope of the work, the Company was to depute 210 personnel (118 permanent employees and 62 casual employees) for operation of the sugar factory at its own cost. Further, Contractor C was also required to depute skilled manpower for operation and maintenance.

Audit, however, observed that the Company deployed only 148 personnel and hence, Contractor C demanded reimbursement of the remuneration of 62 personnel which were not deployed by the Company. Audit noticed that the Company and Contractor C mutually agreed for reimbursement of minimum salary of 31 personnel. The Company released (between December 2016 and March 2018) a payment of ₹ 25.80 lakh and ₹ 59.55 lakh³⁰ to Contractor C without verifying the actual deployment of personnel by Contractor C. Thus, the Company made an avoidable payment of ₹ 0.85 crore³¹ to Contractor C.

The Government stated that the payment for 31 personnel was released as per mutually agreed with Contractor C. It further stated that earlier, Contractor C demanded ₹ 20000 per person per month which was negotiated and reduced to ₹ 17330 per person per month. The reply was not convincing as the Company did not verify the actual number of personnel deployed by Contractor C before release of payment.

Non-adherence to RTPP Rules

5.2.29 Rule 73 (2) (b) of the Rajasthan Transparency in Public Procurement (RTPP) Rules 2013 provides for issue of repeat orders for additional quantities up to 50 per cent of the value of the goods or services of original contract. The Company invited (September 2015) bids for supply of 1100 MTs bagasse and after opening of the technical and financial bids placed (November 2015) purchase order (PO) in favour of Supplier A at the rate of ₹ 3770 per MT for the season 2015-16.

30 ₹ 1494806 for 31 workers during season time and ₹ 4460317 for 25 workers during off season.
31 ₹ 25.80 lakh + ₹ 59.55 lakh.

Audit observed that the Company placed (between December 2015 and April 2016) a series of repeat orders on Supplier A for supply of additional quantity of 5050 MT (459 per cent of original ordered quantity) of bagasse in contravention of RTPP Rules. Similarly, during 2016-17, the Company invited (July 2016) bids for supply of 3000 MT of bagasse and placed (December 2016) order in favour of Supplier B for supply of 1000 MT of bagasse initially. Thereafter, the Company placed (between December 2016 and February 2017) repeat orders on Supplier B for supply of additional quantity of 6500 MT of bagasse. Accordingly, the Company procured 100 per cent additional quantity of bagasse over and above the limit prescribed in RTPP Rules.

The Government stated that the provisions of RTPP Rules could not be adhered to in view of urgency during crushing season because inviting of tender would take time and in absence of bagasse, there was possibility of close down of the plant as well as problem of law and order which would turn into more losses. The reply was not acceptable as the Company failed to correctly assess the requirement of bagasse due to which the compliance of RTPP Rules was not ensured in subsequent year also.

Disposal of old Sugar factory and distillery

5.2.30 The Company authorised a Valuer to conduct (June 2016) the valuation of the plant and machinery, non-factory and residential building, store materials and other scrap pertaining to the old sugar factory and distillery. As per the valuation report, the total value of the assets worked out to ₹ 686 lakh (subsequently enhanced to ₹ 700 lakh). The Company invited (August 2017) the bids for sale of sugar factory and distillery plant and machineries and building (excluding land, plantation and residential building) keeping the reserve price at ₹ 535 lakh. Further, after evaluating the technical and financial bids, the Company placed (October 2017) the order for sale of old sugar factory and distillery machinery plant and building in favour of *M/s Agarwal Industrial Corporation Jaipur (Purchaser)* at a value of ₹ 1007.72 lakh including applicable taxes.

Audit noticed that Purchaser also lifted the usable spare parts and other items valuing ₹ 65.24 lakh³² lying in the stores of old sugar factory which were not included in the valuation report. The Company took (September 2018) up the matter with Purchaser to get back these items. Audit observed that Purchaser returned the stores items worth ₹ 14.24 lakh only and stores valuing ₹ 51 lakh were with Purchaser till June 2019. Audit further observed that inadequate monitoring of the work related to disposal of old sugar factory led to this loss. Further the Company had a performance security of ₹ 50.39 lakh from Purchaser, however, it did not forfeit the performance security.

The Government stated that action to fix the responsibility of officer is being initiated separately. The fact remained that the required action to forfeit the performance security was not initiated yet.

32 Engineering items (₹ 51.16 lakh), Consumable (₹ 1.70 lakh), Miscellaneous items (₹ 3.55 lakh) and Firewood (₹ 8.83 lakh).

Ineffective monitoring of the project

5.2.31 The construction of Integrated Sugar Complex and Distillery plant commenced in February 2013. Audit, however, noticed that the management of the Company apprised the BoD about the progress of the works only. The issues related to delay in project completion, deviation in specification/make of equipment of sugar plant; non-stabilization of effluent treatment plant, failure of trial run *etc.* were not placed before the BoD. The management belatedly apprised (June 2016) the BoD about the performance of the sugar and cogeneration plant explaining the facts of low recovery of sugar and molasses production as well as higher consumption of fuel during the season.

In order to carry out qualitative work and timely commissioning of new ISC including Distillery Plant, the Company had set up a separate cell under the overall supervision of Chief Project Manager (CPO). The cell was required to ensure utilisation of material as per specification; entry of material received in gate register; checking thereof during site visit and to prepare and furnish inspection/progress report on weekly basis.

Audit, however, observed that the cell created did not perform its duties as regards to ensuring entries of material supplied by different contractors in the gate register and preparation/submission of weekly progress report.

The Government stated that monitoring of the project was done at the BoD level on the issues pertain to it; by conducting regular meetings; checking of material supplied *etc.* Besides, the quality of machineries, mechanical and civil works were also audited by National Sugar Institute, Kanpur and for overall supervision of installation work of Sugar Factory/Distillery, Chief Engineer Level Officer was also deployed by the Architect Consultant. The reply was not convincing in view of the fact that important key issues related to installation and operation of Sugar Factory/Distillery were not apprised to the BoD timely.

Conclusion and Recommendations

Conclusion

The Integrated Sugar Complex was constructed after significant cost overrun, mainly attributable to increased cost of civil works and engineering contract due to time overruns and execution of certain works not envisaged in the DPR. The operational performance of sugar factory and cogeneration plant was affected due to excessive break downs, excess consumption of bagasse, lesser recovery of sugar from sugarcane, underperformance of cogeneration plant resulting in shortfall in export of power to DISCOMs. The distillery plant has not completely stabilised till March 2020 which led to lesser production and higher cost of rectified spirit produced. The Company did not adhere to prescribed environmental norms as it did not stabilize the effluent treatment plant. There were instances of poor financial management and the Company could not evolve an effective mechanism of monitoring to ensure the operational efficiency.

Recommendations

We recommend that the Company may:

- **take effective steps to enhance the operational efficiency of the sugar factory and co-generation plant;**
- **operationalise the distillery as envisaged after assessing the financial viability;**
- **take steps to comply with the environmental norms; and**
- **strengthen the financial management and internal control mechanism.**

Rajasthan State Road Development & Construction Corporation Limited

5.3 Non-recovery from the contractor

Non-compliance with provisions of the New Toll Policy 2016 while executing the agreement with the Contractor for toll collection on temporary basis and non-initiation of timely action against the defaulting Contractor led to non-recovery of ₹ 6.08 crore.

Rajasthan State Road Development and Construction Corporation Limited (Company) introduced (March 2016) a new Toll Policy (Parameters of Bidding Procedures and Conditions for Collection of Toll Tax) 2016, applicable with effect from 1 April 2016. The Company modified (April 2017) the New Toll Policy which *inter alia* provided that:

- After concurrence of the competent authority, the approved/successful bidder shall deposit advance toll amount (*i.e.* five per cent of the agreed amount) and performance security³³ (*i.e.* 20 per cent of the contract amount) within the specified time (**Clause 6 of Part-A**). Besides, the bidder shall also be required to deposit required number of additional advance cheques towards instalments of remaining amount of toll contract (**Clause 8 of Part-A**).
- In case the successful bidder discontinues the contract during the currency of the contract or the contract is cancelled by the competent authority, the tender approving committee may offer the work to second, third highest bidders respectively at the approved rate and if denied by them at the approved rate then at their own rates if the rates were higher than the reserve price, for a maximum period of three months or till approval of new tender, whichever is earlier. It further provided that the Chairman of the Company, in emergency situation, may award the toll collection contract to any agency at other approved rates for a maximum period of three months or till the approval of new tender, whichever is earlier. (**Clause 1 (A) and (B) of Part-B**)

The Company invited tenders (September 2016) for toll collection work at *Dabok-Mawli-Kapasan-Chittorgarh* Road (SH-9) at reserved rate of ₹ 51.02 crore (*i.e.* ₹ 6.99 lakh per day) for a period of two years (1 November 2016 to 31 October 2018). The Company received four bids against the tender and awarded (October 2016) the work in favour of Contractor A for ₹ 57.40 crore *i.e.* ₹ 7.86 lakh per day, the highest bidder. However, as Contractor A defaulted in depositing the prescribed instalments, the Company cancelled (23 June 2017) the contract by forfeiting its bank guarantee (₹ 8.61 crore) against accumulated dues of ₹ 7.35 crore and debarring it for a period of one year as per provisions of the toll collection agreement. The Company invited (31 May 2017) new tenders to award the toll collection work for the remaining period but the single bid received was rejected (22 June 2017) due to non-deposit of earnest money and tender fee by the bidder with its bid.

Simultaneously, the Company had sought (May 2017) limited offers on per day toll collection basis till award of the new contract. The Company received

³³ Performance security is to be furnished in form of bank guarantee/Fixed Deposit Receipt of a scheduled bank and shall be in the name of procuring entity on account of bidder and discharged by the bidder in advance.

(31 May 2017 to 8 June 2017) offers from five firms³⁴ and decided (20 June 2017 and 21 June 2017) to award the work in favour of the highest (H1 and H2) bidders. But execution of the work was refused by both the bidders. Thereafter, the Company received (22 June 2017) a *suo moto* offer from Contractor B for executing the work at the rate of ₹ 5.35 lakh per day. Considering the single and *suo moto* offer of Contractor B, the Company approved (22 June 2017) to award the work at the offered rate (*plus two per cent* tax) till execution of the new contract and the Unit office, Udaipur executed (23 June 2017) an agreement with Contractor B for the toll collection work. As per the agreement, Contractor B was required to deposit advance cheques for five days and onwards towards instalments of the contract amount payable by it. Besides, in case of default, Contractor B was liable to pay simple interest at the rate of 18 *per cent* per annum. Contractor B commenced (26 June 2017) collection of toll on the road and continued the work for a period of 171 days (upto 13 December 2017) until the Company awarded (13 December 2017) the work on regular basis. Against total recoverable amount of ₹ 9.49 crore³⁵ during the contract period, the Company could recover ₹ 4.08 crore³⁶ upto 28 September 2017 and Contractor B did not make any further payment thereafter. After considering the further recovery of ₹ 0.50 crore (April 2018), the outstanding dues towards Contractor B worked out to ₹ 6.08 crore³⁷ as on 31 March 2019.

Audit observed that the Company ignored the provisions of New Toll Policy as it neither exercised the option of awarding the work to the other three bidders who participated in the original tender and offered rates³⁸ higher than the reserve price of the original tender nor included the essential provisions *viz.* period of contract and conditions of depositing initial advance amount and performance security in the agreement executed with Contractor B. Further, the work was awarded to Contractor B on the basis of single and *suo moto* offered rate (₹ 5.35 lakh per day) which was far less than the rate of Contractor A (₹ 7.86 lakh per day) and the other three bidders, however, no reasons in this regard were found on record. This indicated that the Company awarded the work without assessing the reasonability of rate and without adopting a transparent procedure as prescribed under the Rajasthan Transparency in Public Procurement Act 2012. The Company also handed over the toll point to Contractor B without completing for requisite formalities.

Despite default/delay/discontinuation in payment of the due instalments, the Company did not take requisite action to recover the outstanding dues and instead allowed Contractor B to continue the toll collection work beyond the maximum period prescribed. Besides, the Company belatedly initiated the legal action against Contractor B by lodging the First Information Report (FIR) in June 2018 and filing the civil suit in September 2018. However, no further recovery could be done in this case till October 2019.

34 Firm-1 (₹ 5.80 lakh per day), Firm-2 (₹ 5.75 lakh per day), Firm-3 and 4 (₹ 5.25 lakh per day) and Firm-5 (₹ 4.50 lakh per day).

35 ₹ 9.33 crore *i.e.* ₹ 5.35 lakh per day*102 per cent*171 days (*i.e.* from 26 June 2017 to 13 December 2017) + ₹ 0.16 crore (penal interest upto 13 December 2017).

36 This includes ₹ 1.47 crore forfeited in August 2017 which pertained to the earnest money deposited by the Contractor towards another contract with the Company.

37 Outstanding toll collection amount of ₹ 4.75 crore (*i.e.* ₹ 5.25 crore - ₹ 0.50 crore) + interest on outstanding dues amounting to ₹ 1.33 crore.

38 ₹ 7.21 lakh per day to ₹ 7.67 lakh per day.

The Company accepted (July 2019) the facts and stated that it awarded the contract on *suo moto* rate offered by Contractor B due to urgency of taking over the toll plaza from Contractor A. Further, performance security was not taken from Contractor B as the contract was temporary and period of contract was not ascertained. The Company has filed a court case and an FIR for recovery of dues and the matter is under progress.

The fact remained that the contract was awarded without complying with the laid down rules/regulations and without assessing the reasonability of rates. Further, the agreement was executed without safeguarding financial interest of the Company which resulted in non-recovery of outstanding dues worth ₹ 6.08 crore.

Rajasthan State Mines and Minerals Limited

5.4 Unauthorised limitation in penalty clause led to short recovery

Insertion of self-defeating unauthorised clause limiting the penalty upto 25 per cent of the project cost for non/short performance led to non-recovery of penalty worth ₹ 11.48 crore.

Rajasthan State Mines and Minerals Limited (Company) invited (February 2003) tenders for installation and operation and maintenance (O&M) for a period of 20 years of Wind Power Project (WPP) of five megawatt (Phase-III) at Jaisalmer. As per the tender document, the bidders were required to quote '*Net Minimum Guaranteed Generation*'³⁹ (NMGG) and for shortfall from NMGG, a levy was to be recovered at the prescribed rates. During the pre-bid meeting held on 26 February 2003, the intended bidders requested for withdrawal of the condition of NMGG. Indian Wind Turbine Manufacturer's Association (IWTMA) also requested (13 March 2003) that the condition of NMGG be relaxed by accepting '*Power Curve based Guaranteed Generation*' (PCGG) in place of NMGG. However, the Company did not accept the request for relaxing the tender conditions relating to NMGG. Subsequently, the Board of Directors (BoD) of the Company also did not agree (June 2003) to relax the tender conditions.

The techno-commercial bids of one Central PSU and one Contractor were opened (22 August 2003) by the Committee and thereafter, a discussion was held (26 September 2003) with the bidders before opening the price bids for withdrawal of the deviations in their bids. The Contractor accepted to provide NMGG for the first 10 years only and submitted revised addendum on the deviation schedule along with revised price bid whereas the Central PSU expressed (6 October 2003) its unwillingness to withdraw any deviation. Later the Contractor agreed (16 October 2003) to provide NMGG upto 15 years from commissioning of the project. The Project Wing briefed (17 October 2003) the final outcome of the case before the competent authority of the Company which *inter alia* included the facts that (i) the Contractor agreed to provide NMGG for 15 years as per the stipulations of the tender and to guarantee minimum machine availability of 95 per cent and compatibility of

³⁹ Minimum number of units (KWH) generated and fed to the grid from the windfarm after deducting the power drawn from the grid for internal use of windfarm including power drawl for WEGs, if any.

power curve as per standards of International Energy Agency for next five years *i.e.* 16th to 20th year and (ii) the Contractor had quoted NMGG of 90 lakh units per annum for first 10 years and 75 lakh units per annum for next five years and sought permission to open the price bids which were endorsed/ approved by the Committee. Accordingly, after approval of the competent authority the price bids were opened (22 October 2003) and the detailed letter of intent (DLOI) was issued (February 2004) in favour of the Contractor for ₹ 22.25 crore⁴⁰. The WPP (Phase-III) was commissioned in March 2004 and therefore the NMGG clause remained effective for a period of 15 years *i.e.* from 2004-05 to 2018-19.

Audit noticed that in a totally unexplainable move, a provision was included under the NMGG clause of the DLOI by limiting the maximum penalty of shortfall upto 25 *per cent* of the total project cost *i.e.* ₹ 5.56 crore instead of value of actual shortfall. The Contractor could not conform to the minimum guaranteed generation during 2004-05 to 2018-19 and the overall shortfall from NMGG during 2004-19 was 31 *per cent* (394.41 lakh units⁴¹) of the total NMGG (1275 lakh units). During initial two blocks, the Company recovered penalty of ₹ 3.75 crore⁴² for the actual shortfall. During the third block (2010-14), the Company charged penalty of ₹ 1.81 crore only whereas the penalty for actual shortfall during this block worked out to ₹ 6.36 crore⁴³. Further, the Company did not charge any penalty during the fourth block (2014-19) which was worked out to ₹ 6.93 crore⁴⁴.

Audit observed that the provision allowing limitation on penalty was self-defeating and completely unauthorized as it was not disclosed/highlighted before the competent authority while briefing the status of the tendering process and obtaining his approval. Further, due to limitation on the amount of penalty to be imposed, the clause related to NMGG lost its relevance in the middle of the overall guaranteed generation period (2004-19) as maximum limit of penalty to be imposed had exceeded during 2011-12 itself.

The Government in reply stated (October 2019) that the matter related to limitation of compensation was initially mentioned (17 October 2003) by the Project Wing. Further, the Committee also clearly mentioned (24 October 2003) this fact while obtaining approval for holding negotiations with the lowest bidder (the Contractor) which was approved by the competent authority. As the price negotiation with the Contractor was approved by the Management and the price offer of the Contractor was given with the condition of limiting penalty upto 25 *per cent*, the clause cannot be termed as unauthorised because a series of discussion was held before final approval (November 2003) of the competent authority for issue of DLOI.

The reply was not acceptable as the competent authority approved only the final outcome of the case wherein the fact of capping the penalty upto 25 *per cent* of the project cost was not disclosed and allowed only for holding price negotiations with the Contractor. Thus, neither the Committee sought approval

40 This excludes value of O&M charges payable at the rate ranged between ₹ 0.22 and ₹ 0.93 per unit.

41 The shortfall from NMGG during the four blocks *i.e.* 2004-07, 2007-10, 2010-14 and 2014-19 stood at 51.88 lakh, 40.88 lakh, 128.44 lakh and 173.21 lakh units respectively.

42 ₹ 2.12 crore (@ ₹ 4.08 per unit) and ₹ 1.63 crore (@ ₹ four per unit) for I and II block respectively.

43 128.44 lakh units * ₹ 4.95 per unit

44 173.21 lakh units * ₹ four per unit

for limiting the penalty nor such approval was granted and thus insertion of this provision was unauthorised. The reply was silent on the issue that due to insertion of self-defeating provision, the NMGG clause became ineffective during the eighth year itself. Thus, due to insertion of this unjustified provision the Company suffered extensive loss of ₹ 11.48 crore by allowing relaxation in the applicable penalty.

5.5 Avoidable financial burden due to payment of higher diesel cost to contractors

The Company had to bear avoidable additional burden of ₹ 22.19 crore on higher diesel cost due to discontinuing the practice of supplying diesel to the contractors without conducting necessary cost benefit analysis.

Rajasthan State Mines and Minerals Limited (Company) got (March 1999) the mining lease of *Jhamarkotra* Rock Phosphate (JRP) mine, Udaipur for a period of 30 years. As per practice in vogue, the Company awarded excavation contracts with the condition that diesel would be provided on actual consumption basis for all items of awarded work free of cost upto the prescribed ceiling under consumption norms. The contracts also provided that service tax on free supply of diesel is not applicable. However, liability of service tax on free supply of diesel, if applicable, would be borne by the Company.

Later, the Management Committee of the Company discussed (January 2012) the issue of applicability of service tax on free supply of diesel provided to the contractors and decided to discontinue the free supply of diesel in all prospective contracts without conducting a thorough cost benefit analysis.

After discontinuing the practice of providing free diesel, the Company awarded (December 2012) the contract of excavating rock phosphate from JRP mine to Contractor A for a period of three years. After completion of this contract, the Company further awarded (May, July and November 2016) three contracts⁴⁵ for excavating rock phosphate from this mine for a period ranging between three and five years. The base rate of diesel for the initial contract (awarded to Contractor A) was fixed at ₹ 49.01 per litre whereas base rate of diesel for the subsequent three contracts were fixed at ₹ 51.40 per litre, ₹ 51.07 per litre and ₹ 56.52 per litre respectively to be procured by the contractors. As per the '*Diesel Clause*' included in these four contracts, the base rate of diesel of Indian Oil Corporation Limited (IOCL) ex-Udaipur was the base price of diesel and escalation/de-escalation in diesel price was to be considered on the basis of difference in base rate (P₀) and prevailing rate (P₁) of diesel of IOCL for the quantity of diesel consumed.

Audit noticed that under these contracts the contractors consumed 324.74 lakh litre of diesel during December 2012 to March 2019. The Company reimbursed cost of diesel ranging between ₹ 47 per litre and ₹ 78.54 per litre (excluding service tax). Besides, the Company also paid service tax on the cost of diesel reimbursed by it as per rates applicable from time to time.

⁴⁵ First contract for C, D and E blocks and Second contract for F and G blocks to Contractor B and third contract for A Extension, A and B blocks to Contractor C.

Meanwhile, the Company had entered into rate contracts with the oil marketing companies (OMCs) for procuring High Speed Diesel (HSD) for own consumption during 2012-19 and it received discount on bulk supply of HSD as well as benefit of concessional tax on production of 'C' form under Central Sales Tax. Audit noticed that landed cost⁴⁶ of the diesel directly procured by the Company from OMCs during this period ranged between ₹ 38.88 per litre and ₹ 76.17 per litre.

Audit observed that the Company did not assess the financial impact of its revised policy that provided for arranging of diesel by the contractor. This led to avoidable extra expenditure on account of diesel (excluding service tax) amounting to ₹ 5.94 crore for the contract awarded to Contractor A and ₹ 13.45 crore for the contracts awarded to Contractor B and Contractor C as detailed in *Annex-24*. Besides, the Company had also reimbursed service tax on the cost of diesel to contractors at the rates applicable from time to time after adoption of revised policy. Therefore, besides incurring higher cost for the diesel consumed in these excavation contracts during 2012-19, the Company further paid additional service tax of ₹ 2.80 crore on this excess cost of diesel also.

The Government accepted (November 2019) the facts and stated that after mining activities were brought under the ambit of service tax for which input credit was not admissible, the Company commenced practice of supplying diesel free of cost so as to reduce liability of service tax. Later, due to demands of service tax on free supply of diesel and uncertainty on its chargeability, the policy was discontinued after due deliberations and considering its financial implications as such the liability of service tax would have been much higher.

The reply was not acceptable as the Company discontinued the practice of supplying diesel to the contractors without conducting a thorough cost benefit analysis. It ignored the fact that even after excluding the impact of service tax, diesel procured by Company and supplied to contractors was cheaper due to discounts allowed by OMCs and benefits of concessional sales tax as compared to diesel procured by contractors at retail price. Further, after adopting the revised policy, the Company had paid full service tax on the entire quantity of diesel consumed by the contractors during 2012-19. Thus, the decision was not backed with due diligence and financial prudence and resulted in avoidable additional burden of ₹ 22.19 crore on production of Rock Phosphate.

46 Landed cost stands for landed cost worked out by the Company {(i.e. Basic Price + Excise and Additional Excise Duty + Freight, Insurance and other delivery charges + State specific charges + other levies – discount) + Central Sale Tax} + Entry Tax (applicable upto June 2017).

Rajasthan State Industrial Development and Investment Corporation Limited

5.6 Undue advantage to allottee firm

The Company violated the guidelines of Government of India and directions of Board of Directors and thus, not only enhanced the ceiling for non-industrial/ commercial use in industrial park (Neemrana) but also extended undue advantage of ₹ 3.55 crore to the allottee by recovering conversion charges at pre-revised rate.

Rule 20-C of RIICO Disposal of Land Rules 1979 (Land Rules) *inter alia* provided *Change in Land Use (CLU)* from industrial to commercial up to 15 *per cent* of the total scheme area on recovery of conversion charges at two times of the prevailing rate of allotment of the industrial area concerned. Further, in case the plot is located in industrial areas notified under Industrial Park Scheme (IPS) 2002 of the Government of India (GOI) for availing income tax exemption under Section 80 IA of Income Tax Act 1961, the same shall be considered to be within the permissible limits prescribed by the GOI.

Audit scrutiny revealed that the Government of India (GoI) notified (April 2006 and December 2006) Industrial Area Neemrana Phase-I as industrial park under IPS 2002. Audit noticed that the Company permitted (July 2013) transfer of lease hold rights of an industrial plot⁴⁷ in favour of the allottee firm. The allottee firm sought (September 2013) permission for CLU from industrial to commercial which was belatedly declined (April 2015) by the CLU Committee as percentage of non-industrial use in the concerned industrial area had already exceeded the limit of 15 *per cent*. Subsequently, in response to a representation from the allottee firm, the matter was placed (August 2015) before the Infrastructure Development Committee (IDC) of the Company which rejected the proposal on the same grounds. Thereafter, the allottee firm filed (January 2016) a writ petition with the Rajasthan High Court, Jaipur. As per directions (January 2017) of the Court, the competent authority of the Company reviewed (April 2017) the case but rejected the request on the grounds that it was not possible under the prevailing policy of the Company.

Further scrutiny of records disclosed that the Board of Directors (BoD) was not in favour of raising the ceiling of non-industrial use from 15 *per cent* to 20 *per cent*, as proposed (March 2018) by the management, because there was considerable variation in the percentage of non-industrial use in saturated industrial areas. However, it authorised the Chairman and Managing Director (CMD) to raise the ceiling upto 20 *per cent* for such saturated industrial areas (except those notified under IPS 2002) in which non-industrial use has crossed 13 *per cent* of the total scheme area, on case to case basis.

After aforementioned decision (March 2018), Industrial Area Neemrana Phase-I was re-planned (May 2018) and ceiling of non-industrial use in this industrial area (including 13 other industrial areas) was enhanced to 20 *per cent* of total scheme area with the approval of the competent authority. The Unit Office, Neemrana informed (May 2018) the allottee firm regarding enhancement of ceiling in the area and sought fresh request for CLU along

47 No. SP2-6(C) admeasuring 10028.15 square metre.

with an undertaking to withdraw the writ petition on consideration of request as per laid down rules. The matter was placed (July 2018) before the Land Plan Committee authorised for consideration of CLU in such cases wherein the Committee accorded *in-principle* approval for CLU of the plot from industrial to commercial. The Unit Office, Neemrana communicated (August 2018) the decision of grant of *in-principle* approval for CLU of the plot owned by allottee firm and demanded ₹ 7.10 crore⁴⁸ towards conversion charges. The allottee firm deposited ₹ 6.02 crore (including ₹ 3.70 crore deposited on 10 August 2018) on account of conversion charges upto December 2018.

Audit observed that the Company did not adhere to the terms and conditions prescribed in the approval granted by GoI for this industrial park as it exceeded (7.13 *per cent* of total scheme area) the earmarked percentage (3.11 *per cent*) for commercial use without mandatory approval of the GoI. Further, the Company indulged in unnecessary litigation by accepting the CLU application from the allottee firm ignoring the already exceeded limit of commercial use in the area and further delaying its disposal for almost two years (July 2013 to April 2015). It was also observed that enhancement of ceiling of non-industrial use for the area being an industrial park notified under IPS 2002, was also in contravention of the decision of the BoD.

Besides, the Company *suo moto* granted (July/August 2018) '*in principle* permission' for CLU of the plot in favour of the allottee firm without ensuring withdrawal of the writ petition filed by it. Audit further observed that allotment rate for this industrial area was revised from ₹ 3000 per square metre to ₹ 4500 per square metre with the approval (23 July 2018) of the concerned competent committee⁴⁹. However, office order effecting the revision of rates was issued belatedly on 24 August 2018. The Unit Head, Neemrana participated in the meeting held (July 2018) for revision in allotment rate and thus, he was well aware of revision in allotment rate of the area. Despite this, the Unit Office raised (8 August 2018) demand for conversion charges on pre-revised rate which led to extension of undue advantage of ₹ 3.55 crore⁵⁰ to the allottee firm.

The Government stated (December 2018) that the Company had availed benefit of income tax exemption for this industrial park from 2006-16 and ceiling of non-industrial use in this industrial area was enhanced considering it as normal industrial area. It further stated that in view of the audit observation, a demand has been raised (December 2018) on the allottee firm for depositing the differential amount of conversion charges. Subsequently, the Company stated (July 2019) that the permission of CLU has been withdrawn (January 2019) due to non-deposit of the dues and the allottee firm had filed a civil suit against the Company which is pending (July 2019).

The Government in subsequent reply stated (October 2019) that there was no requirement of seeking approval from the GoI as commercial use was allowed upto 10 *per cent* of the total allocable area under the IPS 2002. Further, issue

48 Conversion Charges = ₹ 6000 per sqm (i.e. Two times of prevailing rate of allotment of ₹ 3000 per sqm)* 10028.50 square meter (i.e. area of the plot)* 118 *per cent* (i.e. including Goods and Service Tax at the rate of 18 *per cent*) = ₹ 7.10 crore.

49 Consisted of Managing Director, Chief General Manager (GM) and Additional GM (BP), Financial Advisor, Advisor (Infra) and Unit Head.

50 Difference of Conversion Charges = ₹ 3000 per sqm* 10028.50 square meter* 118 *per cent* = ₹ 3.55 crore.

of office order was delayed as the competent authority had given certain directions to the Business Promotion (BP) Cell regarding prevailing allotment rates in Japanese industrial areas of other states and the demand as well as recovery of conversion charges was done by the Unit office as per the rate prevailing at that time.


The subsequent reply of the Government was in contradiction of its earlier reply and was not acceptable. The limit (10 *per cent*) prescribed in IPS 2002 was the maximum limit and the Company could exceed the earmarked percentage (3.11 *per cent*) for commercial use only after obtaining approval of the GoI. Similarly, the Company did not adhere to the directions of the BoD. Further, recovery of conversion charges at pre-revised rates was in violation of its own policy of January 1991 which had led to unnecessary litigation. Thus, the Company did not deal with the case prudently and extended undue advantage of ₹ 3.55 crore to the allottee firm.

JAIPUR
The
28 July, 2020



(ATOORVA SINHA)
Accountant General
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NEW DELHI
The
29 July, 2020

(RAJIV MEHRISHI)
Comptroller and Auditor General of India

