Chapter - II

2 Reviews relating to Government companies

Gujarat Agro Industries Corporation Limited

2.1 Performance of production, sales and nodal agency functions

Highlights

The Company concentrated on sale of fertilizers and in the process failed to promote agro industries in the State which was its main objective.

(Paragraph 2.1.9)

In the implementation of the bio-gas programme, the Company failed to achieve the norms of covering 15 *per cent* Scheduled Caste beneficiaries. The Company unauthorisedly charged margins of Rs.2.82 crore from the beneficiaries of the bio-gas programme, tarpaulin and open pipe line schemes resulting in the curtailment of subsidy to these beneficiaries and defeating the purpose of the programme.

(Paragraphs 2.1.13, 2.1.14 and 2.1.15)

Service charges of Rs.1.25 crore received for implementation of State sponsored schemes including disbursement of subsidies were inadequate to meet even administrative expenditure of Rs.4.05 crore during 2000-04.

(Paragraph 2.1.18)

The Company suffered a net loss of Rs.1.82 crore in running uneconomical units in violation of the directions of the State Government.

(Paragraph 2.1.19)

The Company lost Rs.49.13 lakh in disposal of Mehsana complex due to acceptance of lower offer (Rs.29 lakh) and delay in realisation of funds (Rs.20.13 lakh).

(Paragraph 2.1.22)

Introduction

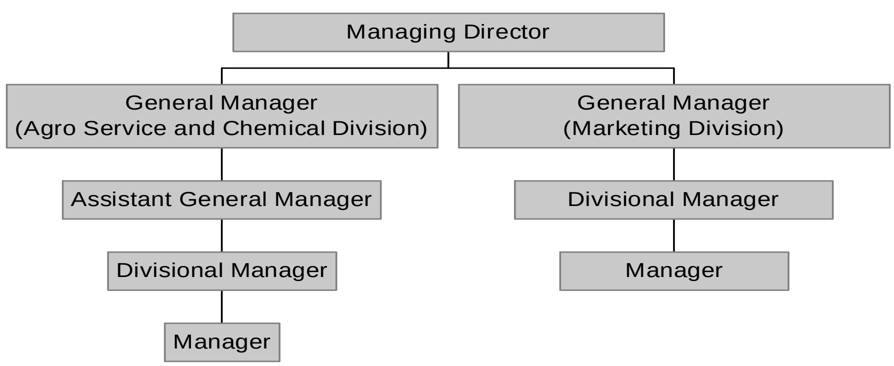
2.1.1 Gujarat Agro Industries Corporation Limited (Company) was incorporated in May 1969 with the main objectives to:

- finance, protect and promote agricultural activities and agro based industries;

- carry on business of manufacture and dealing in implements, machinery and tools which would help in promotion and modernisation of agriculture; and

- promote, establish, own and run industries for processing and preservation of agricultural and forest produce.

The Company has been mainly engaged in the trading of fertilizers, pesticides, tractors, storage bins and agricultural implements. The Company had six[∀] agro products processing units and two[#] pesticides formulation units. The Company also produced storage bins. The Company had four[∃] petrol pumps. The Company had four[∅] agro service complexes to monitor its activities in the field. Besides, the Company acts as a nodal agency of the State/ Central Government in formulating and implementation of agro industrial policy, disbursement of subsidy for various schemes, *etc*. The Company has an Agro Service and Chemical Division (ASCD) and a Marketing Division each headed by a General Manager. The ASCD is responsible for production of pesticides and storage bins, trading of fertilizers, pesticides, tractors, storage bins and agricultural implements, construction of bio-gas plants and disbursement of subsidy, through its 22 centres located in the State. The Marketing Division is mainly responsible for the performance of nodal agency functions assigned by the State/ Central Government. The organisation chart of production, sales and nodal agency function of the Company is given below:



The working of the Company was reviewed in the Report of the Comptroller and Auditor General of India for the year 1986-87 (Commercial)- Government of Gujarat. The Committee on the Public Undertakings (COPU) discussed the Report during July/ August 1991.

∀ Fruit canning factories at Gandevi and Junagadh, Cold storage at Deesa, Castor seed plant at Jagana, Oil extraction plant at Bareja and Energy food plant at Bavla.

\# Naroda and Gondal.

∃ Juhapura, Mehsana, Gondal and Surat.

∅ Juhapura, Mehsana, Gondal and Surat.

Scope of Audit

2.1.2 The present review conducted during December 2004 and April 2005 covers the performance of core activities of the Company under production, sales and nodal agency functions during 2000-04. The audit findings as a result of test check of records of head office, lone pesticide formulation unit and five[ϕ] out of 22 centres selected on geographical spread thereof are discussed in succeeding paragraphs.

Audit objective

2.1.3 The audit objectives of the review were to ascertain whether:

- the Company could achieve its objective of promoting agricultural activities in the state;
- the Company was able to discharge its functions as the channelising agency and to assess the extend to which it functioned effectively and efficiently;
- the Company could run its processing units effectively at full capacity achieving the intended objectives of their setting up;
- the targets for various activities were achieved;
- the trading activity was carried out effectively and economically; and
- the service charges received for nodal agency functions were adequate.

Audit criteria

2.1.4 The following audit criteria were adopted:

- utilisation of installed capacity and profitability of the manufacturing activity;
- annual targets fixed by the Company and their achievements;
- discharge of nodal agency functions with reference to the norms fixed;
- economic viability of trading and nodal agency functions; and
- directions issued by the Government and their implementation.

Audit methodology

2.1.5 Audit followed the following methodologies:

[ϕ] Ahmedabad, Kanjari, Rajkot, Himatnagar and Mehsana.

- review of agenda and minutes of meeting of Board of Directors (BOD) and Committees constituted by the BOD and analysis of details received from the Company regarding fixation of targets and achievement thereof;

- analysis of the data regarding utilisation of subsidies and margins charged;

- compliance of directions of the State/ Central Government; and

- review of installed capacity and utilisation thereof.

Audit findings

The audit findings were reported to the Government/ Company in June 2005 and discussed at a meeting of the Audit Review Committee for State Public Sector Enterprises (ARCPSE) held on 25 July 2005 with the officials of the State Government and the Company. Their views were considered while finalising the review.

The audit findings are discussed in the succeeding paragraphs:

Manufacturing activity

Pesticides formulation units

2.1.6 The Company had two pesticide formulation units at Naroda and Gondal to produce dusting powder and liquid pesticides for sale to farmers. The Naroda pesticides formulation unit was closed in September 2001 as discussed in paragraph *2.1.19.* Gondal pesticides formulation unit has a capacity to formulate 7,200 metric tonne (MT) dust formulation and 920 kilolitre (KL) liquid formulation *per annum.* The table below gives the details of production and capacity utilisation during 2000-04.

Capacity utilisation of Gondal Pesticides foundation unit ranged between 10 and 40 *per cent* .

Year	Dust formulation (MT)	Capacity utilisation (*Per cent*)	Liquid formulation (KLs)	Capacity utilisation (*Per cent*)
2000-01	723.16	10	178.83	19
2001-02	805.93	11	370.32	40
2002-03	699.31	10	264.79	29
2003-04	983.00	14	315.00	34

The above table reveals that the capacity utilisation of Gondal pesticide formulation unit was much below the installed capacity.

The Company in reply to audit enquiry stated (May 2005) that the low capacity utilisation was due to low demand of Company's products due to introduction of new molecules by competitors. Despite gross under utilisation of the existing capacity, the Gondal unit earned aggregate profit of Rs.2.31 crore during 2000-04. Audit noticed that the Company decided to sell this profit making unit without assessing the avenues of introduction of suitable products and increasing the capacity utilisation.

The management stated (July 2005) that the decision for closure of the pesticides unit was as per the directions of the State Government. The reply is not tenable as the Company continued to operate uneconomical Bavla unit, against the directions of the State Government. The Company could have taken up with the State Government for retaining the profit making Gondal unit.

Production of storage bins

2.1.7 The Company is engaged in production of storage bins for storage of food grains. The table below indicates its performance during 2000-04.

Year	Target (Numbers)	Achievement	
		Numbers	Percentage
2000-01	21,000	16,559	78.85
2001-02	16,000	23,726	148.29
2002-03	12,000	4,377	36.48
2003-04	11,000	7,839	71.26
Total	**60,000**	**52,501**	**87.50**

The targets were reduced due to reduction in staff strength and decrease in subsidy schemes. The Company failed to achieve even the lower targets during 2000-04 except during 2001-02. There was higher production during 2001-02 due to State Government's order for the earthquake affected areas. Though there was steady decrease in the level of activity, the Company neither analysed the reasons nor took steps to boost up the activity.

The management stated (July 2005) that the storage bins were mainly supplied under Government subsidy programme and that the Company could not compete with private entrepreneurs due to usage of standard material and consequent higher cost. The reply is not tenable as even after three decades of its existence, it remained dependent for Government orders and failed to generate demand for its product in the open market.

Trading activities

2.1.8 The trading activities of the Company include trading of fertilizers, tractors, pesticides and other agricultural inputs to farmers. The targets and achievements during 2000-04 for various trading activities undertaken by the Company in physical terms are given below:

Year	Fertilizers			Tractors			Pesticides		
	Target MT	Achievement		Target No.	Achievement		Target MT/ KL	Achievement	
		MT	Percent-age		No.	Percent-age		MT/ KL	Percent-age
2000-01	3,47,000	2,11,596	61	850	247	29	3,555	1,191	34
2001-02	3,11,000	2,90,016	93	500	54	11	1,495	1,364	91
2002-03	3,16,175	2,53,178	80	285	165	58	1,644	1,036	63
2003-04	3,20,000	2,99,730	94	168	589	351	1,403	1,161	83
Total	**12,94,675**	**10,54,520**	**81**	**1,803**	**1,055**	**59**	**8,097**	**4,752**	**59**

The Company was unable to achieve targets of trading activities during 2000-04.

Though the Company was unable to achieve the targets during 2000-04, it neither analysed the reasons nor took steps for improvement. Audit analysis revealed that trading activity was uneconomical due to non-achievement of targets and higher administrative overheads.

The management stated (July 2005) that the targets were fixed at the beginning of the year based on past experience and future projections. The actual sale was affected by rain, competitor's position, cropping pattern *etc*. The AGSD of the Company, engaged in trading of fertilizer, pesticide and tractor, was making profit. The reply is not tenable as the budget was fixed at the beginning of the year for deciding target for the year considering past records and future expectations. The Company failed to gain any experience out of non-achievement of targets in any of the years under review. The profit of AGSD was eaten away due to high administrative cost at head office.

The Company, for trading of various items and to provide services to the farmers appointed 1,012* private agencies up to November 2004 in addition to its own sale centres. Product-wise sale of the Company during 2000-04 is given below:

(Amount: *Rupees in crore*)

Particulars	2000-01		2001-02		2002-03		2003-04	
	Value	Percent-age	Value	Percent-age	Value	Percent-age	Value	Percent-age
Tractors	6.19	4	1.42	-	4.73	3	17.87	8
Fertilizers	128.68	85	173.11	91	159.83	90	188.25	84
Pesticides	7.80	5	9.47	5	6.48	4	8.62	4
Storage bins	0.58	1	1.97	1	0.17	-	0.29	-
Others	8.89	5	4.93	3	6.07	3	7.85	4
Total	**152.14**	**100**	**190.90**	**100**	**177.28**	**100**	**222.88**	**100**

Trading of fertilizers

Sale of fertilizer constituted 84 to 91 *per cent* of sale of the Company.

2.1.9 The above table shows that trading of fertilizers constituted 84 to 91 *per cent* of the total sale. As the retail sale prices and margin on fertilizers are determined by the Government of India (GOI), the Company needs to increase sale of fertilizers for improving financial position. The Company sold 10.55 lakh MT fertilizers against target of 12.95 lakh MT during 2000-04 as detailed in paragraph *2.1.8*. Non achievement of targets coupled with low margin resulted in poor financial health of the Company. While approving the budget for 2003-04, the Board of Director had observed (June 2003) that the targets for fertilizers were fixed on lower side. Audit noticed that the Company was not able to achieve even the low targets during the period under review.

In case of sale through private agencies, the Company has to pass on 65 to 70 *per cent* of the margin to them in the competitive environment. The Company, however, did not concentrate on increasing sale through its own centres, which ranged between 2.44 and 13.54 *per cent* of the sale of fertilizer during 2000-04 as detailed below.

* Unemployed technicians; 370 and Agro Business centers; 642.

(Amount*: Rupees in crore*)

Sales through:	**2000-01**		**2001-02**		**2002-03**		**2003-04**	
	Amount	**Percent-age**	**Amount**	**Percent-age**	**Amount**	**Percent-age**	**Amount**	**Percent-age**
Private agencies	117.53	91.34	149.67	86.46	153.18	95.84	183.66	97.56
Centres	11.15	8.66	23.43	13.54	6.65	4.16	4.59	2.44
Total	**128.68**	**100.00**	**173.10**	**100.00**	**159.83**	**100.00**	**188.25**	**100.00**

Consequent upon the directions of the State Government for closure of agro processing units, the Company decided (October 2000) to strengthen project division and distribution network by bringing in more commodities required by farmers. During 2000-04, however, sale of fertilizers remained the main activity of the Company.

The Company concentrated on sale of fertilizers and in the process failed to promote agro industries in the State, which was its main objective.

The agreement with the agencies stipulated minimum sale of non fertilizer items of rupees five to eight lakh *per annum*. The BOD observed (June 1999) that these agencies mainly concentrated on sale of fertilizers neglecting non-fertilizer items. Sale of non-fertilizer items by these agencies constituted 1.76 *per cent* of total turnover during 1996-99.The agencies, instead of being comprehensive agricultural input centres, acted as retail fertilizer outlets defeating the very purpose of the existence of the Company. The Company neither took any action for termination of agencies under the agreement nor motivated them for higher sales (August 2005).

The management stated (July 2005) that the pesticides sale was credit oriented business and hence the private agencies were not interested in achievement of sale. They, however, contributed to sale of fertilizers. The reply is not acceptable as the Company did not pursue for sale of other agriculture inputs and concentrated on sale of fertilizers alone, thereby defeating the purpose of promoting agriculture and agro-industries in the State.

Economy in sale of fertilizers

2.1.10 The fertilizer trading activity of the Company was compared in audit with that of Gujarat State Co-operative Marketing Federation Limited (GUJCOMASOL), a co-operative body engaged in distribution of seeds, fertilizers and pesticides *etc* in the State. The comparison was made to ascertain the efficiency, economy and effectiveness of the Company. The details of total turnover, sale of fertilizers, gross and net margin *etc* for the period 2002-04 are given below*:*

(Amount: *Rupees in crore*)

Particulars	Gujarat State Co-operative Marketing Federation Limited			Gujarat Agro Industries Corporation Limited		
	2002-03	2003-04	Total	2002-03	2003-04	Total
Total Turnover	610.05	719.20	1,329.25	177.28	222.88	400.16
Sale of Fertilizers	508.26	640.70	1,148.96	159.83	188.25	348.08
Percentage of fertilizer sales to total turnover	83.31	89.08	86.44	91.16	84.46	86.99
Gross profit	15.43	12.99	28.42	3.09	4.45	7.54
Percentage of gross profit to sales	2.53	1.80	2.14	1.74	2.00	1.88
Fertilizer profit	10.42	9.54	19.96	2.18	2.47	4.65
Percentage of fertilizer profit	2.05	1.49	1.73	1.36	1.31	1.33
Net profit	2.01	1.00	3.01	(1.76)	2.54	0.76
Percentage of net profit to sales	0.33	1.33	0.23	(0.99)	1.13	0.19
Establishment cost	9.75	8.34	17.88	7.65	4.50	12.15
Percentage of establishment cost to sales	1.60	1.16	1.35	4.32	2.02	3.04
Paid-up capital	2.66	2.66	5.32	7.04	7.04	14.08
Ratio of capital to turnover	229	270	250	25	32	28

Higher administrative cost coupled with poor turnover rendered trading of fertilizer uneconomical.

Fertilizer trading was the major activity as the same constituted around 87 *per cent* of total turnover in both the cases; however, gross profit, profit from fertilizers and net profit of GUJACOMASOL was higher than that of the Company. The ratio analysis indicated that the Company was not economical in fertilizer trading. Establishment cost of the Company was more than double of GUJACOMASOL. Moreover, ratio of capital to turnover of GUJACOMASOL was almost nine times of the Company, which indicates poor turnover of the Company. Thus, higher establishment cost coupled with poor turnover rendered the activity uneconomical for the Company.

The management stated (July 2005) that the comparison of performance of the Company with that of GUJACOMASOL could not be made as better credit terms were offered by IFFCO/ KRIBHCO to them; their performance should be judged with reference to the sale of fertilizers of Gujarat State Fertilizers and Chemical Limited (GSFC) and Gujarat Narmada Valley Fertilizers Limited (GNFC). The reply is not tenable, as only credit sale could not make the performance of GUJACOMASOL better. Moreover, GUJACOMASOL earns profit even after offering better commission to their agents. GUJACOMASOL had sold 7.09 lakh MT of GSFC/ GNFC fertilizers (Rs.449.31 crore) against 5.16 lakh MT fertilizers sold by the Company (Rs.317.02 crore) during 2002-04.

Trading of castor seeds

2.1.11 The Company decided (June 1999) to continue trading of castor even after decision for closure of castor seed plant at Jagana as mentioned in paragraph *2.1.19*. The Board formed a Committee to purchase 4,000 MT castor after reviewing day to day market position as castor prices were fluctuating widely. The Company procured 1,682.325 MT castor at Rs.2.77 crore at an average purchase price of Rs.16,222 *per* MT during January to September 2000. As the market price of the castor had gone down, the Company sold at Rs.13,938 per MT and realised Rs.2.50 crore by disposal of the stocks up to October 2002 leading to loss of Rs.27 lakh. Company's funds were blocked up for nearly three years (*i.e*. January 2000 to October 2002) resulting in loss of interest amounting to Rs.62 lakh⊗.

Audit analysis revealed that trading of castor was a speculative business and the Company engaged in development of agro industries should have undertaken adequate risk analysis before going into business in this area. The Company also failed to partially dispose of the stocks when the market prices during March to June 2000 were higher than the procurement price (Rs.16,696 to Rs.17,481 *per* MT). This was indicative of poor risk analysis and management capacity.

The management stated (July 2005) that the decision was taken by its BOD and future price trend remained unknown at the time of decision. The reply is not tenable as the Company should have sold the available castor during March/ April 2000 when the price in the market was higher than the known procurement cost and it should have reviewed the market trend of prices before going for further purchase.

Nodal Agency function

2.1.12 The Company was nodal agency of the State Government for formulation of agro industrial policy and its implementation, disbursement of subsidy under various schemes and implementation of bio-gas programme. The Company disbursed subsidies in the following schemes during 2000-04:

(Amount*: Rupees in crore*)

Name of the Scheme	No. of schemes	Amount available	Amount utilised
Bio-gas scheme	3	2.95	3.26
Open pipe line scheme	3	3.33	2.87
Tarpaulin subsidy	3	1.27	0.95
Tractor subsidy	1	9.37	5.33
National Pulse Development Programme, Horticulture, Drip irrigation, *etc*	2 to 10	25.11	23.36
Schemes undertaken earlier and closed	2 to 5	(-) 0.20	0.41
Aviation activity	1	16.77	16.77
Waste land development scheme	1	0.65	0.50
Back ended interest subsidy	1	0.56	0.38
Total		**59.81**	**53.83**

Bio-gas programme

2.1.13 The Ministry of Non-Conventional Energy Sources (MNES), Government of India launched the National Bio-gas and Manure Programme (Programme) as a Centrally Sponsored Programme for promotion of family type bio-gas plants in 1981-82. Under the programme, the MNES provided a

⊗ Calculated at the borrowing rate of 12 *per cent per annum*.

subsidy of Rs.2,300 *per* bio-gas plant commissioned by Scheduled Caste (SC)/ Scheduled Tribe (ST)/ Small and Marginal Farmer (SM)/ Landless Farmer beneficiaries and Rs.1,800 to other categories of beneficiaries. In addition to the above, the State Government also provided a subsidy of Rs.1,100 *per* bio-gas plant up to three cubic metre capacity commissioned by SC/ ST or desert area beneficiaries. In the case of other category of beneficiaries, the subsidy was restricted to Rs.1,000 for bio-gas plants up to three cubic metre and Rs.800 for bio-gas plant of four cubic metre capacity.

The Company was implementing the programme by identifying the beneficiaries, supplying them material required for commissioning of bio-gas plants and supervision of plants through Self Employed Bio-gas Supervisor (SEBS).

The following deficiencies were noticed during audit.

- During 2000-04, the MNES released Rs.9.41 crore for commissioning of 29,500 bio-gas plants; the Company commissioned 29,177 plants at a cost of Rs.9.65 crore and Rs.24 lakh were recoverable from MNES.

The programme envisaged that 15 *per cent* beneficiaries should belong to SC category. The Company carried out bio-gas programme during 2000-04 in 22 to 24 districts in the State and failed to achieve the norms fixed for SC beneficiaries in all the years as detailed below:

Against 4,377 Scheduled caste beneficiaries required to be covered under the programme, 1,124 beneficiaries were covered.

Year	Total number of bio-gas plants commissioned	Numbers of Scheduled Caste beneficiaries required to be covered	Actual number of Scheduled Caste beneficiaries covered	Shortfall in achievement
2000-01	7,938	1,191	442	749
2001-02	7,491	1,124	246	878
2002-03	6,712	1,007	216	791
2003-04	7,036	1,055	220	835
Total	**29,177**	**4,377**	**1,124**	**3,253**

The management stated (July 2005) that as per the State Government guidelines, the Company had to maintain the ratio of seven *per cent* for SC beneficiaries. The reply is not tenable as the direction of State Government was applicable for the grants released by them. The MNES had from time to time reiterated for covering 15 *per cent* beneficiaries belonging to SC.

The Company charged unauthorised margin of Rs.1.60 crore on bio-gas material supplied.

- The Company procured material required for commissioning of bio-gas plants such as cement, steel, gas stove, HDPE[Ψ] pipes, *etc* and provided the same to the beneficiary after deducting its cost from the subsidy payable to the beneficiary. Audit analysis revealed that the Company unauthorisedly charged profit margin ranging between 13 and 56 *per cent* over its cost resulting in undue curtailment of subsidy amounting to Rs.1.60 crore to the beneficiary during 2000-04 as detailed below:

[Ψ] High Density Poly Ethylene.

Particulars	Percentage of margins	Amount (Rupees in lakh)
Cement	13 to 30	80.43
HDPE pipe	36 to 56	18.36
Bio-gas stirrer	14 to 29	5.60
Gate closer	17 to 22	1.48
Gas outlet and pipe	18 to 35	1.22
Galvanised tee and plug	16 to 48	1.79
Galvanised nipple	22 to 52	1.30
Rubber tube	33 to 43	1.95
MS Round bar	16 to 27	4.60
Gas stove	25 to 33	41.60
Rubber pipe and miscellaneous	36 to 56	1.78
Total		**160.11**

Charging profit margin in addition to service charge of Rs.62 lakh granted by MNES defeated the purpose of the programme.

The management stated (July 2005) that the Company had to incur cost for staff, transportation of the material, unloading *etc.* It further stated that the rate was lesser than the open market rate as the beneficiary had to incur more for procurement of the material from the market. The reply is not tenable, as the MNES had separately granted service charge to meet administrative cost. Had the Company not added its margin the rates to the beneficiaries would have been lower.

Despite availing assistance of Rs.1.96 crore, the Company did not ensure visit of SEBS after commissioning of bio-gas plants.

- The programme envisaged guarantee for satisfactory working of bio-gas plant and cost free service for inspection and guidance up to three years from the date of commissioning. The turnkey job fees payable to SEBS required visit of the plant twice in a year. The Company did not maintain any record to ascertain that the SEBS had attended the plant after its commissioning and provided required guidance to the beneficiaries, despite availing assistance of Rs.1.96 crore towards turn key job fees during the period.

- The programme required its evaluation to be carried out by implementing agencies with the help of Non Government Organisation (NGO) to ascertain the benefits derived from the programme. The Company did not have the programme evaluated, hence the benefit derived, after release of Rs.12.36 crore (Central Government Rs.9.41 crore and State Government Rs.2.95 crore) during 2000-04, could not be independently ascertained.

- The Director of Evaluation (DE), State Government agency evaluated the performance of the programme by selecting 384 beneficiaries from 48 villages in six districts. The DE observed (March 2003) that 22.9 *per cent* of the bio-gas plants were found to be non functional. Of these, 68.2 *per cent* cases were non functional due to minor faults in them. Therefore, DE recommended (March 2003) for making permanent arrangement for repairing of the bio-gas plants. The MNES from time to time asked to Company to ascertain the extent of non-functional bio-gas plants and need for support of MNES required. Despite the direction of

MNES and the State Government, the Company did not make any effort for repairing the bio-gas plants.

Tarpaulin scheme

The Company unauthorisedly charged margin of Rs. 39.68 lakh on tarpaulin supplied.

2.1.14 Under this Scheme, the State Government in order to help the farm workers, provided Tarpaulin for their farm works at 50 *per cent* of its cost limited to Rs.1,000 *per* beneficiary. The Company procured the tarpaulin and provided the same to the beneficiary identified by district panchayat after collecting the balance cost of tarpaulin. The scheme, however, did not envisage payment of any service charge to the Company. Audit analysis revealed that despite this condition, the Company unauthorisedly added Rs.39.68 lakh as profit margin over the cost of procurement of 19,683 tarpaulins during 2000-04.

The management stated (July 2005) that the company had to incur cost towards octroi, loading unloading, inventory cost *etc*. The reply is not tenable as the supplier was required to deliver the tarpaulin at the centres after making payment for octroi and the payments to him were to be made after 30 days. Besides, the centres were placing orders only after receipt of applications from the beneficiaries.

Open pipeline scheme for irrigation

The Company unauthorisedly charged margin of Rs.82.31 lakh on open pipe line sets supplied.

2.1.15 The State Government, under the open pipe line scheme for irrigation, provided assistance at the rate of 50 *per cent* of the cost of pipeline *per* hectare limited to Rs.4,500 to the SC/ ST/ SM farmers and 40 *per cent* limited to Rs.3,600 to other beneficiaries for installing pipe line in their farms. The Company, under the scheme, procured the pipeline sets and supplied them to the beneficiaries identified by the Agriculture Department after collecting the residual cost from the beneficiaries. Audit analysis revealed that though, there was no provision for service charge, the Company unauthorisedly charged Rs.82.31 lakh towards commission on 8,742 sets of open pipe line supplied during 2000-04.

The management stated (July 2005) that the Company had to incur cost towards octroi, loading, unloading, inventory cost *etc*. The reply is not tenable as the supplier was required to deliver the open pipe line on consignment basis at the centres after making payment for octroi *etc*.

Sale of tractors

2.1.16 The Company acts as dealer for tractors and power tillers manufactured by leading manufacturers. The Company sold 1,055 tractors against target of 1,803 tractors during 2000-04 as detailed in paragraph *2.1.8*. The Company was the nodal agency for distribution of subsidy for tractors in the State and the sale of tractors was under subsidy scheme only. Under subsidy scheme, the Central Government identified certain models up to 30 HP eligible for subsidy of Rs.30,000 *per* tractor. During 2003-04, the Company sold 38 tractors not approved by the Central Government under the scheme, which resulted in irregular adjustment of subsidy amounting to Rs.11.40 lakh.

The management stated (July 2005) that there was no sale for the models not approved by the Central Government. The reply is not tenable as HMT-4022, L&T JD and New Holland models of tractors were not in the list of approved models furnished by the Company.

Promotion of agro based industries

2.1.17 Under the agro Industrial policy, the State Government provided six *per cent* back ended interest subsidy on long-term loans availed, financial assistance for project report, assistance for patent registration, air freight subsidy, *etc*. to agro processing units in the State. The State Government nominated (January 2001) the Company as nodal agency to assist in formulation of policy, dissemination of the policy through circulars, seminars, posters *etc.* The Company did not receive (March 2005) any service charge for formulation and implementation of the policy, though the State Government agreed (September 2004) in principle to grant six *per cent* service charge on the disbursement of the back ended subsidy. Audit analysis revealed that during
2000-04, out of total loss of Rs.19.70 crore, Rs.3.50 crore was on account of pay and allowances of the employees engaged in the nodal agency function and other expenditure was non-remunerative to the Company.

The management while accepting the fact stated (July 2005) that the matter would be pursued with the State Government.

Adequacy of service charge

The State Government did not prescribe any service charges for discharging nodal agency functions.

2.1.18 The State Government entrusted to the Company disbursement of subsidies, formulation of policy and its implementation *etc.* as the nodal agency. The Company incurred expenditure of Rs.4.05 crore towards pay and allowances of the employees engaged in marketing division during 2000-04. The Company, however, received service charges of Rs.1.25 crore for three schemes (Bio-gas: Rs.62 lakh, Ministry of Food Processing: rupees eight lakh and Aviation activity: Rs.55 lakh) but did not received any service charges for remaining schemes. The State Government did not prescribe any service charge for the nodal agency functions. The Company, instead of making concrete proposal for service charge to the State Government resorted to charging of unauthorised margin on bio-gas/ tarpaulin schemes/ open pipeline as discussed in paragraphs *2.1.13*, *2.1.14* and *2.1.15 supra.*

The management, while accepting the fact, stated (July 2005) that henceforth the Company would approach the Government to consider providing service charges on various schemes.

Closure of uneconomical units and their disposal

2.1.19 The agro processing units of the Company were incurring losses since 1993-94 and these units were not viable due to low capacity utilisation, higher administrative overheads and stiff competition *etc.* The State Government, therefore, under the Public Sector Restructuring Programme (PSRP) decided (January 1999) to close down uneconomic units of the Company and directed the Company (December 1999) to dispose of six agro processing units and the Naroda pesticide formulation unit.

Despite the Government directions, the Company continued activities in uneconomical units and incurred avoidable loss of Rs. 1.82 crore.

The Company, in violation of State Government directions continued the activities in some of the uneconomical units during 2000-03. Consequently, the Company suffered a net loss of Rs.1.82 crore in running the uneconomical units during the period as per details given in the table below:

(Amount*: Rupees in lakh*)

Name of unit	Net loss			
	2000-01	2001-02	2002-03	Total
Food canning factory, Gandevi	26.98	--	--	26.98
Food canning factory, Junagadh	9.82	--	--	9.82
Cold storage, Deesa	9.13	--	--	9.13
Energy food plant, Bavla	10.02	--	--	10.02
Oil extraction plant, Bareja	44.88	11.00	--	55.88
Castor seed plant, Jagana	23.02	9.59	9.37	41.98
Pesticide formulation unit, Naroda	4.88	23.37	--	28.25
Total	**128.73**	**43.96**	**9.37**	**182.06**

During 2002-04 the Company sold all the units except Deesa, Bavla and Naroda units. These units were not sold due to court case (Deesa), consideration to run on joint venture basis (Bavla) and lack of competitive offer (Naroda). The Company earned a total profit of Rs.4.24 crore in the sale of the following units:

(Amount*: Rupees in lakh*)

Name of unit	Period of sale	Sales realisation	Profit
Food canning factory, Gandevi	March 2002	43.80	23.04
Food canning factory, Junagadh	November 2002	255.00	233.18
Oil extraction plant, Bareja	March 2004	261.00	115.90
Castor seed plant, Jagana	August 2003	140.51	52.34
Total		**700.31**	**424.46**

The units at Deesa, Bavla and Naroda having upset value of Rs.3.27 crore were not disposed of (May 2005). Consequently, the Company suffered a loss of interest of Rs.1.48 crore calculated at 12 *per cent per annum* on the blocked funds of Rs.3.27 crore during the period from April 2001 to March 2005.

The management stated (July 2005) that for closure of the units certain procedures such as decision of the BOD, valuation of the units, constitution of the Committee, appointment of professional agency for disposal, completion of audit, final stock taking, maintenance of complete accounts were to be followed. It further stated that the sale of Bavla unit was not finalised as it decided to run the same under joint venture. The reply is not tenable because the accounts and audit of the Company were up-to-date and other activities were only procedural for which action could be preplanned as the Government's decision to close the uneconomical units was known to the

Company one year prior to the actual direction (December 1999). Besides, the decision to run the Bavla unit in joint venture basis was contrary to the directions of the State Government.

Surplus employees

2.1.20 As per the State Government's direction of January 1999, the Company initiated implementation of Voluntary Retirement Scheme (VRS) from November 1999 in all the above seven units. The State Government while sanctioning (March 2000) a loan of rupees seven crore for implementing the VRS specifically stipulated that no payment towards pay and allowances of these employees was to be made after March 2000. The Company implemented VRS up to January 2003 in a phased manner. Out of 239 employees of the closed units, 203 opted for VRS. The service of 25 employees having common cadres were utilised elsewhere. The Company, however, did not retrench remaining 11 surplus employees under the Industrial Disputes Act, 1947. Consequently, the Company spent Rs. 28 lakh towards pay and allowance of these employees between April 2000 and March 2005.

The management stated (July 2005) that notices for retrenchment were issued during August 2004. The reply is not tenable as the very purpose of State Government's directions to ease out the employees of uneconomic units and reducing burden of administrative cost was defeated mainly due to delay in implementation of the decision.

Disposal of petrol pumps

The Company did not pursue IOC for recovery of Rs.16.76 lakh towards lease rent.

2.1.21 Due to poor performance, the Company transferred (June 2001) on lease basis its four petrol pumps to Indian Oil Corporation Limited (IOC) at a lease rent of Rs.16.26 lakh *per annum*. The Company decided (April 2002) to sell the petrol pump through advertisement. Hence, the possession of three petrol pumps (Juhapura in April 2003, Mehsana and Surat in August 2003) was taken back from IOC, while one pump (Gondal petrol pump), remained with IOC (April 2005). Juhapura was handed over (April 2003) to Home Department of the State Government in lieu of loan taken from it for VRS and the Petrol pumps at Mehsana and Surat were sold in November 2003 and May 2005. The Company, however, did not pursue with IOC for recovery of lease rent of Rs.16.76[θ] lakh for the petrol pumps for the period that they remained with IOC.

The management stated (July 2005) that the matter regarding lease rent was under pursuance with the IOC. The reply is not tenable as the Company failed to show any documentary evidence in support of its claim. Lease agreement was yet to be signed for Gondal petrol pump.

[θ] Juhapura up to April 2003, Surat and Mehsana up to August 2003 and Gondal up to March 2005.

Mehsana agro service complex

2.1.22 The Company decided (April 2002) to dispose of its four[□] Agro service complexes and invited (September 2002) tenders for the Mehsana Complex. The highest bid of Rs.2.90 crore was rejected on the ground that the bidder had requested for 30 days time against stipulated time of 15 days for depositing 25 *per cent* bid amount. After re-tendering, the Company issued (March 2003) acceptance letter for the highest offer of Rs.2.61 crore received during November 2002 in re-tendering. Abnormal time taken in issue of acceptance letter resulted in delayed receipt of Rs.65.25 lakh, being 25 *per cent* of the bid amount. Realisation of balance payment of Rs.1.91 crore was also delayed as the property occupied by lessee/tenants was vacated in August 2003 and the possession of the property was given to the bidder in November 2003.

Reasons for delayed issuance of acceptance letter (91 days), vacation of land by the occupants and handing over possession (287 days) were not on records. The delay in receipt of proceeds (December 2002 to November 2003) resulted in loss of interest of Rs.20.13 lakh calculated at 12 *per cent per annum*.

The Company lost Rs.49.13 lakh in disposal of Mehsana Complex.

There was also loss of Rs.29 lakh[*] due to non acceptance of highest offer in the first bid. Thus, the Company lost Rs.49.13 lakh[#] in disposal of Mehsana complex.

The management stated (July 2005) that the second bid could be accepted in March 2003 as due to Assembly elections *Achar Sanhita* was in operation and the then Chairman tendered resignation on 21 November 2002.

The reply is not tenable as the tender was opened on 12 November 2002 and there was sufficient time up to 21 November 2002 with the Committee, which was given full powers to finalise the matter by the Board and new Chairman was appointed by the State Government on 13 December 2002. Moreover, the Company was expected to take simultaneous action for vacation of the complex by that tenant/ lessee when the tenders invited were under finalisation.

Other agro service complexes

2.1.23 The Juhapura complex was handed over to the Home Department of the State Government at Rs.7.41 crore (valued by Gujarat Industrial and Technical Consultancy Limited) in April 2003. The sale proceed was to be adjusted towards the outstanding loan of rupees seven crore obtained from the State Government for VRS. Adjustment of the loan accounts was pending (May 2005) even after two years of the handing over of the possession. Surat complex was sold in March 2005. Sale of Gondal complex was pending (April 2005).

[□] Gondal, Juhapura, Mehsana and Surat.

[*] Original bid amount:Rs.2.90 crore minus accepted bid amount:Rs.2.61 crore

[#] Rs.20.13 lakh interest loss *plus* Rs.29 lakh short received in retendering.

Conclusion

The Company failed in its objective of developing of agro industries in the State, mainly due to non-achievement of targets, under utilisation of capacity, concentration mainly on fertilizer trading and higher administrative overheads. The operation of uneconomical units continued and there was delay in disposal of closed units. The Company charged unauthorised margin on bio-gas programme and the tarpaulin and open pipe line schemes.

Recommendations

- **The Company needs to enhance its turnover and promote sale of agricultural products other than fertilizer.**
- **Efforts need to be made to dispose of the property of the closed units promptly.**
- **The Company should take up with the State Government the matter for adequate service charges for implementation of various schemes and performance of nodal agency functions.**

The matter was reported to the State Government in June 2005; their reply was awaited (November 2005).