CHAPTER I: MINISTRY OF CHEMICALS AND FERTILIZERS

Rashtriya Chemicals and Fertilizers Limited

1.1 Non-compliance of DPE Guidelines on payment of Performance Related Pay

As per DPE guidelines, profits from core business activities of the CPSEs only were to be considered for distribution of PRP to employees but Rashtriya Chemicals and Fertilizers Limited considered income from non-core activities also, for distributing PRP.

Department of Public Enterprises (DPE), Ministry of Heavy Industries and Public Enterprises, while approving (26 November 2008) the pay revision of Board level executives and non-unionized supervisors of Central Public Sectors Enterprises (CPSEs), laid down certain conditions regarding payment of Performance Related Pay (PRP). The CPSEs were required to follow a 'Bell Curve' approach in grading the officers so that not more than 10 to 15 *per cent* are graded outstanding and 10 *per cent* are to be graded below par who are not to be paid any PRP[1]. Further, DPE clarified[2] that PRP should be distributed based on profits accruing only from core business activities of the CPSEs.

Rashtriya Chemicals and Fertilizers Limited (Company) paid an amount of ₹52.53 crore as PRP to its executives for the years 2013-14 to 2017-18.

Audit observed that:

- Manufacturing and marketing of fertilizers and chemicals is the main objective of the Company as per its Memorandum of Association and the same is disclosed as the core business of the Company in its Annual Report. However, while computing PRP for the period from 2013-14 to 2017-18, the Company had included income from rent received (₹126.47 crore), interest income (₹38.28 crore), dividend income (₹0.78 crore), profit on sale of fixed assets (₹2.44 crore), Government grant (₹0.90 crore) and miscellaneous income[3] (₹25 crore) aggregating to ₹193.87 crore, though these are income earned from non-core activities. Inclusion of income from such non-core activities has resulted in excess payment of PRP of ₹5.05 crore.

- Though clarification regarding inclusion of only profits from core business activities for the purpose of PRP has been issued by DPE on three occasions since 2010, Board of Directors of the Company took note of the clarification only while approving the PRP for 2017-18. For the remaining years, the aspect regarding core activity was not deliberated, while finalising the payment of PRP. Even for 2017-18, only one item viz. income from

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[1] ***As per DPE clarification dated 6 July 2011***

[2] ***02 November 2010, 18 September 2013 and 02 September 2014***

[3] ***Miscellaneous Income-Security Deposit/ Earnest Money Deposit recovered - ₹13.23 crore; Cash discount on early payment of Electricity bills - ₹11.55 crore; Horticulture income on account of sale of fruits/ coconuts/ woods collected from factory premises - ₹0.22 crore***

TDR[4] was reduced from the Profit before Tax for calculation of PRP, though there were other heads of income, which were clearly not from core activities, as brought out in para above.

- The Company did not comply with the DPE guidelines regarding non-payment of PRP to 'below par' employees (bottom 10 *per cent* of the Bell curve) and these employees were paid PRP amounting to ₹2.58 crore.

Management replied (12 November 2019) that:

- Certain incomes which have accrued to the Company are offshoots to the business activities such as rent received, recoveries made, interest, dividend etc. Also, these are required to be reported separately under 'Other income' as mandated by Accounting Standards and cannot be netted out of the total expenditure.
- Government of India (GoI) is granting subsidy on urea based on cost data which includes fixed cost, net of other income. Accordingly, such income is part of the core business activities of the Company.
- Profitability performance of a CPSE is being monitored by the Government at an overall level as reported in financial statements and not restricted to core activity only.

The above reply is to be viewed against the following facts:

- DPE has emphasised that only core activities are to be considered for the purpose of PRP and, hence, there is no provision for including offshoot activities or non-core activities.
- The basis adopted by GoI for computing urea subsidy cannot be a criterion for computing PRP. While subsidy is granted as a policy by Government, PRP is a part of employee benefits.
- Though performance of CPSEs is evaluated at an overall level, separate guidelines have been laid down by DPE for payment of PRP, focussing on core activities.

Thus, failure of the Company in complying with DPE guidelines has resulted in excess payment of PRP of ₹5.05 crore to its employees. It is recommended that irregular payment made to ineligible employees may be recovered.

The para was issued to the Ministry in January 2020; their response was awaited (June 2020).

[4] ***TDR means transferable development rights which are obtained in the form of certificates which the owner can subsequently use or can trade it in the market***