

# Chapter IV

---

## **Compliance Audit Observations (PSUs)**

---



## Industries and Commerce Department (Telangana State Industrial Infrastructure Corporation Limited)

### 4.1 Creation of Industrial Infrastructure by TSIIC

#### 4.1.1 Introduction

The Industrial Policy Framework for the State of Telangana, 2014 (Industrial Policy) pronounced industrialisation as the key strategy for economic growth and development of the newly formed State of Telangana. The Industrial Policy envisaged large-scale private sector participation with the Government playing the role of a facilitator and a catalyst.

Consequent upon the bifurcation (2 June 2014) of the State of Andhra Pradesh, the Telangana State Industrial Infrastructure Corporation Limited (TSIIC) was incorporated (September 2014) as a wholly owned undertaking of the Government of Telangana (GoTS) to take over the legacy business of Telangana region from the erstwhile Andhra Pradesh Industrial Infrastructure Corporation Limited (APIICL). The TSIIC has eight Subsidiary Companies<sup>1</sup>, three Associate Companies<sup>2</sup> and nine Joint Venture Companies<sup>3</sup>.

Under the Industrial Policy, all the lands in the State identified as fit for industrial use were to be transferred to the TSIIC so that TSIIC can leverage this land asset base to raise finances from the market and become independent of the Government for budgetary support. The TSIIC was responsible for the development and maintenance of industrial and related infrastructure in the Industrial Parks (IPs) like approach roads, water supply, industrial power and common effluent treatment facilities etc.

#### 4.1.2 Organisational structure

The TSIIC functions under the administrative control of Industries and Commerce Department (I&C Department), Government of Telangana. The Management of the TSIIC is vested with the Board of Directors (BoD), comprising Chairman, Vice Chairman & Managing Director (VC&MD), and six Directors. The VC&MD appointed by Government is assisted by Eight General Managers at the TSIIC's headquarters in Hyderabad. At the field level, there are nine Zonal Offices (ZOs) headed by Zonal Managers covering 267 IPs. There are 138 Industrial Area Local Authorities (IALAs)<sup>4</sup> covering 186 IPs (out of 267 IPs) which exercise the functions of local bodies like the collection of property tax and

<sup>1</sup> (a) E-City Manufacturing Cluster Limited, (b) Maheshwaram Science Park Limited, (c) Fab City SPV (India) Private Limited, (d) Zaheerabad NIMZ Limited, (e) Hyderabad Pharma City Limited, (f) Telangana Life Sciences Infrastructure Development Limited, (g) Bio-Tech Hub Limited and (h) CETP-KMTP Limited

<sup>2</sup> (a) Emmar Hills Township Private Limited, (b) Boulder Hills Leisure Private Limited and (c) Cyberabad Convention Center Private Limited

<sup>3</sup> (a) K. Raheja IT (Hyderabad) Limited, (b) Intime Properties Limited, (c) Sundew Properties Limited, (d) CBD Towers Private Limited, (e) Ace Urban Infocity Limited, (f) Patancheru Enviro-Tech Limited, (g) Hyderabad Information Technology Venture Enterprises Limited, (h) Cyberabad Trustee Company Private Limited and (i) Hyderabad Pharma Infrastructure and Technologies Limited

<sup>4</sup> Under Article 243Q of the Constitution of India, GoTS notifies TSIIC's industrial estates as the IALAs for exercising statutory powers of local bodies and maintain civic services in the IPs. The TSIIC nominates the Commissioner/ Executive Officer for the IALAs

maintenance of civic services in the respective IPs. Out of 138 IALAs formed, only 82 IALAs commenced their operations as on 31 March 2022.

### **4.1.3 Audit Framework**

#### **4.1.3.1 Audit Objectives**

Detailed Compliance Audit was conducted to ascertain whether:

- the policy guidelines, rules and regulations for the acquisition and allotment of industrial lands were complied with;
- the industrial infrastructure was created as envisaged in the Industrial Policy and maintained properly, and
- the objectives of the creation of industrial infrastructure were achieved and the IALAs functioned efficiently.

#### **4.1.3.2 Audit Criteria**

Audit findings were benchmarked against audit criteria sourced from the following:

- Industrial Policy Framework for the State of Telangana, 2014 (Industrial Policy),
- Government Land Allotment Policy, 2012 (Land Allotment Policy),
- TSIIC Industrial Parks Allotment Regulations, 2012 (Allotment Regulations),
- Government of Telangana Common Schedule of Rates and Andhra Pradesh Detailed Standard Specifications (APDSS),
- Revised Guidelines for the Functioning of IALAs and Service Societies, 2013,
- Guidelines, orders and instructions issued by the State Government, Board of Directors (BoD),
- Minutes of meetings of the Cabinet Sub-Committee (CSC) on Mega Projects, Government of Telangana, State Level Allotment Committee, BoD of TSIIC, Price Fixation & Infrastructure Committee (PF&IC) of TSIIC, and
- Tender Documents, Contracts awarded, Allotment Orders, Agreements for the Sale of Industrial Plots, and correspondence made with contractors and allottees.

#### **4.1.3.3 Audit Scope, Sample and Methodology**

Audit observations on the activities undertaken by TSIIC through Special Purpose Vehicles and Joint Venture Companies were reported through the CAG's Report on PSUs of GoTS for the year ended March 2016 (**Para 3.1 of Report No.2 of 2017**). This current Report covers the activities undertaken by TSIIC and its Subsidiary Companies during 2017-18 to 2021-22. Information about prior and subsequent periods was also reviewed as required.

Audit Sample involved three<sup>5</sup> (out of nine) Zonal Offices (ZOs) of TSIIC which were selected using stratified sampling based on the parameter of the value of allotments made. Ten *per cent* of all contracts in the selected ZOs were selected by dividing the population into two strata ‘High Risk’ and ‘Others’. The high-risk stratum was restricted to five *per cent* of all the contracts in the selected ZOs based on the value of the contracts. These were audited 100 *per cent*. The remaining contracts were considered as others stratum and the balance sample of five *per cent* was drawn using the Simple Random Sampling method. Further, 10 *per cent* of all the IALAs located in the selected ZOs subject to a minimum of two IALAs per ZO were selected based on the parameter of highest total revenue earned during the period under audit. Details of the Audit Sample are indicated in **Appendix 4.1**.

An Entry Conference was held in April 2022 with the management of TSIIC wherein the audit objectives, criteria, scope, sample, and methodology were discussed. Audit findings were discussed with the Department and TSIIC in the Exit Conference conducted on 16 February 2024. Replies furnished by the State Government/ Management and the views expressed in the Exit Conference have been suitably incorporated in the Report.

#### **4.1.3.4 Acknowledgement**

Audit acknowledges the cooperation and assistance extended by the officials of the I&C Department and the TSIIC in conducting this Detailed Compliance Audit.

#### **4.1.4 Audit Findings**

Acquisition and allotment of land to private parties for various mega projects<sup>6</sup> and other projects was the major activity of TSIIC during the period 2014 to 2022. To the end of March 2022, TSIIC was engaged in creation and maintenance of 267 IPs/ Special Economic Zones (SEZs) (56 after the formation of TSIIC) and possessed 53,474 acres of land (24,313 acres (45 *per cent*) acquired since the formation of TSIIC at a cost of ₹2,066.52 crore). Details of the extent of land developed and development cost incurred on these lands were not available from the records produced to Audit. During 2014-15 to 2021-22, TSIIC made 2,355 allotments involving 4,050 acres (both developed and undeveloped) valued at ₹2,811.06 crore. These allotments were expected to generate investment of ₹32,566 crore and employment to 1.71 lakh people.

##### **4.1.4.1 Acquisition of lands for the creation of industrial infrastructure**

The TSIIC acquires lands for the development of the IPs through its ZOs after identifying lands suitable for the development of the IPs and enquiring with the respective District Collectors (DCs) about land availability and feasibility of alienation/acquisition. Alienation of Government lands to TSIIC for further allotment to industry and private companies was governed by the Government Land Allotment Policy, 2012 (Land Allotment Policy).

---

<sup>5</sup> ZOs: Cyberabad, Patancheru and Shamshabad

<sup>6</sup> Industrial projects which invest more than ₹200 crore in plant and machinery or provide employment to more than 1,000 people

Government assigned lands<sup>7</sup> and *Patta* lands<sup>8</sup> are acquired under the Land Acquisition Act, 2013.

**i) Inordinate delay in the acquisition of lands**

Under the National Manufacturing Policy, the GoTS proposed to establish a National Investment and Manufacturing Zone (NIMZ) at Zaheerabad (November 2012) and to set up a NIMZ for Hyderabad Pharma City (November 2015). The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India (GoI) accorded in-principle approval to these projects in January 2013<sup>9</sup> and January 2016<sup>10</sup> respectively. The NIMZ was required to have an area of at least 5,000 hectares i.e. 12,355 acres in size. Land acquisition for these projects was to be completed within 18 months from the date of GoI's approval. Audit, however, observed that there was inordinate delay in the acquisition of lands for these projects resulting in the non-creation of the required infrastructure and non-operationalisation of the projects. Consequently, the intended objective of creation of employment opportunities through industrial development was also not achieved as detailed below.

**a) NIMZ, Zaheerabad**

The NIMZ, Zaheerabad was to be set up in 12,635 acres in Medak district at an estimated cost of ₹10,600 crore. The project was estimated to attract investments of ₹43,000 crore and generate direct employment for 3.15 lakh people.

The TSIIC (then APIICL) submitted proposals for the acquisition of the entire 12,635.14 acres in November 2013. The District Revenue authorities proposed (December 2013) to acquire land in two Phases (4,462.17 acres in Phase-I and 8,172.37 acres in Phase-II). However, the district revenue authorities acquired only 3,141.04 acres by the end of June 2022 at a cost of ₹158.02 crore.

Audit observed that the Preliminary Notification (PN)<sup>11</sup> was yet to be issued (December 2022) for the acquisition of lands covered under Phase-II. Even the Government lands to an extent of 627.35 acres under Phase-II were not alienated in favour of TSIIC till date (March 2023). Further, the lands acquired under Phase-I are not contiguous owing to which TSIIC is unable to develop the lands in its possession. Also, TSIIC apprehended (March 2021) an increase in the Project Cost due to escalation of the market value of lands falling under Phase-II, on account of real estate development in the delineated areas and demands for higher compensation for the lands already acquired in Phase-I.

Audit also observed that the GoTS sanctioned (March 2017) two Land Acquisition Offices, each with a sanctioned strength of 37 posts and headed by Special Deputy Collector,

<sup>7</sup> Assigned by Government to poor people for agriculture

<sup>8</sup> Land held by private parties

<sup>9</sup> Final approval was communicated in January 2016

<sup>10</sup> Final approval was communicated in December 2019

<sup>11</sup> As per Section 11 of The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013, whenever, it appears to the appropriate Government that land in any area is required or likely to be required for any public purpose, a notification (referred to as preliminary notification) to that effect along with details of the land to be acquired shall be published in the Official Gazette

exclusively for speeding up land acquisition for NIMZ, Zaheerabad. But only one retired Tahasildar and one Data Entry Operator were reported (March 2020) to be working on account of the inability of the District Revenue authorities to spare their regular staff for this purpose.

Thus, due to the shortage of staff, coupled with the lack of a proper mechanism to ensure land acquisition for the project as per the laid down timelines, the NIMZ, Zaheerabad could not be operationalised despite a lapse of more than seven years. Consequently, the envisaged industrial infrastructure was not created, and the expected investment and employment generation were not achieved.

The Management while accepting the above facts stated (January 2023) that delay was due to court cases, resistance, and agitation against the acquisition of lands. However, TSIIC was continuously pursuing to complete the acquisition of lands for Phase-I. Further, the ground survey for handing over of advance possession of Government lands and issue of the PN for the acquisition of balance lands under Phase-II was in progress.

The Government replied (October 2023) that though two land acquisition units were sanctioned, posts were not filled most of the time. Recently Special Deputy Collectors were posted, and a request would be made for posting of supporting staff.

The replies are not acceptable because TSIIC/GoTS neither evolved a road map nor set specific timelines to complete the acquisition of the balance 9,494.10 acres (75 per cent) required for NIMZ, Zaheerabad.

#### **b) Hyderabad Pharma City**

The Hyderabad Pharma City (HPC) was proposed (March 2017) to be set up on 19,333 acres at an estimated cost of ₹19,098 crore including ₹1,550 crore for acquisition of lands for the project in Rangareddy District. The project was estimated to attract investments of ₹64,000 crore and generate direct employment for 1.66 lakh people. Further, TSIIC proposed (February 2017) to develop the HPC in about 8,200 acres in Phase-I during 2017-20 and to cover the balance area under Phase-II during 2021-25.

As of March 2022, TSIIC acquired lands to an extent of 10,238 acres by depositing an amount of ₹1,107.66 crore with the Revenue authorities for payment of compensation, etc., to the landowners/occupiers. Land to an extent of 846 acres was reported to be under litigation. Further, the District Revenue authorities were yet to issue (October 2022) the PN for the acquisition of 4,080 acres.

Audit observed that the lands (10,238 acres) acquired by TSIIC were not contiguous. As a result, Phase-I itself was not developed so far (January 2023) resulting in non-achievement of the expected employment generation for 50,000 people. Thus, TSIIC did not adhere to the requirement of development of at least 12,500 acres for NIMZ as stipulated by the GoTS/NIMZ Guidelines. Further, the possibility of an increase in the Project Cost due to the escalation of market value of lands surrounding the proposed Phase-I area and demands for higher compensation for the lands already acquired cannot be ruled out.

Audit also observed that the Special Task Force Committee formed (June 2015) by the GoTS for speedy implementation of the project, which was required to meet once a month, had met only three times till May 2016 and had not held any meeting since then. Also, the project was proposed to be funded through support of ₹12,373 crore from the GoTS and ₹6,725 crore from the GoI. But, TSIIC had so far received budgetary support of ₹450 crore from the GoTS and ₹5.25 crore from the GoI (March 2020). The GoI did not give any further commitment for the balance amount. As a result, TSIIC raised (September 2016) a term loan of ₹740 crore<sup>12</sup> from the Housing and Urban Development Corporation Limited (HUDCO) for which the GoTS had guaranteed the repayment of principal and interest.

Thus, due to the lack of proper monitoring of the progress of project implementation, lack of financial closure to fund the project, and inaction of the Revenue authorities, there was inordinate delay of more than five years in acquiring the lands required for the HPC. Consequently, the envisaged industrial infrastructure was not created and the expected investment and employment generation were not achieved.

The Government stated (October 2023) that land acquisition was completed to an extent of 13,184 acres and possession was handed over for 10,242 acres leaving balance of 2,942 acres to be handed over to TSIIC. Further, in 4,080 acres of Kadthal mandal, real estate ventures have come up and a lot of transactions took place resulting in steep increase in the market value of land. The decision to acquire the lands was pending.

The reply confirms the delay in the implementation of the HPC. Further, TSIIC/GoTS had not set any specific timelines to acquire the balance 6,149 acres (19,333 acres *minus* 13,184 acres) required for the HPC. Hence, the risk of escalation in the project cost and/or curtailment of the HPC to the extent of land acquired cannot be ruled out.

**ii) Diversion of HUDCO loan funds for other purposes**

The TSIIC raised (September 2016) a term loan of ₹740 crore from HUDCO for the acquisition of lands for NIMZ, Zaheerabad and the HPC projects. As per the loan agreement, TSIIC had the option to draw the loan either in a lump sum or a suitable number of instalments and repay the loan in 16 instalments with interest charged at the rate of 10.40 *per cent*. Further, the loan funds were to be utilised exclusively for the above projects for which the loan was raised and in the event of default, had to repay the entire loan amount together with interest, penal interest, cost, and other charges.

Citing an urgent requirement of funds for the acquisition of lands for NIMZ, Zaheerabad and the HPC projects, TSIIC availed loan funds of ₹725 crore in three spells (₹350 crore in October 2016, ₹200 crore in January 2017 and ₹175 crore in September 2017). As TSIIC did not request disbursement of the balance loan amount, HUDCO curtailed (November 2020) the sanction of the loan to ₹725 crore.

Audit observed that out of ₹725 crore loan funds availed, TSIIC utilised an amount of ₹182 crore for land acquisition in other IPs, ₹57.24 crore for the development of already established E-city project, ₹62.91 crore for repayment of principal and interest of the same

---

<sup>12</sup> Total amount of loan was ₹740 crore including about ₹500 crore for the Hyderabad Pharma City and ₹240 crore for the NIMZ, Zaheerabad.

HUDCO loan and ₹15.34 crore for meeting its operational requirements. Thus, TSIIC diverted a total of ₹317.49 crore in contravention of the HUDCO loan agreement.

Audit further observed that after drawing the loan instalments, TSIIC retained the loan funds in the loan account with an auto sweep facility<sup>13</sup>. The time lag between the drawal of loan instalments and the actual utilisation of a major chunk of loan funds ranged from 98 days to 239 days. From September 2016 to March 2022, TSIIC incurred interest expenditure of ₹39.74 crore and earned interest of ₹11.69 crore through the auto sweep facility. Thus, because of drawing loan instalments without immediate requirement instead of drawing the loan funds in a phased manner as per actual requirement, TSIIC incurred an avoidable interest expenditure of ₹28.05 crore.

The Government replied (October 2023) that, TSIIC withdrew the funds based on the estimated timelines for land acquisition by the Revenue authorities. But due to land acquisition problems, utilisation of funds got delayed. Hence, the funds were utilised for other projects, repayment of HUDCO's loan and temporarily parked using an auto sweep facility to avoid loss of interest. TSIIC had spent funds on acquisition of lands prior to sanctioning of HUDCO loan. Hence the same should be construed as reimbursement of expenditure. Further, the interest cost would be made good by including it in the land development cost.

The reply is not acceptable because the loan agreement also provided for the drawal of funds in “a suitable number of instalments”. Hence, instead of drawing lump sum amounts and diverting them for other purposes, TSIIC could have drawn the funds as per the actual requirement in close coordination with the Revenue authorities. Further, despite availing auto sweep facility, TSIIC suffered an interest loss of ₹28.05 crore. Loading the development cost with losses suffered due to TSIIC's inefficiency and recovering the same from subsequent allottees is not in order. Reimbursement of already incurred expenditure for the project and transferring of HUDCO loan funds to any other bank account is against the conditions of loan agreement and financial prudence.

### ***iii) Allotment/Sale of lands pending their alienation in favour of TSIIC***

The 53,473.76 acres of land bank possessed (as of March 2022) by TSIIC comprised 22,463.58 acres of Government land, 14,782.40 acres of Government assigned land, and 16,227.78 acres of *Patta* land. Audit however, observed that alienation orders of GoTS had not been received in respect of 23,717.25 acres which included 19,669.11 acres of Government land (87.56 *per cent* of total Government land acquired) of which TSIIC had already taken advance possession. These alienation proceedings were pending from 1974 onwards. The reasons for such long pendency were not found on record.

Audit observed that despite non-finalisation of alienation proceedings, TSIIC was making allotments of such lands to private parties and that it had executed sale deeds based on the tentative market value of the land. Audit also observed that in the event of fixation of final

<sup>13</sup> Funds lying in the loan account in excess of ₹2.00 crore were converted into fixed deposits with option to encash such fixed deposits to the extent required. The rate of interest earned would depend on the time period for which the fixed deposits were not encashed

rate more than the tentative market rate at the time of issue of alienation orders, TSIIC did not have any effective mechanism for recovery of such differential cost.

The Government replied (October 2023) that, the District Collectors have to submit alienation proposals for placing before Telangana State Land Management Authority for onward recommendation to the Government for issuing alienation orders. The Revenue Department of Government would be requested to issue necessary instructions and a mechanism would be evolved to recover the differential amount from the allottees.

The reply shows inaction of TSIIC/Government in following up with Department concerned and not evolving any mechanism to recover the differential cost so far.

***iv) Absence of periodical survey of lands***

The Allotment Regulations, 2012 require the ZO to periodically inspect the premises of the industrial units for taking corrective action in case the terms of the sale agreement are deviated/violated.

Audit observed that although TSIIC was holding a huge land bank of 53,473.76 acres as on 31 March 2022, till date it had not undertaken any periodical survey of its lands since its formation in 2014. In the absence of a survey at regular intervals, TSIIC was not able to identify and prevent encroachments, if any, change in land use by the allottees, to levy penalties, cancel the allotment to resume land and usage of correct maps for planning and maintenance of infrastructure in the IPs.

The Government replied (October 2023) that due to non-alienation of lands, only advance possession of lands was taken and the same were not reflected in the books of account. Hence, physical verification of stock (land) was not taken up and reconciliation is pending. A special drive is being conducted to reconcile the land bank.

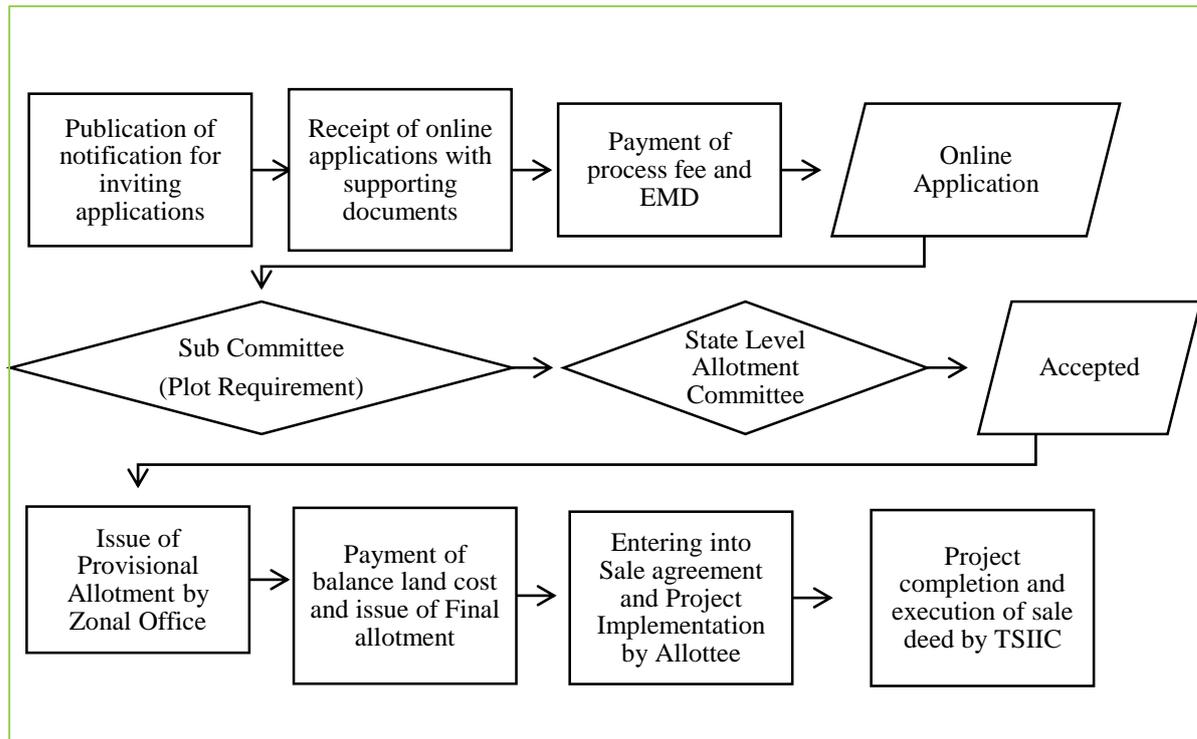
The reply is not tenable because TSIIC had already finalised its accounts up to the financial year 2019-20 and accounted for the advance paid for the lands taken over by it. Also, it is prudent that TSIIC regularly reconciles the details of its land bank. Hence, TSIIC should have conducted a periodical survey of its land bank.

In the Exit Meeting (February 2024), the Government accepted the audit observation and directed the Management to carry out the periodical survey at least once a year.

***4.1.4.2 Allotment of lands for the establishment of Industries***

The TSIIC (then APIICL) formulated (October 2012) the Allotment Regulations. These Allotment Regulations, as amended from time to time, prescribed the procedures and matters relating to applications for allotment and their scrutiny, fixation of cost of plot/shed, auction, payments of cost, charges, execution of an agreement for sale and sale deed, cancellations, restoration, refunds, etc. Further, in the case of mega/ large industrial projects, TSIIC allotted the land as recommended by the GoTS. The procedure followed for the allotment of land and execution of a sale deed during the audit period was as follows:

Chart 4.1: Procedure for allotment of land for establishment of Industries



**i) Allotment of lands in deviation from the Cabinet Sub-Committee's decisions**

The Allotment Regulations stipulated that GoTS may direct TSIIC to allot land for mega/large industrial projects and provide infrastructure facilities as per the customised benefits agreed by GoTS and the investor/promoter. Further, any deviations to the allotments made by the GoTS were to be made only with the approval of the GoTS. The GoTS also constituted (April 2016) a Cabinet Sub-Committee (CSC) to finalise the customised benefits to be extended to mega projects.

Thus, the allotments were subject to the terms and conditions laid down by the GoTS (Cabinet)/CSC and the same could be modified/clarified by the GoTS (Cabinet)/ CSC alone. Audit, however, noticed that the I&C Department allowed concessional allotment of land at Hardware Park, Mamidipally in deviation from the GoTS (Cabinet)/CSC's decision as detailed below:

M/s Adani Defense Systems and Technologies Limited (ADSTL) requested (dated NIL) *inter alia* for the concessional allotment of 50 acres of land in the Hardware Park (Phase-II) at Mamidipally. While agreeing to allot 50 acres of land, the CSC advised (March 2018) the ADSTL to shift the location of the project<sup>14</sup> to the new Aerospace Park at Kongarkallan for giving a discounted anchor land price<sup>15</sup>.

<sup>14</sup> Setting up of manufacturing facilities for Aerospace Precision Machining, Composite Aero Structures, Ground Testing Facilities and Training and Skill Development Facilities pertaining to Composites Aero Structures along with Composite Certification Center with an estimated investment of ₹300 to 500 crore and providing employment to 300 to 400 people

<sup>15</sup> As per Industrial Policy, State Government is offering concessional price (total cost minus development/ infrastructure cost) to anchor units (first players). The rate of concession depends on the location of the IP

However, in a meeting held (April 2018) with the ADSTL and TSIIC, the I&C Department decided to allot 20 acres of land in the Hardware Park (Phase-II) at Mamidipally at the concessional rate of ₹40.00 lakh per acre against the TSIIC's prevailing land rate of ₹2.13 crore per acre. Accordingly, TSIIC allotted (June 2018) 20 acres of land at Hardware Park, Mamidipally, collected the land cost of ₹8.00 crore (at ₹40.00 lakh per acre), and executed (September 2018) the agreement for the sale of land.

Audit observed that although CSC advised to shift the location of the proposed project to the new Aerospace Park at Kongarkallan, I&C Department extended the concessional rate even when the ADSTL established its project in the Hardware Park (Phase-II) at Mamidipally itself. Thus, I&C Department violated the CSC's decision and extended an undue benefit of ₹34.60 crore<sup>16</sup> to the ADSTL.

The Management replied (January 2023) that the ADSTL was allotted land in Hardware Park, Mamidipally at the concessional rate of ₹40.00 lakh per acre because of its strategic importance for the defence sector, and as per the orders communicated (April 2018) by the I&C Department. The Government replied (October 2023) that, in order to utilize the resumed land and structures, the request of ADSTL was considered.

The reply is not acceptable because, after detailed consideration of the ADSTL proposals, the CSC decided to give the discounted anchor land price only if the location of the project was shifted to the new Aerospace Park at Kongarkallan. However, the I&C Department had extended the concessional price at Hardware Park, Mamidipally without any justified reasons. Hence, the concessional allotment made by the I&C Department was contrary to the CSC's decision and led to extension of undue benefit of ₹34.60 crore to the ADSTL. The Department cannot modify the decision of CSC and any deviation should have been made only with the approval of CSC.

**ii) Irregular allotment of lands**

Audit also noticed instances of land allotments made by authorities who were not competent to do so as detailed below:

**(a) Electronic Manufacturing Clusters**

The GoTS formulated (July 2012) the Electronic Hardware Policy 2012-2017 (EH Policy) to provide incentives to the Electronic Hardware companies/ industry. The EH Policy *inter alia* provided for making land available to the Electronic Hardware companies on payment of the land cost and development cost as determined from time to time by the allotment agencies<sup>17</sup>. Under the EH Policy, the GoTS also constituted (January 2013) the Consultative Committee on Electronic System Design & Manufacturing (CCESD&M) solely for administering (examination, authentication, and approval/ rejection of claims/

<sup>16</sup> 20 acres X (₹2.13 crore – ₹0.40 crore)

<sup>17</sup> TSIIC, Hyderabad Metropolitan Development Authority and the local statutory authorities concerned

requests of Electronic Hardware companies/ industry) the incentives offered under the EH Policy. The tenure of CCESD&M was co-terminus with the EH Policy.

Audit observed that although the CCESD&M was empowered only to grant the incentives offered under the EH Policy during the period 2012-17, it proposed (December 2017) to allot land at the concessional rate (as applicable for mobile manufacturing units) to a maximum of 25 companies or to the extent of 125 acres whichever comes first. Though CCESD&M also decided to get its proposal reviewed and approved by the Department of Information Technology, Electronics and Communications (Department of ITE&C), GoTS and TSIIC, but no such approval was obtained. Also, after the expiry of the EH Policy, the GoTS neither officially formulated a new EH Policy nor issued orders for the continuation of the existing Operational Guidelines. However, the Department of ITE&C released an unauthenticated brochure titled “Electronics Policy 2016” and proposed to make land available at affordable costs to Electronic Hardware manufacturing units.

During the period from March 2018 to March 2022, the CCESD&M on its own allotted a total of 165.21 acres to 39 Electronic Hardware units<sup>18</sup>. The CCESD&M allotted the lands at concessional rates of ₹60.00 lakh/₹90.00 lakh per acre as against the prevailing land and development cost ranging from ₹158.64 lakh per acre to ₹214.48 lakh per acre.

Thus, irregular allotment of lands by the CCESD&M without specific authority/Government Policy had resulted in a loss of ₹208.24 crore to the State exchequer besides extension of undue benefit to the allottees.

The Government replied (October 2023) that under ‘Electronic Policy 2016’, it was proposed to make land available at affordable cost to Electronic Hardware manufacturing units and to position the State competitively among other States in promoting and attracting investments in electronics manufacturing, the land was priced at a concessional rate and the same was ratified by the Departmental orders. Further, the grants sanctioned by GoI and the state shall be passed on to the prospective units to promote the sector.

The reply is not to the point of audit observation that the allotment of lands at concessional rates by the CCESD&M was beyond its scope of authority and hence, irregular. The CCESD&M/Department does not have the authority to extend concessions without the approval of the Cabinet/Cabinet Sub Committee.

**(b) NIMZ, Zaheerabad**

The Land Allotment Policy required allotment of lands of more than 50 acres based on the recommendations of a Secretaries Committee<sup>19</sup>. Further, the guidelines for the establishment of NIMZ stipulated that the Special Purpose Vehicle (SPV) constituted for the NIMZ concerned shall consider and clear the proposals for allotment of lands in the NIMZ. Also, the lands in NIMZ were to be allotted on a leasehold basis.

<sup>18</sup> 134.63 acres to 30 units in E-City Manufacturing Cluster and 30.58 acres to 9 units in Maheswaram Science Park

<sup>19</sup> Secretaries Committee consists Principal Secretary to Government and Commissioner for Industrial Promotion, Principal Secretary (Infrastructure and Investment), Principal Secretary (Energy), Principal Secretary (Information Technology and Communication) and Principal Secretary (Revenue)

The customised benefits sanctioned (August 2021) by the CSC to the project<sup>20</sup> proposed (January 2021) by M/s Vem Technologies Private Limited (VTPL) included allotment of 511 acres at NIMZ, Zaheerabad at ₹10.00 lakh per acre. However, based on the land utilisation proposals and the financial information as submitted by the VTPL in its Detailed Project Report (January 2021), the TSIIC's Technical Consultant evaluated (January 2022) the actual requirement of land for the project at 49 acres and opined that the internal accruals (net worth) of the VTPL were insufficient to source the promoter's contribution for the project. Nevertheless, TSIIC allotted (January 2022) 511 acres to the VTPL and collected (up to August 2022) ₹43.86 crore against 436.37 acres lying under TSIIC's possession. Also, TSIIC's claim (December 2021) for reimbursement, of the differential cost of ₹118.25 crore<sup>21</sup>, from the Industrial Promotion Budget of the I&C Department was yet to be settled (December 2022).

Audit observed that the CSC's decision to allot 511 acres to the VTPL was not in order because (a) the CSC allotted land before TSIIC or the Secretaries Committee evaluated the actual land requirement, the VTPL's financial capability to execute the project, and TSIIC was not in physical possession of the entire lot of 511 acres, (b) the proposed land parcel was part of NIMZ, Zaheerabad and so the land allotment was to be decided by the SPV incorporated (August 2016) for NIMZ, Zaheerabad namely, Zaheerabad NIMZ Limited, and (c) allotment of 511 acres to the VTPL resulted in the reduction of the area (12,635 acres) of NIMZ, Zaheerabad to below the minimum of 12,500 acres as required by the NIMZ Guidelines thereby jeopardising the NIMZ project.

Thus, allotment of 511 acres against the actual requirement of 49 acres at a concessional rate in contravention of the Land Allotment Policy and NIMZ Guidelines resulted in revenue loss to TSIIC and extension of undue benefit to the VTPL to the tune of ₹106.91 crore<sup>22</sup>.

The Government replied (October 2023) that the land allotment was made as per the decision of the CSC. Further, the National Industrial Corridor Development Corporation (NICDC), GoI accepted the proposal to incorporate the project as part of the NIMZ, Zaheerabad Project Development Report.

The reply is not acceptable because the CSC's decision was not in order for the reasons stated above. Further, the NICDC had only accepted the inclusion of NIMZ, Zaheerabad as part of the Nagpur–Hyderabad industrial corridor and not the inclusion of the VTPL as part of NIMZ, Zaheerabad.

### **iii) Allotment of lands at an old rate in IP, Gachibowli**

The Allotment Regulations provided for allotment of land at the rate prevailing on the date of filing of a valid application. Further, subject to the provision of infrastructure by TSIIC, the maximum time allowed for the implementation of the units shall not exceed five years from the date of taking possession of the land, including the initially allowed period of two

<sup>20</sup> Establishment of Strategic Weapon Systems Integration Facility in 511 acres at NIMZ, Zaheerabad with an estimated investment of ₹785.00 crore

<sup>21</sup> 511 acres X land cost of ₹23.14 lakh per acre

<sup>22</sup> (511 acres – 49 acres) X ₹23.14 lakh per acre

years and the extended time of one year to be granted in case the reasons for delayed implementation were beyond the control of the allottee. In all other cases, the extension of time was to be allowed by levy of the prescribed penalty/ interest. TSIIC should resume the premises if implementation was delayed beyond five years.

The CAG's Report on PSUs of GoTS for the year ended March 2019 highlighted (**Para 4.2 of Report No.5 of 2020**) the revenue loss of ₹4.47 crore sustained by TSIIC due to allotment (March 2017) of one-acre prime land at IP, Gachibowli to M/s Bhagwati Products Limited (Micromax) at the rate of ₹10.05 crore per acre as fixed (December 2016) by the I&C Department without due diligence, ignoring the prevailing basic market value of ₹14.52 crore per acre and in deviation of the Allotment Regulations.

Audit observed that based on the land cost allotted to Micromax, 2.68 acres of prime land at IP, Gachibowli was further allotted to three more mobile manufacturing companies<sup>23</sup> even though the land rate considered for allotment to Micromax was itself based on the rate at which land was allotted to Bank of Baroda in August 2013 subject to a minimum ceiling of ₹10.00 crore per acre. Thus, TSIIC sustained further revenue loss of ₹12.00 crore due to the allotment of prime land below the prevailing market value (₹14.52 crore per acre effective from April 2013) in contravention of the provisions of the Allotment Regulations.

Audit also observed that three of the allottees (Micromax, Celkon and Karbon) were yet (December 2022) to establish their units despite a lapse of five years. However, TSIIC had neither levied the applicable penalty of ₹1.60 crore<sup>24</sup> nor resumed their premises.

The Management replied (January 2023) that TSIIC had informed the Department of all the applicable land rates for fixation of the land cost to Micromax. But the I&C Department accepted the rate at ₹10.05 crore per acre proposed by Micromax. Hence, TSIIC allotted land to Micromax at that rate. TSIIC also allotted land to other mobile manufacturing units at ₹10.05 crore per acre since the Department communicated orders to allot land at the same rate at which land was allotted to Micromax. It was also replied that TSIIC granted an extension of time to the mobile manufacturing companies for setting up their units since the reasons for the delay were beyond their control.

The Government replied (October 2023) that, the said lands were allotted on 'as is where is' basis without any development and hence the present prevailing land rate as fixed for the developed land is neither comparable nor correct.

The reply is not acceptable because the CSC had only indicated the minimum threshold limit of ₹10.00 crore per acre whereas the I&C Department accepted the rate of ₹10.05 crore per acre as proposed by Micromax without due consideration of the prevailing market rates

<sup>23</sup> (a) 1.12 acres to M/s Celkon Impex Private Limited (Celkon) in December 2017, (b) 1.06 acres to M/s United Telelinks Limited (Karbon) in May 2018 and (c) 0.50 acres to M/s Flash Distribution Private Limited in July 2020

<sup>24</sup> [(TSIIC's rate of ₹20.35 crore per acre X 1 acre of Micromax) + (TSIIC's rate of ₹20.35 crore per acre X 1.12 acres of Celkon) + (TSIIC's rate of ₹20.35 crore per acre X 0.50 acres of Karbon)] X 3 per cent for delay of 3 years beyond the allowed time of 2 years

and the Allotment Regulations. Hence, the extension of the rate irregularly fixed by the I&C Department to subsequent allotments lacked prudence. Further, at the time of allotment, the mobile manufacturing companies did not indicate any infrastructure bottlenecks in respect of the lands selected by them. TSIIC also allotted the lands on 'as is where is' basis without any liability to develop the lands. Hence, the extension of time without levy of applicable penalty/ interest and non-resumption of premises in case of delay of more than five years was a contravention of the Allotment Regulations.

**iv) Allotment of land at a lesser rate in IP, Chandanvelly**

The customised benefits allowed (March 2018) by the Cabinet to M/s Welspun Group of Companies (WGC) for manufacturing Technical Textiles<sup>25</sup> *inter alia*, included allotment of two land parcels totalling 650 acres<sup>26</sup> in the newly established IP at Chandanvelly with ready external infrastructure<sup>27</sup> and a rebate on land cost as per the Telangana Textile and Apparel Policy, 2017-22 (T-TAP)<sup>28</sup>. Thus, the Cabinet's decision implied allotment of land to the WGC at the land cost as assessed by TSIIC and allowing the rebate on such land cost as per the T-TAP.

In response to TSIIC's request (April 2018) to fix the price of the land allotted to the WGC by considering the land cost(s)<sup>29</sup> fixed (April 2018) by the TSIIC's Price Fixation and Infrastructure Committee (PF&IC), the I&C Department informed (July 2018) TSIIC that Government agreed to allot land at the undeveloped land cost of ₹13.73 lakh per acre. Accordingly, TSIIC collected the cost of ₹51.49 crore (at ₹13.73 lakh per acre for 375 acres), handed over (200 acres in January 2019, 75 acres in October 2019 and 100 acres in January 2021) to the WGC and reserved (February 2019) the balance land of 175 acres for future expansion of the project by the WGC.

Audit observed that since the Cabinet decided to provide land to the WGC along with ready external infrastructure, the I&C Department should have allotted land to the WGC at ₹22.54 lakh per acre considering the inevitability of incurrence of internal infrastructure development cost by TSIIC. Thus, allotment of lands to the WGC at a lesser rate resulted

---

<sup>25</sup> Technical Textiles are defined as textile materials and products used primarily for their technical performance and functional properties rather than for aesthetics or decorative characteristics, where function is the primary criterion. Technical Textiles include textiles for automotive applications, medical textiles, Geotextiles, Agro textiles, Protective clothing Packing textiles, etc.

<sup>26</sup> Reduced to 550 acres based on assessment of actual requirement at the time of allotment. Of this, 450 acres were allotted to M/s Welspun Flooring Limited for manufacturing Floor Covering Carpets and Luxury Vinyl Tiles and 100 acres to M/s Welspun India Limited for manufacturing Technical woven fabric, stitch bonded fabrics and non-wovens

<sup>27</sup> Four lane approach roads, power, natural gas, raw water, etc.

<sup>28</sup> The GoTS introduced (August 2017) the Telangana Textile and Apparel Incentive Scheme, 2017-2022 and issued (March 2019) operational guidelines from time to time (T-TAP). Under the T-TAP, based on the extent of land utilised, the anchor clients and first movers of every new Textile/ Apparel IP were eligible for a rebate up to ₹20.00 lakh per acre or 50 per cent of the land cost as ascertained by TSIIC. Technical Textile units were eligible for an additional rebate of 25 per cent with a cap of ₹10.00 lakh per acre

<sup>29</sup> The PF&IC fixed the cost of land at IP, Chandanvelly at ₹13.73 lakh per acre for undeveloped land, ₹22.54 lakh per acre for land with partial (internal) infrastructure and ₹44.44 lakh per acre for land with full (internal and external) infrastructure

in revenue loss to TSIIC and extension of undue benefit to the WGC to the tune of ₹33.04 crore<sup>30</sup>.

Audit also observed that the I&C Department did not obtain Cabinet's approval for allowing a concessional land rate (land cost without internal infrastructure cost) to the WGC as the same was not included in the customised benefits allowed by the Cabinet.

The Government replied (October 2023) that the Cabinet approved allotment of "encumbrance-free Undeveloped Industrial land parcel with ready external infrastructure". It had always been the Cabinet's decision to allot land at undeveloped land cost to first mover in the park while loading cost of external infrastructure to subsequent allottees. Further, the Government approved the execution of the sale deed after careful consideration of the facts.

The reply is not tenable as the Cabinet approval (communicated vide G.O Ms No 21 dated 23.03.2018) did not direct TSIIC to allot land at concessional rates or to load the cost of infrastructure to subsequent allottees. Thus, in the absence of specific directions from Cabinet to allot land at concessional rates, TSIIC should have allotted the land at the cost arrived as per their allotment regulations at ₹22.54 lakh per acre which included the cost of infrastructure facilities to be provided by TSIIC.

**v) Allotment of excess land at Plastic Park, Mankhal (Expansion)**

The Land Allotment Policy required TSIIC to assess the land required to be allotted to different industries on a scientific basis.

While communicating (October 2017) the CSC's decision (July 2017) to allot land at ₹35.00 lakh per acre to M/s Chiripal Poly Films Limited (CPFL) at the Plastic Park, Mankhal (Expansion), the I&C Department instructed TSIIC to place the proposal for allotment of 30 acres land at ₹35.00 lakh per acre before the State Level Allotment Committee (SLAC) for evaluation of the requirement of land for the project<sup>31</sup> and issue the provisional allotment letter.

Accordingly, the SLAC decided (October 2017) to allot 23 acres to CPFL subject to revision of layout. However, based on the I&C Department's proposal for allotment of 30 acres to the CPFL and the instructions of TSIIC, the Zonal Office, Shamshabad allotted (October 2017) all the land measuring 29.87 acres on outright sale to the CPFL. TSIIC issued (January 2018) final allotment after collecting the land value of ₹10.45 crore and handed over (March 2018) the premises to the CPFL by executing an agreement of sale.

Audit observed that the CSC had decided only about the land cost for allotment, and the I&C Department proposed an allotment of only 30 acres and specifically required SLAC (TSIIC) to evaluate the actual requirement of land for the project. However, TSIIC

<sup>30</sup> 375 acres X (TSIIC's land cost of ₹22.54 lakh per acre - ₹13.73 lakh per acre paid by WGC)

<sup>31</sup> Poly films manufacturing facility with an estimated outlay of ₹529.00 crore

contravened the instructions of the I&C Department and allotted 6.87 acres more than the requirement at concessional rate resulting in undue benefit to the CPFL to an extent of ₹8.93 crore<sup>32</sup>.

Government replied (October 2023) that 50 *per cent* of the land shall be utilised for greenery and hence the open space cannot be utilised other than for the purpose of greenery. Further, the CPFL achieved the promised investment and employment targets and has fully utilised the allotted land.

The reply is not acceptable because as per the Detailed Report (October 2021) of ZO, Shamshabad, the CPFL had utilised only 17.99 acres for establishing its manufacturing facility along with the required roads, green belt, etc. and open land to an extent of 11.88 acres remained unutilised. Hence, the allotment of an additional 6.87 acres of land was avoidable and resulted in the extension of undue benefit of ₹8.93 crore to the CPFL.

**vi) Irregular restoration of land in IP, Kothur**

The Allotment Regulations provided that in case TSIIC resumes the premises, the request for restoration of land shall not be entertained and the applicant shall have to apply for the premises afresh requiring allotment of land at the rate prevailing on the date of such fresh application.

The TSIIC (then APIICL) entered (January 1986) into a Lease cum Sale Agreement (LSA) with M/s KAP Steel Limited (KSL) for 84.88 acres of land in IP, Kothur for manufacturing steel ingots/billets. The land cost was fixed at ₹25,530 per acre and was subject to payment of enhanced compensation as ordered by the Court. Owing to the KSL's inability to implement the project and to pay the enhanced (April 1994) compensation of ₹45,000 per acre for dry lands and ₹50,000 per acre for wetlands, TSIIC cancelled (August 1998) the land allotment and resumed (in spells from September 1999 to August 2003) the entire premises of the KSL. Out of the 84.88 acres resumed, TSIIC allotted 39.27 acres to other parties.

Meanwhile, the KSL renamed as M/s JCK Infra Projects Limited (JCKIPL) requested (March 2018) TSIIC for the restoration of its premises (45.61 acres) for establishing a logistic and light IP. The I&C Department accepted (April 2019) the proposal (June 2018) of TSIIC to restore the premises subject to the withdrawal of the court case<sup>33</sup> and collecting the differential cost of ₹30,000 per acre together with interest at 16 *per cent* from the date of cancellation of allotment to the date of restoration (April 2019), and the restoration fee of one *per cent* of the prevailing land cost of ₹1.20 crore per acre. Accordingly, TSIIC collected (May 2019) a total of ₹1.51 crore and handed over (August 2019) possession of 45.61 acres to the JCKIPL which is yet (December 2022) to implement the project.

<sup>32</sup> (6.87 acres) X (TSIIC's prevailing rate of ₹1.65 crore –allotted rate of ₹0.35 crore)

<sup>33</sup> The writ petition filed (2002) by the KSL challenging the resumption of premises by TSIIC was pending (March 2019)

Audit observed that TSIIC restored the land after a lapse of more than 20 years by collecting a paltry ₹1.51 crore against ₹54.91 crore<sup>34</sup> chargeable as per the Allotment Regulations. This has resulted in the extension of undue benefit of ₹53.40 crore to the KSL.

The Government replied (October 2023) that the allottee had paid the land cost and implemented the unit long back. But TSIIC cancelled the allotment because the allottee failed to pay enhanced compensation. There are no guidelines regarding the restoration of allotment in case of non-payment of enhanced compensation. TSIIC granted extension of time in cases of non-implementation of units in terms of the Circular No.412 of 2013. There is no loss to TSIIC/GoTS since the allottee proposed high investment and employment by establishing a logistic and light IP in the restored premises.

The reply is not acceptable since as per the Deed of Surrender of LSA (August 2019), TSIIC resumed the land because, in addition to non-payment of the enhanced compensation, the allottee violated the terms and conditions of allotment and the LSA, by keeping the land idle without any industrial activity and did not complete the project. Hence, the provisions of the Allotment Regulations related to the restoration of allotment at the prevailing land rate were applicable in full measure. The guidelines of Circular No.412 of 2013 were not applicable since it was meant to deal with cases of allotments made after 2004 whereas the present allotment was made in 1986. The proposed investment and employment generation in the new project cannot be taken as a justification for the restoration of the allotment done in contravention of the Allotment Regulations.

**vii) Sale of lands without ensuring utilisation**

The Land Allotment Policy intended to adopt the fundamental principle of judicious allotment of land and effective monitoring of its utilisation. The Allotment Regulations also provided for monitoring of implementation of projects, cancellation of allotment, and resumption of premises by TSIIC for the failure of the allottee to implement the project.

Further, the Modified Industrial Infrastructure Upgradation Scheme, 2013 (MIUS) of the GoI noted that industrial projects implemented during the 10<sup>th</sup> and 11<sup>th</sup> Five Year Plans through Special Purpose Vehicles (SPVs) had experienced enormous delays in implementation, cost escalation, lack of proper accountability and shortfalls in the achievement of outcomes. Accordingly, the MIUS envisaged the implementation of industrial projects only through the State Implementation Agencies (SIA) like TSIIC.

Despite this, TSIIC allotted (May 2018 to October 2020) 454.05 acres for establishing a Micro, Small and Medium Enterprise (MSME) Greenfield Industrial Park and 231 acres

---

<sup>34</sup> 45.61 acres X ₹1,20,39,825 per acre

(August 2020) for setting up a Rice Hub<sup>35</sup> in the IP, Dandu Malkapur to the SPV<sup>36</sup> floated by the respective industry associations.

The Agreement(s) of sale entered into (June 2018 to January 2021) by TSIIC with these SPVs provided for only allotment of land by TSIIC whereas the SPVs were required to develop internal infrastructure (18 months), allot plots to their members, monitor implementation of the projects (24 months) and complete the project within a period not exceeding 42 months. The sale deeds were to be executed after the completion of the development of internal infrastructure by the SPVs.

As per the records provided to Audit, the development of Rice Hub was still (March 2022) under progress whereas TSIIC executed (October 2021) the sale deed for 371 acres (out of 454.05 acres) in Phase-I of the MSME project on completion of infrastructure development and allotment of 384 plots by the SPV. However, despite a lapse of more than 42 months (June 2018 to December 2021) only 18 out of 384 allottees were reported (December 2021) to have commenced commercial production while the remaining units were at various stages of approvals/ implementation.

Audit observed that by entering into the agreement(s) of sale with SPVs (a third party) instead of the individual project proponents as envisaged under the MIIUS and executing sale deeds immediately after the development of infrastructure by the SPVs, TSIIC had lost any recourse to ensure implementation of the individual projects and utilisation of the IPs. Further, TSIIC did not act on the direction (May 2017) of the I&C Department to have TSIIC's nominees on the Board of Directors of the SPVs to oversee the observance of a transparent allotment procedure and monitoring of the implementation of the project by the SPVs. Thus, the mechanism of TSIIC's control over the actual implementation of the individual projects, utilisation of lands in the IPs for the achievement of the objectives of the Land Allotment Policy, Allotment Regulations, and the MIIUS Guidelines was not put in place.

The Government replied (October 2023) that land was allotted to the SPVs as per Government directions and the individual allottees had on an earlier occasion applied for land through the SPVs. Although the SPVs are required to develop the land on their own and allot plots to their members, the progress of development of the project and implementation by the units was being monitored through the periodic reports submitted by the ZO. Further, as per subsequent reply (February 2024) submitted by the Management, as of date 50 industries have started their operations and 50 industries are likely to commence the operations by the end of June 2024 in TIF, MSME at IP Dandu Malkapur.

---

<sup>35</sup> Cluster for rice industries

<sup>36</sup> M/s TIF Integrated Industrial Parks Private limited formed by the Telangana Industrialists Welfare Federation (TIF), a federation of many MSME industry associations and M/s Yadadri Food Park Infrastructures Private Limited (SPV) (earlier known as Rice Hub Infrastructures Private Limited) formed by the Rice Millers Association of Hyderabad and Ranga Reddy districts for setting up the Rice Hub

The reply is not acceptable because TSIIC has neither legally safeguarded its right to proceed against the SPVs to ensure utilisation of the allotted lands as agreed nor has taken any action against the SPVs despite slow progress in project implementation.

**viii) Reservation charges short claimed at IP, Chandanvelly**

In case of requests for allotment of land in phases, the Allotment Regulations prescribed allotment of only the land required for the initial phase and reservation of the balance extent of land for a maximum period of five years from the date of allotment for the initial phase subject to levy and advance payment of process fee at the rate of five per cent of the prevailing land cost for each year of reservation.

As requested by M/s Welspun Group of Companies (WGC), TSIIC reserved 175 acres (out of the 550 acres allotted) at IP, Chandanvelly for a period of two and half years from February 2019 to August 2021. The TSIIC raised (August 2021) a claim for only ₹2.40 crore<sup>37</sup> and the same was yet (December 2022) to be honoured by the WGC.

Audit observed that as per the Allotment Regulations, an amount of ₹9.72 crore<sup>38</sup> was recoverable from the WGC. Thus, the short claim of reservation charges by TSIIC resulted in extension of undue benefit to the WGC by ₹7.32 crore.

The Government replied (October 2023) that the recovery of reservation charges dues of ₹2.40 crore payable by the WGC is being pursued.

The reply is not acceptable because TSIIC raised a short claim both in terms of the prevailing land rate as well as the period of reservation which resulted in a short claim of ₹7.32 crore. Admittedly, TSIIC was yet to recover even its claim of ₹2.40 crore.

**ix) Allotment of land to an unrelated industrial unit at Hyderabad Pharma City**

The NIMZ Guidelines stipulated that the land should be allotted and utilised only for the specified purposes as per the master plan and time. TSIIC proposed (January 2016) the NIMZ for Hyderabad Pharma City (HPC) as a cluster of pharmaceutical industries. However, GoTS/ TSIIC made (January 2020) the first allotment of 48.01 acres of land in the HPC to M/s Amazon Data Services India Private Limited (ADSIPL) for the establishment of a data centre in five phases. TSIIC also executed (February 2020) the sale deed allowing utilisation of the land for the intended purpose for 20 years from the date of the sale deed instead of from the date of completion of construction of each phase.

Audit observed that the allotment of land in the HPC for the establishment of a “data centre” was a deviation from the purpose for which the HPC was proposed. The target of generation of direct employment for 1.66 lakh people at the HPC was also jeopardised since the employment potential of a data centre was very minimal. Further, by executing the sale deed TSIIC lost the remedy of resumption of the premises in the event of non-implementation of the unit.

<sup>37</sup> Concessional rate of ₹13.73 lakh per acre X 5 per cent X 175 acres X 2 years

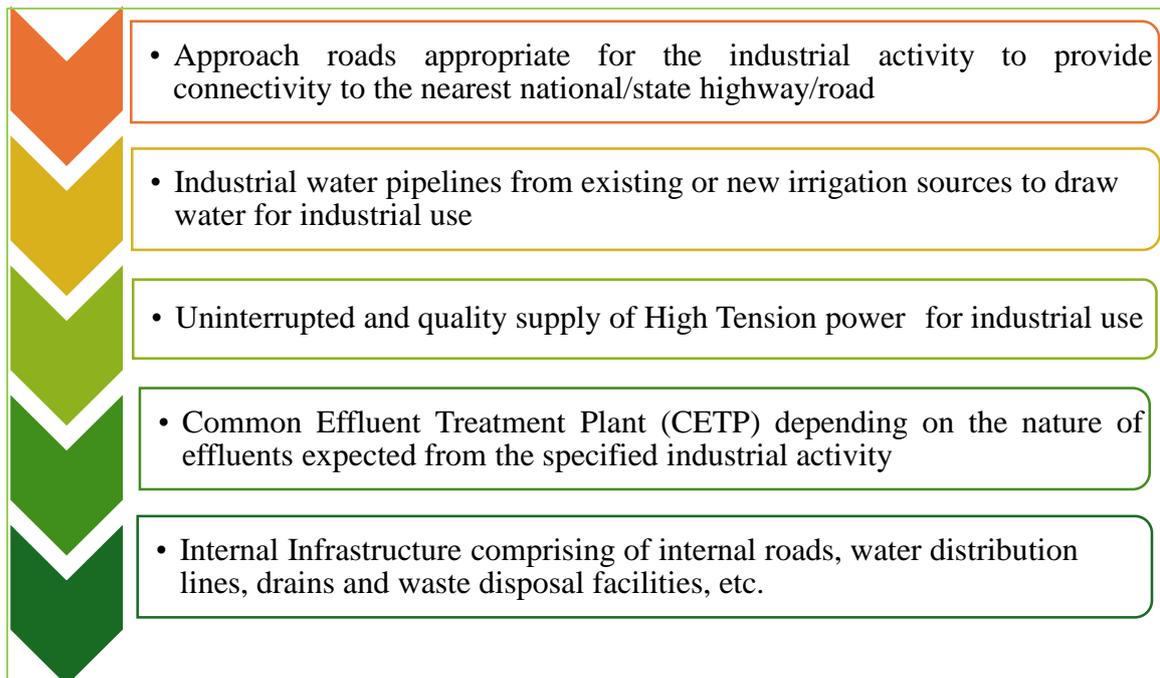
<sup>38</sup> Prevailing rate of ₹44.44 lakh per acre X 5 per cent X 175 acres X 2.5 years

The Government replied (October 2023) that as the HPC is under implementation and hence the allotted portion of the HPC to M/s. ADSIPL does not impact the HPC. It was further stated that the allotment was done keeping in view the framework agreement entered by GoTS with ADSIPL.

The reply is not acceptable because the allotment of lands acquired for the HPC to unrelated units lacks justification especially when TSIIC was unable to acquire land to the full extent required for implementation of the HPC itself. Further, allotment of entire land instead of making phase-wise allotments was contrary to the Allotment Regulations and the agreement framework does not provide any legal safeguard due to execution of sale deed before implementation of the project.

#### 4.1.4.3 Creation of infrastructure facilities

Under the Industrial Policy, TSIIC was required to develop the industrial and all related infrastructure facilities in the IPs by the time land was allotted to the investor to begin construction of the project. The common infrastructure facilities to be made available in an IP are as follows:



#### i) *Delay in implementation of infrastructure projects sanctioned under MSE-CDP scheme*

Under the Micro and Small Enterprises Cluster Development Program (MSE-CDP), the Ministry of MSMEs, GoI sanctions projects for the upgradation of infrastructure in the existing IPs and the creation of infrastructure facilities for setting up new IPs. The GoI shared 90 per cent cost for Common Facility Centers and 80 per cent cost for Infrastructure Development projects. State Government concerned was required to meet the balance project cost. The Implementing Agency (TSIIC for Telangana) was supposed to complete

the projects within 12 months/ 24 months from the date of issue of final project approval by the GoI.

Under the MSE-CDP, the GoI sanctioned (March 2014 to March 2022) 11 projects for Telangana and released (up to March 2022) the first instalment of ₹18.62 crore against its share of ₹70.62 crore<sup>39</sup>. The TSIIC had spent (up to March 2022) a total of ₹12.99 crore against the GoTS share of ₹31.35 crore. However, the GoTS did not provide any funds to TSIIC to recoup its expenditure/ amount deposited on behalf of the GoTS.

Audit observed that none of the projects was completed within their scheduled timelines. Out of the 11 projects, only one project was completed after a delay of seven years. The release of subsequent instalments by the GoI depended on the implementation plan and completion/substantial progress of works related to land and buildings including water and power. However, the progress of works on the balance projects was slow as the finalisation of estimates, issue of tenders and commencement of works were awaited in respect of certain works. As a result, TSIIC was yet (December 2022) to demand the release of subsequent instalments by the GoI. Further, due to non-release of the GoTS's contribution, the funds spent by TSIIC were also insufficient to complete the infrastructure projects within the agreed timelines.

The Management replied (February 2023) that the balance projects were delayed due to the receipt of final approvals from the GoI in the year 2020, receipt of the first instalment of the Central grant with a time lag of about 5 to 7 months upon depositing of the State share, and loss of almost two years due to COVID-19 Pandemic. The delay in implementation has been apprised to the Ministry of MSMEs, GoI which granted suitable time extensions. To fast-track the completion of projects by March 2023, TSIIC has been meeting the State's share of the project cost and was in the process of requesting the Ministry of MSMEs, GoI for the release of the second instalment as per the MSE-CDP guidelines.

The Government replied (October 2023) that the National Level Steering Committee, MSME, GoI considered to grant extension of time till December 2023 and efforts are being made to complete the projects within the extended timelines.

The reply is not acceptable because the GoTS/TSIIC themselves deposited the State's share with a delay of up to six months from the date of final approval and the Ministry of MSMEs, GoI released the Central grant within three months thereafter. Further, despite the grant of extension of time, the GoTS/TSIIC were yet to deposit the State's share of the second instalment.

**ii) *Non-establishment of Common Effluent Treatment Plant for Pharma clusters in IP Jadcherla and IP Pashamylaram***

Common Effluent Treatment Plants (CETPs) form an essential component of infrastructure in an IP consisting of units with compatible nature of activities. The CETPs reduce effluent treatment costs, provide better collective treatment, and reduce the land cost for small industrial units that cannot afford individual effluent treatment plants.

---

<sup>39</sup> Out of total cost of ₹101.97 crore for 11 projects

The TSIIC established two IPs at Jadcherla and Pashamylaram in 1985 and 1986 respectively which also contained pharmaceutical industry clusters. The Central Pollution Control Board classified (February 2016) the pharmaceutical industry under the “Red” category as they generate all types of pollution and have a pollution index score of 95 out of 100.

Audit observed that TSIIC took steps to establish the CETP to treat the effluent discharged by the bulk drug manufacturing units at IP Pashamylaram only in March 2015. The Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, GoI approved (March 2015) the establishment of CETP at IP Pashamylaram and released (by January 2020) ₹7.07 crore out of total Central assistance of ₹25.76 crore<sup>40</sup>. Though TSIIC committed (January 2020) to the DPIIT to complete the CETP project by June 2020, TSIIC issued work orders for the construction of the CETP only in December 2021 and the project was yet (November 2023) to be completed. Audit also observed that although TSIIC proposed (April 2021) to establish the CETP at IP Jadcherla, the project was yet (December 2022) to take off. Thus, despite a lapse of nearly four decades, TSIIC could not establish the CETPs for Pharma clusters in the IPs at Jadcherla and Pashamylaram.

Government attributed (October 2023) the delay to environmental clearance, approvals, and release of grants by DPIIT. In respect of IP Jadcherla, it was stated that there was no requirement for construction of CETP since the allotments were made only for pharma formulations. The meagre quantity of effluent generated from washing is collected and sent through tankers for treatment.

The reply is not acceptable because although the pharma clusters in the IPs at Jadcherla and Pashamylaram were operating for more than 37 years, the CETP was still not established. Construction of CETP at IP Jadcherla was deliberated by the board and felt necessary in view of the pollution.

***iii) Non-utilisation of R&D Lab, QA&QC and Pilot Plant Building***

The TSIIC got a Research and Development (R&D), Quality Assurance and Quality Control (QA&QC), and Pilot Plant building constructed by September 2020 and Mechanical, Electrical and Plumbing works were completed only in January 2023 in IP Pashamylaram at a cost of ₹7.83 crore.

---

<sup>40</sup> Out of total revised project cost of ₹104.24 crore



R&D, QA&QC and Pilot Plant Building  
Photo taken by Audit on 21.07.2022 during visit to  
IALA, Pashamylaram

Audit observed that although construction of the building was completed, TSIIC was yet (October 2023) to utilise the facility for want of procurement of machinery, plant and equipment for the R&D, QA&QC, and Pilot Plant, and the delay in completion of the CETP at IP Pashamylaram. Thus, the infrastructure facility created at a cost of ₹7.83 crore remained idle for more than a year.

The Government replied (October 2023) that the construction of CETP and R&D facility are interlinked, since the CETP works are now under advance stage, the procurement process of plant and machinery has been initiated and will be completed at the earliest. It was further replied (February 2024) that tenders for procurement of plant and machinery are under finalisation and installation is expected to be completed by March 2024.

The reply is silent on delay in procurement and installation of plant and machinery, which led to idling of the established infrastructure facility for more than one year.

**iv) Avoidable expenditure on the creation of infrastructure facilities**

As noted in *Para 4.1.4.2(i)* above, any deviations to the customised benefits including the provision of infrastructure facilities for mega/large industrial projects as agreed by the CSC were to be made only with the approval of the CSC.

The CSC allotted (July 2017) land at a concessional rate to M/s Chiripal Poly Films Limited (CPFL) at the Plastic Park, Mankhal (Expansion) but decided to provide infrastructure facilities<sup>41</sup> at cost. The I&C Department communicated (October 2017) the CSC's decision to TSIIC which issued (October 2017) the allotment letter incorporating the same terms and conditions.

However, in response to the CPFL's request (November 2017) *inter alia* to exclude the condition of the CPFL incurring the cost for infrastructure facilities, the I&C Department clarified (November 2017) that the required infrastructure facilities would be developed by TSIIC and provided to the CPFL. Accordingly, TSIIC worked out (October 2020) the proportionate development cost chargeable to the CPFL at ₹32.55 crore. TSIIC's claim (October 2020) for reimbursement of the development cost incurred by TSIIC was yet (December 2022) to be settled by the I&C Department.

Audit observed that the I&C Department's decision to provide infrastructure facilities to the CPFL at TSIIC's cost was in deviation from the CSC's decision. It also resulted in the extension of undue benefit to the CPFL amounting to ₹32.55 crore.

<sup>41</sup> (a) Water connection till the mouth of industry (b) Sewage connection to the main line and (c) availability of common effluent treatment plant and power station in the IP

The Government replied (October 2023) that the differential cost had been recovered in the subsequent allotments and the TSIIC would pursue reimbursement of development cost incurred by it. The reply is, however, silent about the deviation from CSC's decision.

**v) Poor governance of IT Towers constructed in Tier II cities**

The ICT Policy envisaged creating the next wave of growth of the IT Industry in Tier II cities in the State by creating robust infrastructure and a favourable ecosystem for attracting IT companies and a skilled workforce. Accordingly, the GoTS took up (August 2016 to December 2021) construction of IT Towers in Tier II cities of Warangal, Karimnagar, Khammam, Nizamabad, Mahaboobnagar, Siddipet and Nalgonda Districts. Audit, however, observed that the IT Towers were poorly governed as detailed below:

Out of eight IT Towers with a total area of 5.19 lakh Square Feet (Sq.ft.), the TSIIC completed the construction of four IT Towers with a total area of 1.54 lakh Sq.ft. by December 2020. Although TSIIC fixed (February 2021) the charges such as lease rents, maintenance charges, internet charges, etc. to be collected from the allottees, the GoTS did not frame any policy incentives and operational guidelines for the administration of the IT Towers. Consequently, TSIIC lacked clarity on important issues like action to be taken in the event of non-compliance like (i) non-execution of lease deed and non-occupation of the premises by the allottees after allotment, (ii) non-payment of lease rents, other charges (iii) modalities for waiver of lease rents/ other charges, and (iv) penalties to be imposed, etc.

Of the 1.54 lakh Sq.ft. created, TSIIC was able to allot only 0.73 lakh Sq.ft. till March 2022. However, TSIIC did not enter into any written lease agreements with the allottees. The allottees also sought a waiver of lease rentals and maintenance charges due to reasons like announcement of a waiver at the time of the inauguration of IT Towers by the Minister of IT, E&C, the COVID-19 Pandemic, etc. Consequently, TSIIC was yet to realise lease rentals and maintenance charges amounting to ₹3.42 crore.

There was a delay ranging from 18 months to 30 months in the construction of the four IT Towers in operation. Further, four other IT Towers with a total area of 3.65 lakh Sq.ft. were still (December 2022) under construction. Also, nearly half of the constructed space at four IT Towers in operation was lying unallotted/ unoccupied by the allottees. Consequently, the targeted employment generation was also likely to be delayed, besides resulting in the idling of the created assets. However, except for allotting to occasional seekers of the space in these IT Towers, the GoTS/ TSIIC did not draw up an action plan to speed up the completion of IT Towers and to create employment as intended.

Even though TSIIC had so far expended an amount of ₹134.40 crore for the construction of the IT Towers in Tier II cities, the GoTS reimbursed only ₹6.29 crore. Given the non-collection of lease rentals, other charges from the allottees coupled with the meagre resources made available by the GoTS, the financial viability/ maintenance of IT Towers would be jeopardized leading to the delayed achievement of the intended objective of providing impetus to IT Industry in Tier II cities.

The Government replied (October 2023) that all the eight IT towers are now operationalised. The formal lease agreements are yet to be entered into with allottees since the matter was

still under consideration by the Government. The reply was not acceptable because GoTS/ TSIIC was yet to frame operational guidelines for proper administration of the IT Towers and GoTS was yet to reimburse the amount expended by TSIIC. Further, the reply is silent regarding the delays in the construction and the present occupancy status of the IT Towers.

**vi) Inaction against non-implementing units**

The Allotment Regulations and the Agreement(s) of Sale entered by TSIIC with the allottees provided for TSIIC's right to cancel the allotment and resume possession of the land, if the allottees fail to utilise the land/ implement the project in full as envisaged in their Detailed Project Reports within the stipulated/ extended time. They also provided for execution of the sale deed if at least 50 *per cent* of the allotted land is utilised for project implementation and all the terms and conditions of allotment were complied with.

The position of allotments made and implementation of projects as of March 2022 is detailed in **Table 4.1**:

**Table 4.1: Status of implementation of projects by the allottees**

(Units in Nos and Area in acres)

| Particulars                          |       | Allotments made up to 2014 | Allotments made between 2014 to 2020 | Total     |
|--------------------------------------|-------|----------------------------|--------------------------------------|-----------|
| Allotted                             | Units | 14,047                     | 1,642                                | 15,689    |
|                                      | Area  | 52,673.08                  | 2,181.15                             | 54,854.23 |
| Implemented                          | Units | 12,801                     | 223                                  | 13,024    |
|                                      | Area  | 46,369.55                  | 593.14                               | 46,962.69 |
| Became sick                          | Units | 400                        | 2                                    | 402       |
|                                      | Area  | 985.56                     | 1.30                                 | 986.86    |
| Under implementation                 | Units | 393                        | 278                                  | 671       |
|                                      | Area  | 2,435.49                   | 352.19                               | 2,787.68  |
| Implementation has not yet commenced | Units | 351                        | 703                                  | 1,054     |
|                                      | Area  | 2,440.04                   | 691.29                               | 3,131.33  |
| Status not known                     | Units | 102                        | 436                                  | 538       |
|                                      | Area  | 442.43                     | 543.22                               | 985.65    |

Source: Information furnished by TSIIC

Audit observed that out of the 1,642 units which were allotted 2,181.14 acres between 2014-15 to 2019-20, nearly 86.30 *per cent* of the units (1,417 Nos and 1,586.70 acres) were either still under implementation or yet to commence implementation of the projects or the status of implementation of their projects was not known to TSIIC. In addition to this, TSIIC was yet to act against similarly placed 846 units that were allotted 5,317.96 acres before 2014. However, TSIIC, in deviation from the Allotment Regulations, executed sale deeds in favour of 232 units (2,002.41 acres) despite non/delay in the implementation of projects.

Audit observed that the delay in the unimplemented projects by the allottees ranged from 3 years to 48 years resulting in the blocking and idling of a huge land bank of 6,905 acres.

However, TSIIC did not take any concrete steps for the cancellation of allotments/ agreement(s) of sale and re-allotting of the vacant industrial plots to other needy entrepreneurs. Timely action by TSIIC to resume the allotted lands due to non-implementation of the units by the allottees could have saved huge money spent on developing new IPs besides achieving the objective of socio-economic development through employment generation by promoting industrial infrastructure.

The Government replied (October 2023) that most of the allottees have implemented their units. The ZOs were periodically reviewing the status of non-implemented and partially implemented units. In deserving cases, TSIIC is granting an extension of time to encourage the allottees to implement their units. However, in chronic cases, TSIIC is taking necessary action to resume the lands. Further, TSIIC executed sale deeds in case of substantially implemented units to enable them to raise loans from financial institutions. It was further replied (February 2024) that the Government has also directed to enhance utilization/resumption of un-utilized land.

The reply is not acceptable because the implementation of units by most of the allottees was unverifiable due to non-furnishing of the details of all its allottees and their status of implementation by TSIIC.

***vii) Executing sale deeds without providing for the resumption of lands***

Although the Allotment Regulations and the Agreement(s) of Sale provide for the resumption of lands in case the allottee fails to implement the project or to comply with other terms and conditions of allotment, unilateral cancellation of allotment in many cases led to litigation. In such a case, the TSIIC still had a chance to resume its lands through the intervention of the Courts. Further, the Supreme Court had in its judgement (April 2018) in Civil Appeal No.3020 of 2018 held that in case of sale of TSIIC's land, the allottee acquires absolute marketable title to the property. Therefore, unless the conditions of the Allotment Order/Agreement of Sale are specifically incorporated in the sale deed, TSIIC's right to cancel the allotment and to resume land will cease to have any effect after the execution of the sale deed.

Audit observed that although TSIIC was aware of the above legal position, it executed sale deeds in favour of M/s Amazon Data Services India Private Limited (ADSIPL - February 2020), M/s Welspun Group of Companies (WGC - June 2020) and M/s Microsoft Corporation (India) Private Limited (MCIPL - December 2021) without incorporating the conditions precedent for allotment, transfer of title to the lands. As a result, TSIIC lost its right to enforce the implementation of these projects by the allottees. Audit observed that while the ADSIPL and the MCIPL were yet (December 2022) to establish their projects (Data Centers), the WGC project was under implementation.

The Management replied (January 2023) that the matter will be taken up at the Government level to find a suitable solution to the issue. The Government replied (October 2023) that

the sale deeds were executed in exceptional cases by the Government keeping in view the mega investment and employment potential.

The reply is not to the point of audit observation that TSIIC executed the sale deeds without incorporating the conditions precedent for allotment, transfer of title to the lands, and the TSIIC's right to enforce the implementation of projects or resumption of lands in case of non-implementation of the projects within a reasonable time frame.

#### ***4.1.4.4 Functioning of Industrial Area Local Authorities***

Under the provisions of Article 243Q of the Constitution of India (74<sup>th</sup> Amendment Act, 1992), the GoTS had been notifying TSIIC's industrial estates as the IALAs to enable them to exercise/ perform certain statutory powers/ functions of local bodies such as assessment, levy and collection of Property Tax/Advertisement Tax, sanction of building permits, removal of encroachments, management, and maintenance of civic services in the IPs.

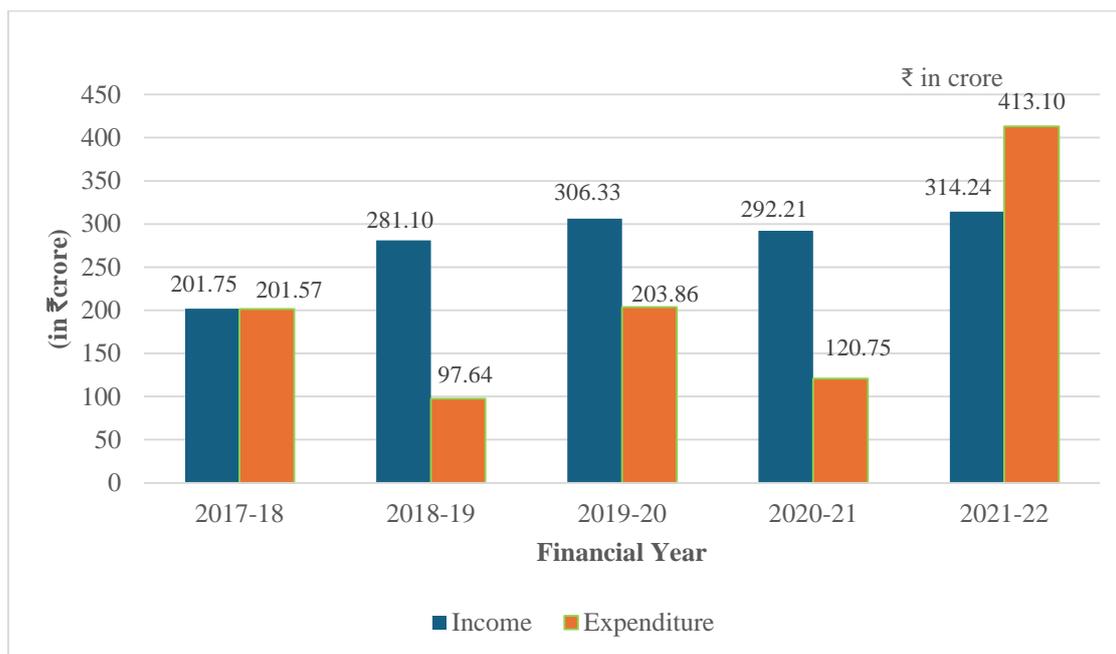
The TSIIC nominates the Commissioner/Executive Officer for the IALAs to discharge the functions of the local body. Further, Service Societies involving the industrial units located in the IPs are elected to promote self-governance and transparency in the management and functioning of the IALAs.

The IALAs are required to remit 35 *per cent* of the property tax/revenues collected to the local bodies concerned and spend the rest on the maintenance and development activities in the IALAs. As on March 2022, property tax of ₹194.57 crore was outstanding from various industrial units in the IALAs.

The Government replied (October 2023) that due to Covid 19 and consequential shutdown of industrial units, property tax could not be collected. However, it was instructed to initiate a drive for collection of property tax dues.

As on 31 March 2022, 186 IPs (out of 267 IPs) were covered under 138 IALAs of which 82 IALAs commenced their operations. The trend of revenue generated, and expenditure incurred by the IALAs during the last five years is detailed in **Chart 4.2**:

**Chart 4.2: Income and Expenditure of IALAs**



**i) Non-functioning of Service Societies**

The main role of a Service Society was to participate in all the decisions of the IALAs concerning the industrial units and to coordinate the functioning of the IALAs by involving the constituent industrial units in different developmental activities within the IALA’s jurisdiction. The Service Society functioned through a Management Committee elected for a three-year term and was required to meet once every month.

Audit observed that Service Societies were formed in respect of 23 IALAs only. Of these, only 11 Service Societies were governed by Management Committees constituted through elections. Due to absence of independent Management Committees for the IALAs and participation by the constituent industrial units, TSIIC took the decisions for the IALAs related to developmental activities and use of funds collected, etc. Thus, the objective of self-governance was undermined.

The Government replied (October 2023) that the Zonal Managers were advised to form the Service Societies duly enrolling the membership and conducting elections. Further, it was directed to form Advisory Committees wherein established industrial units were less than five in the industrial park.

Implementation of the directions issued by the Government in conducting elections, forming of service societies and advisory committees is awaited.

**ii) Diversion of IALA’s funds to TSIIC**

The IALAs were required to remit 35 per cent of the property tax/revenues collected to the local bodies concerned and spend the rest on the maintenance and development activities in the IALAs.

Audit however, observed that out of the property tax funds available with three IALAs, TSIIC diverted (September 2015 and March 2016) an amount of ₹150.00 crore<sup>42</sup> to acquire lands for establishment of the HPC. The Advisory Committees<sup>43</sup> of IALAs ratified (February and August 2016) the transfer of funds to TSIIC stating that the same should be reimbursed to the IALAs after the sanction of the budget to TSIIC by the GoTS. However, TSIIC entered (August 2019) into agreements with the IALAs to provide for the repayment of the advances after 90 years but without any interest. Thus, TSIIC diverted ₹150.00 crore of IALAs' funds for its purposes instead of utilising them for the maintenance of respective IPs.

In yet another instance, TSIIC diverted (December 2019 to October 2020) ₹100.00 crore<sup>44</sup> for payment of outstanding dues of various vendors/agencies executing IT infrastructure works for T-Works project, T-Hub (Phase-II) project and IT Towers in Karimnagar, Nizamabad, Khammam, Warangal and Mahabubnagar districts. The IALAs were yet to ratify the transfer of funds to TSIIC. Although the GoTS directed (November 2019) TSIIC to reimburse these funds to the IALAs concerned after the transfer of the quarterly budget to TSIIC's Public Deposit Account, neither did the GoTS release the budget to TSIIC nor did TSIIC reimburse the funds to IALAs so far (December 2022). Similarly, TSIIC diverted (between April 2021 and November 2021) ₹250.00 crore<sup>45</sup> to meet the expenditure on TSIIC's development activities.

Thus, TSIIC diverted ₹500.00 crore of IALA's funds and deprived the IALAs, established under the Constitutional provisions from deriving the intended benefits of developing the internal infrastructure in the IPs by expending the share of funds earned by them.

The Government replied (October 2023) that since TSIIC's lands were allotted on a nominal or free-of-cost basis, the GoTS has been giving directions from time to time to utilise the surplus funds lying with the IALAs. Since the funds diverted are only surplus funds, the functioning of the IALAs is not affected.

The reply is not acceptable because the practice adopted by the GoTS/TSIIC is against the basic tenet of local governance for which the IALAs were created. The IALAs could have utilised the surplus funds to provide enhanced infrastructure facilities to their constituent units, amenities and benefits to the people working in the IALA area.

### **iii) Levy of property tax at lower rates by IALA, Madhapur**

The IALA, Madhapur being covered under the jurisdiction of the Greater Hyderabad Municipal Corporation (GHMC) was required to charge property tax from its constituent units as per the classification of properties and the rates of Monthly Rental Values (MRV) as notified by the GHMC.

The notification issued (January 2008) by GHMC *inter alia* classified the buildings into industrial buildings and office buildings. Further, the MRV of industrial buildings in

<sup>42</sup> ₹75.00 crore from IALA Madhapur, ₹37.50 crore from IALA Nanakramguda and ₹37.50 crore from IALA Manikonda

<sup>43</sup> Constituted by TSIIC in lieu of the elected Service Societies

<sup>44</sup> (₹50.00 crore each from IALA, Madhapur and IALA, Nanakramguda)

<sup>45</sup> ₹65 crore from IALA, Madhapur, ₹150 crore from IALA Nanakramguda, ₹25 crore from IALA, Manikonda and ₹10 crore from IALA, Kokapet

respect of Madhapur locality was fixed at ₹4.00 per Sq.ft. for the Ground and the First floors and ₹3.50 per Sq.ft. for the Second and subsequent floors. Similarly, the MRV of office buildings was fixed at a higher rate of ₹6.00 per Sq.ft. for the Ground and the First floors and at ₹5.50 per Sq.ft. for the Second and subsequent floors.

Audit, however, observed that for levying property tax on the units that established IT Offices, the IALA Madhapur applied the MRV rates as applicable to the industrial buildings. But the other IALAs (Gachibowli, Nanakramguda and HKC Raidurg) covered under the jurisdiction of GHMC applied the MRV rates as applicable to the Office buildings. Even in IALA, Madhapur, the property tax was levied considering the MRV rates of Office buildings in the case of a few IT units. Thus, the application of a lower MRV rate by IALA, Madhapur resulted in a loss due to the short levy of property tax by ₹ 105.91 crore for the period 2014-2022.

The Government replied (October 2023) that at the request of the IT Companies for creating more employment generation it was agreed to levy property tax at lower rates. But the other IALAs continued to adopt the categorisation and rates as determined by GHMC. It was however stated that based on the audit objection, the property tax rates were enhanced as applicable to IT companies from 1 April 2023 onwards.

It is clear from the reply that the IALA, Madhapur extended undue benefit of ₹105.91 crore to its constituent IT Companies as opposed to the other IALAs that were covered under the jurisdiction of the same GHMC. The IALA Madhapur took its own decision contrary to the Rules and without obtaining any specific approval either from the I&C Department or the GHMC. The Principal Secretary, I&C Department in the Exit Meeting directed to explore the possibility of recovery of ₹105.91 crore from the IT companies.

#### **4.1.5 Conclusion**

*The Industrial Policy Framework for the State of Telangana, 2014 envisaged large-scale private sector participation with TSIIC being responsible for the development and maintenance of industrial and related infrastructure in the Industrial Parks (IPs).*

*The land acquisition of NIMZ Zaheerabad and Hyderabad Pharma city was yet to be completed (December 2023) despite lapse of more than five to seven years resulting in delay in achievement of the expected investment and employment generation. TSIIC had also diverted funds raised for land acquisition for NIMZ to other purposes. Orders for alienation of Government lands were pending and TSIIC did not undertake a periodical survey of its land bank.*

*The I&C Department extended undue benefit to the allottees by allowing concessions in deviation of the CSC decisions. The CCESD&M exceeded its authority under the EH Policy and allotted lands to Electronic Hardware units at concessional rates resulting in loss of revenue to the State exchequer. TSIIC also extended undue benefit to the allottees by deviating from various provisions of the Allotment Regulations.*

*Completion of 11 projects for upgradation/creation of infrastructure in the existing/ new IPs, construction of the CETP in two IPs, eight IT Towers in Tier II cities, and utilization of the R&D, QA&QC and Pilot Plant building were delayed. TSIIC provided additional infrastructure to the allottees at its own cost and could not frame operational guidelines for the proper administration of the IT Towers which resulted in non-recovery of the capital, maintenance costs.*

*TSIIC did not take action to cancel the allotments/agreement(s) of sale and resume the premises from the allottees despite delay/non-implementation of projects.*

*Service Societies were formed only in respect of a few IALAs and most of these were not governed by the management committees to be constituted through elections. TSIIC also frequently diverted funds collected by the IALAs. Thus, the objective of self-governance of IALAs was undermined and they did not function satisfactorily.*

#### **4.1.6 Recommendations**

The State Government may:

1. Take appropriate steps to speed up the acquisition of land for the Industrial Parks.
2. Ensure completion of the process for alienation of Government lands (which is already in possession of TSIIC) in favour of TSIIC.
3. Ensure that the Industries and Commerce Department and TSIIC strictly abide by the Cabinet Sub-Committee's decisions and the Allotment Regulations regarding the provision of concessional allotments and infrastructure facilities.
4. Ensure early completion/upgradation of the infrastructure projects by TSIIC.
5. Ensure the incorporation of suitable clauses by TSIIC in the sale deeds to provide for the resumption of premises in the event of non-implementation of the projects by the allottees. Additionally, the Government may ensure that TSIIC enforces these clauses effectively.
6. Ensure that Service Societies are formed for all IALAs and these Societies are governed by Management Committees constituted through elections.

**Department of Energy**  
**(Telangana State Power Generation Corporation Limited)**  
**(Transmission Corporation Of Telangana Limited)**  
**(Northern Power Distribution Company Of Telangana Limited)**  
**(Southern Power Distribution Company Of Telangana Limited)**

## 4.2 Non-recovery of Tax Deducted at Source (TDS) on terminal benefits

**Four PSUs under Power Sector did not recover Tax Deducted at Source (TDS) on terminal benefits of gratuity and leave encashment, as a result Income Tax to the tune of ₹20.15 crore was short-remitted.**

Salary paid at the time of retirement/ death of an employee *inter-alia* includes terminal benefits namely, payments in respect of gratuity, pension and encashment of leave. The Income Tax Act, 1961 (IT Act), contains following provisions with regard to taxability of these terminal benefits paid to various categories of employees;

- Gratuity paid to any employee other than Central, State or Local Government employee is exempted up to a maximum of ₹20.00 lakh<sup>46</sup> (Section 10 (10)).
- Commuted Pension paid to any employee other than Central, State, Local Government employee or an employee of a Corporation established by a Central, State or Provincial act, is exempt up to one-third (one-half, if the employee does not receive gratuity) of such commuted Pension (Section 10 (10A) (i)).
- Leave encashment paid to any employee other than a Central or State Government employee is exempt up to a maximum of ₹3.00 lakh (Section 10 (10AA)).
- Terminal benefits paid in excess of the above limits are taxable under the head “Salaries” and the person responsible for paying them shall deduct tax at source (TDS) at average rate<sup>47</sup> on the estimated income (Section 192).

Telangana State Power Generation Corporation Limited (TSGENCO), Transmission Corporation of Telangana Limited (TSTRANSCO), Northern Power Distribution Company of Telangana Limited (TSNPDCL) and Southern Power Distribution Company of Telangana Limited (TSSPDCL) respectively are engaged in generation, transmission and distribution of electricity in the State of Telangana. These State Power Companies were eligible for being treated as Corporations established by a Central or State Act<sup>48</sup>. Therefore,

<sup>46</sup> Ceiling limit was enhanced from ₹10 lakh to ₹20 lakh with effect from 29 March 2018 vide CBDT Notification No S.O.1213 (E) dated 8 March 2019

<sup>47</sup> Total estimated tax liability/12 months or 8.33 *per cent* per month

<sup>48</sup> The Power Companies were established under the Andhra Pradesh Electricity Reforms Act, 1998 (Reforms Act of 1998), the Andhra Pradesh Electricity Reform (Transfer Scheme) Rules, 1999 (Transfer Scheme Rules, 1999), the Andhra Pradesh Electricity Reform (Transfer of Distribution Undertakings from APTRANSCO to Distribution

the employees of these State Power Companies were eligible for exemption from payment of tax on the commuted Pension.

However, it is a settled position of law<sup>49</sup> that a Corporation, Statutory Body or Authority established by an Act of Parliament or a State Legislature, is a legal entity separate from the Government. Therefore, the employees of these State Power Companies were liable for payment of tax on the amount of leave encashment and gratuity received in excess of the ceiling limits prescribed under the IT Act. Accordingly, the State Power Companies were required to recover TDS on the leave encashment and gratuity paid to their employees.

Audit observed that State Power Companies paid leave encashment and gratuity in excess of the ceiling limits prescribed under the IT Act to employees who retired during the period 2014-21. However, considering themselves as a Government authority or a Corporation established by the State Act, the State Power Companies did not recover any TDS on the excess amount of leave encashment and gratuity as per the provisions of the IT Act. This resulted in short remittance of Income Tax of ₹20.15 crore<sup>50</sup>. In spite of requisition (November 2021, December 2022 and February 2023) by Audit, two (TSGENCO and TSTRANSCO) out of four State Power Companies did not furnish information about all their employees<sup>51</sup> who retired during the period 2014-21. Hence, audit is unable to quantify the total shortfall of TDS.

The Government replied (June, July 2022) that State Power Companies are wholly owned State Government Companies established under the Central and State Acts and regarded as an “instrumentality of the State”. Employees of these State Power Companies were given pay protection under the reforms scheme and the Tripartite Agreement with the State Government. Hence, employees of State Power Companies are eligible for exemption from deduction of TDS on all the terminal benefits.

The reply is not acceptable because the IT Act determines the eligibility for exemption from the provisions of TDS on terminal benefits. The IT Act itself (vide Sec 10 (10)(i), Sec 10(A)(i) and Sec 10(10AA)(i)) makes a distinction between purely Government employees and employees of a Corporation established by an Act of Parliament or a State Legislature, which may be regarded as an instrumentality of State. Thus, the State Power Companies and even the Andhra Pradesh State Electricity Board (APSEB) cannot claim exemption from TDS on gratuity and leave encashment paid to their employees.

---

Companies) Order, 2000 (Second Transfer Scheme, 2000) and the Andhra Pradesh Reorganization Act, 2014 (Act of 2014)

<sup>49</sup> Para 4.2 of Chapter 4 of 145<sup>th</sup> Report of Law Commission of India and Judgement of Hon’ble Supreme Court of India in Transfer Petition (Civil) No 8 of 2000 (A.K Bindal & Anr Vs Union of India & Ors)

<sup>50</sup> ₹17.91 crore on leave encashment paid to 632 employees and ₹2.24 crore on gratuity paid to 382 employees who retired during the period 2014-2021.

<sup>51</sup> Information about 12 employees of one unit of TSGENCO and 17 employees of five units of TSTRANSCO was only made available to Audit

**Department of Energy**  
**(Transmission Corporation of Telangana Limited)**

### 4.3 Avoidable payment of interest charges

**The Company did not pay advance Income Tax as per the provisions of the Income Tax Act, 1961 due to incorrect/non-estimation of advance tax liability. This resulted in avoidable payment of interest charges of ₹9.67 crore for the assessment years 2019-20 to 2021-22**

As per Section 139 of the Income Tax Act, 1961, every Company whose total income during the previous year exceeded the maximum amount not chargeable to income-tax, shall furnish a return of its income on or before the due date<sup>52</sup>. Default in timely furnishing of the return would attract interest under Section 234A of the Act.<sup>53</sup> Further, as per Section 208 of the Act, every Company is required to pay Income Tax in advance (Advance Tax) if the amount of such tax payable during the financial year (FY) is ₹10,000 or more. Section 211 of the Act allows payment of Advance Tax in four quarterly instalments<sup>54</sup>. In case of failure to comply with these provisions, the company shall be liable to pay penal interest charges under Sections 234B and 234C of the Act on the shortfall amount of tax at the prescribed rates for the prescribed period<sup>55</sup>.

Review of compliance by the Company with above mentioned provisions of the Act for the Assessment Years (AY) 2019-20 to 2021-22 (Previous Years/ FY 2018-19 to 2020-21) revealed the following:

- (a) The Company filed income tax returns with delay up to six months during AYs 2019-20 and 2021-22. Consequently, the Company paid penal interest under Section 234A to the extent of ₹0.23 crore.
- (b) The Company did not assess its advance tax liability for six (out of 12) quarters and did not make a reasonable estimate of its annual and quarterly tax liability for the other six quarters. Audit observed that the Company estimated its tax liability based on previous year's tariff instead of considering the expected revenue from annual tariff hikes on quarterly basis, considered true up revenue only during the last quarters and did not remit the full amount of its estimated advance tax liability. The unrealistic estimate of annual tax liability was also evident from the gaps (ranging from 7.15 per cent (FY 2020-21) to 33.82 per cent (FY 2019-20)) between the advance tax paid and the actual tax liability as per the filed returns. Consequently,

<sup>52</sup> Due date is 30 September or such other date as the Central Board of Direct Taxes may extend

<sup>53</sup> Section 234A prescribed penal interest charges for default in furnishing the return at the rate of one per cent on the amount of net tax liability for every month or part of a month for the period immediately following the due date and end on the date of filing of the return or on the date of completion of assessment order

<sup>54</sup> Up to 15 per cent of advance tax by 15 June, up to 45 per cent of advance tax by 15 September, up to 75 per cent of advance tax by 15 December and up to 100 per cent by 15 March

<sup>55</sup> Section 234 (B) prescribed penal interest charges for default in payment of advance tax up to 90 per cent of assessed tax liability at the rate of one per cent on the amount by which advance tax falls short of the assessed tax for every month or part of a month from 1 April of the following financial year to the date of assessment order. Section 234 (C) prescribed penal interest charges for deferment of individual instalments of advance tax at the rate of one per cent on the amount by which advance tax falls short of the tax due as per the prescribed limits for a period of three months

the advance tax paid by the Company was less than the prescribed limit of minimum 90 per cent of the assessed tax liability for the three financial years (2018-19 to 2020-21). As a result, the Company paid penal interest charges under Section 234B to the extent of ₹5.86 crore.

- (c) The Company either did not pay the quarterly advance tax or paid the advance tax only for the last quarter thereby necessitating payment of huge amount of self-assessment tax at the end of the year/ at the time of filing of IT Return. The delay in payment of tax ranged from six to 12 months. As a result, the Company paid penal interest charges under Section 234C to the extent of ₹3.58 crore.

Thus, Company's failure to pay advance Income Tax as per the provisions of the Income Tax Act, 1961 due to incorrect/ non-estimation of advance tax liability resulted in avoidable payment of interest charges of ₹9.67 crore for the AY 2019-20 to 2021-22.

Management replied (March 2023) that the Company filed the original IT Returns as well as the revised IT Returns (after finalisation of tax audit) before the relevant due dates. Management accepted that the Company could not assess its Advance Tax accurately but attributed the same to delay in finalisation of demerger issues during AY 2019-20 & 2020-21 and COVID-19 Pandemic during AY 2021-22. It was further stated that from the AY 2022-23 onwards, the Company is diligently assessing and remitting its Advance Tax liability within the prescribed time limit for all the quarters duly considering the annual year-end accounting adjustments.

Government endorsed (March 2023) the Management's reply.

The reply is not tenable because even in the case of filing of an original IT Return within the extended due date or a revised IT Return within the relevant due date, interest under Section 234A is payable for the delayed period from the due date of filing of the original IT Return to the actual date of filing of the original or revised IT Return. The Company finalised its accounts for the FY 2018-19 & 2019-20 although the bifurcation issues are still pending. Also, the Company in its Annual Report for the year 2020-21 did not report any adverse impact of COVID-19 on its operations. Further, as per the original IT Return filed (September 2022) for the AY 2022-23, the Company paid Advance Tax of ₹21.00 crore for the second and third quarters and overall excess Income Tax of ₹37.26 crore.

### **Department of Transport, Roads and Buildings (Telangana State Road Transport Corporation)**

#### **4.4 Infructuous expenditure due to introduction of Buses without proper survey**

**Procurement of 100 "Vajra Buses" without analysing the operational viability resulted in wasteful expenditure of ₹22.04 crore, with additional interest loss of ₹3.99 crore**

As per the "Manual on Operations" of the Telangana State Road Transport Corporation (Corporation), proposals for introduction of long distance services shall be submitted with route and traffic survey. An essential part of traffic survey is assessment of the economics of the proposed operation.

In June 2016, the Government directed the Corporation to propagate the concept of "service

at doorstep” by introducing Mini AC buses operating without conductor from Warangal and Nizamabad to Hyderabad. This was a novel concept aimed at providing ease to the passengers through easy accessibility to their homes instead of them coming to the Bus stations. Towards this concept, the Corporation decided (July 2016) to procure 100 AC Mini buses (21-seaters) called “*Vajra Buses*” and necessary instructions for procurement were issued to the Mechanical Engineering Department of the Corporation. Although the ‘Manual on Operations’ of the Corporation provided for route and traffic survey to be conducted by the Operations Department before any new procurement, the Management instructed the Operations Department to only work out the fares and modalities of these services.

Tender for procurement of buses was called for in July 2016 and the summary of passengers travelling to different places after alighting at Hyderabad and originating places of passengers coming to Hanamkonda Bus station was assessed by the Corporation subsequently. The breakeven (BE) analysis conducted by the Corporation in September 2016 arrived at a BE Occupancy Ratio (OR) of 90 *per cent* at a price of ₹1.46 per km. No traffic/route survey to arrive at the rate per Km was found on record to justify the BE OR of 90 *per cent*. Despite not reaching a concrete conclusion on the routes, the preferences of the passengers and economics of operations, purchase order for 60 buses worth ₹12.54 Crore was issued (September 2016) to M/s Mahindra & Mahindra.

The buses were introduced in May 2017 connecting Nizamabad/Warangal to Hyderabad. Audit observed that the performance of the buses was poor since inception and many technical issues like AC aligner issue, Failure & breakage of AC Idler Pulley, HSD tank brackets breakage, HSD tank leakage, Vehicle not starting with wiring harness problem were identified in the buses. Further, issues pertaining to heating, uncomfortable seats, leg space were also pointed out by passengers.

The Regional Manager (RM), Warangal proposed (July 2017) withdrawal of certain routes and rescheduled the frequency of other routes which resulted in certain buses becoming excess. Hence Operations Department advised Mechanical Engineering department not to procure additional “*Vajra Buses*” in addition to the 60 buses already procured, as proposed earlier for Warangal to Hyderabad routes. The RMs, Khammam and Adilabad also informed (August 2017) that these buses may not be suitable for their regions.

Despite this, the Corporation went (August 2017) ahead with the procurement of 40 additional buses from M/s Mahindra & Mahindra, incurring an additional cost of ₹9.50 crore, to be used for special hire. No analysis was found on record to ascertain whether there would be a demand for these buses for special hires and package tours. Out of 40 additional buses purchased, 32 buses were repurposed and utilised for running on specific routes thereby indicating that there was no sufficient demand for special hire buses. Thus, in spite of non-performance, passenger complaints, negative opinion of RMs and technical issues, the decision of Corporation to procure 40 additional buses for special hire resulted in wasteful capital expenditure of ₹9.50 crore.

As the “*Vajra Buses*” continued to incur losses, the Corporation decided (December 2019) to stop its operations after two years and seven months of service. Audit further observed that fifty-nine buses were hypothecated to a Bank for which the Corporation paid an additional amount of ₹3.99 crore as interest to the end of March 2023.

Lapse of the Corporation to assess the feasibility of operating special buses resulted in wasteful expenditure of ₹22.04 crore with additional interest liability. Had the Corporation undertaken a proper economic survey before procurement of buses, incurring of the huge capital cost and interest could have been avoided.

The Management replied (November 2022) that elaborate planning was carried out in implementing the concept of “Vajra Buses” and steps were taken continuously to improve their performance. However, due to increased salaries and mounting input costs, the decision to stop operation of “Vajra Buses” was taken.

The reply is not acceptable as at the introductory stage itself, it could have been analysed whether increased salaries and input costs could be recovered. The planning/analysis undertaken by the Corporation was not sufficient to check the economic viability of running the buses.

Hyderabad  
The 26 MAY 2025



(P. MADHAVI)  
Principal Accountant General (Audit)  
Telangana

Countersigned



(K. SANJAY MURTHY)  
Comptroller and Auditor General of India

New Delhi  
The 30 MAY 2025

