Chapter - III

Reviews relating to Statutory corporations

Gujarat Electricity Board

3A. Material Management and Inventory Control of Transmission and Distribution Materials

Highlights

As against the internal guidelines for finalisation of a tender within 98 days, the Board delayed finalisation of tenders by 40 to 993 days resulting in avoidable extra expenditure of Rs.4.93 crore.

(Paragaraphs 3A.4.2.1.1 and 3A.4.2.1.2)

Though the Board reserved the right to place repeat orders up to 50 *per cent* of the ordered quantity, it incurred avoidable extra expenditure of Rs.1.46 crore due to failure to place repeat orders at lower rates and of Rs.0.53 crore due to placement of repeat orders at higher rate, in spite of an apparent decreasing trend in prices.

(Paragraphs 3A.4.2.2.1 and 3A.4.2.2.2)

The Government of Gujarat directed (December 1998) discontinuance of the practice of unloading Gujarat Sales Tax in the evaluation of tenders. However, the Board continued the practice till December 1999 resulting in avoidable extra expenditure of Rs.1.43 crore.

(Paragraph 3A.4.2.3.1)

Due to incorrect estimation of material requirements or ignoring the past consumption patterns, the Board made excess purchase ranging from 17 to 64 *per cent* of total ordered quantity valuing Rs.4.35 crore.

(Paragraphs 3A.4.2.4.1 to 3A.4.2.4.4)

The Board incurred an avoidable extra expenditure of Rs.1.28 crore due to erroneous ignoring of L-1 firm or not insisting on matching with L-1 price.

(Paragraphs 3A.4.2.5.1 to 3A.4.2.5.3)

Despite availability of capacity for job work poles which are cheaper, to meet the actual requirement, purchase of ready-made poles at higher cost resulted in avoidable expenditure of Rs.19.07 crore.

(Paragraph 3A.4.2.6)

Delay in issue of material resulted in blocking of funds of Rs.3.95 crore for 25 months and of Rs.2.30 crore for eight months and consequent loss of interest of Rs.1.14 crore.

(Paragraphs 3A.5.3.2.1 and 3A.5.3.2.2)

3A.1 Introduction

Gujarat Electricity Board (Board) was formed on 1 May 1960 under Section 5(1) of the Electricity (Supply) Act 1948, mainly to supply electricity within the State. The value of store material (excluding fuel) purchased by the Board during the last five years 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 was Rs.640.31 crore, Rs.618.94 crore, Rs.637.58 crore, Rs.492.47 crore and Rs.557.82 crore respectively constituting 9.66 *per cent*, 7.75 *per cent*, 6.66 *per cent*, 4.55 *per cent*, and 5.19 *per cent* respectively of the total revenue expenditure of the Board. As seen from *Annexure*-12, centralised purchases ranged from 63 to 75 *per cent* of the total purchases of the Board during 1997-2002.

3A.2 Organisational set up

The Board of Gujarat Electricity Board consisted of three nominated Members and three full time Members headed by the Chairman. The Stores Purchase Section (SPS) looked after the purchase of Transmission and Distribution (T&D) materials. A Chief Engineer (Material) [CE(M)], under the administrative control of Member (Administration), headed the SPS under whom there was one Chief Finance Manager, four Superintending Engineers, six Executive Engineers, 15 Deputy Engineers and five Junior Engineers to assist in the day to day functioning.

3A.3 Scope of Audit

A review on 'Material management and inventory control' featured in the Report of the Comptroller and Auditor General of India for the year 1986-87 (Commercial)-Government of Gujarat, which was discussed by the COPU in June 1991. There was no recommendation on the material management review but there were few recommendations on theft of electricity taken up *suo moto* by the COPU.

The present review conducted during January to April 2002 covers the economy and efficiency in the purchase, stores management and inventory holdings of T&D materials. The audit findings as a result of test check of the records of all the 13[*] Regional Stores Offices (RSOs), 10[@] out of 54 O&M stores, five[#] out of 11 Construction stores and 502 out of 1,217 centralised purchase orders during 1997-2002 are discussed in the succeeding paragraphs.

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* Shapur, Bharuch, Mehsana, Bhuj, Navsari, Rajkot, Surendranagar, Palanpur, Nadiad, Himatnagar, Dhasa, Vatva and Jamnagar

@ Baroda, Lalbagh, Vapi, Surat, Mehmadabad, Godhra (O&M and REC), Dhrangadhra, Gondal and Dhaboi.

\# Navsari, Jambuva, Nadiad, Mehsana and Gondal.

3A.4 Material management

Material Management involves meticulous forecasting of requirements, procurement and utilization of material with a view to exercising control over their receipt, storage, transfer to user units and inventory holdings so as to minimize procurement and inventory holding costs. The purchases made by the T&D wing during 1997–2002 are tabulated below:

(Rupees in crore)

Year	**1997-98**	**1998-99**	**1999-2000**	**2000-2001**	**2001-2002**
Purchases of T&D wing	462.43	431.33	438.28	387.80	428.86

3A.4.1 Purchase procedure

The Board has a stores procedure code detailing the purchase procedure in relation to invitation and finalisation of tenders, delegation of powers (as detailed in *Annexure*-13) and bifurcation of materials between centralised and local purchases. The Board adopted a purchase policy in October 2000 to streamline purchase procedures like classification of new and regular parties, price evaluation, requirement of technical specifications, negotiations and quantity distribution. Prior to the adoption of purchase policy in October 2000, the Board generally conducted business only with registered suppliers. However, unregistered suppliers were also permitted to quote provided they accepted the terms and conditions applicable to them. With the introduction of purchase policy, vendor registration was made compulsory. For scrutiny of tenders, the Board adopted the dual bid system. The price bid of a firm was opened only after it was declared technically acceptable as per the technical bid.

3A.4.2 Deficiencies in purchases

A review of the purchase procedure followed for centralised purchases revealed following system deficiencies:

- Delay in finalisation of tenders against prescribed norms.
- Non-placement of repeat orders at lower rates as stipulated in terms and conditions of purchase orders.
- Placement of repeat order at higher rates though there was an apparent decreasing trend in the prices.
- Continuing to unload Gujarat Sales Tax (GST) from price bid of Gujarat State based firms even after Government directive to discontinue the practice.
- Incorrect assessment of requirement by user departments leading to excess purchase.

- Erroneous ignoring of L-1 firm or failure to match the L-1 price as laid down in the latest purchase policy.

- Costlier purchases despite existence of viable and cheaper alternatives. These deficiencies noticed in audit led to an avoidable extra expenditure of Rs.31.06 crore and excess purchase of Rs.4.78 crore, as discussed in succeeding paragraphs.

3A.4.2.1 Delay in finalisation of tenders

Delay in finalisation of tenders ranged between 40 and 993 days.

As per the guidelines of the Board, a tender was to be finalised and purchase orders placed within 98 days from the date of receipt of indent for the material. Test check of 95 tenders out of 456 tenders revealed that in none of the cases the orders were placed within the prescribed norms. The delay ranged from 40 to 180 days in 33 cases, 181 to 365 days in 39 cases, 366 to 730 days in 21 cases and more than 731 days (higher being 993 days) in two cases. The delay in finalisation of tenders had led to financial loss of Rs.4.93 crore to the Board, as discussed in the following cases:

Delay in finalisation of new tenders resulted in extra expenditure of Rs.1.99 crore.

3A.4.2.1.1 The Board invited (June 1999) tenders for the procurement of 20,420 distribution transformers of assorted ratings and placed the orders between May/June 2000 and March 2001 on 26 parties. Further additional orders for 2,042 transformers were placed in October 2001. In order to meet the urgent requirement of 32,200 transformers for electrification schemes, fresh tenders for similar ratings were invited and opened in May 2001. However, the same were not finalised till January 2002. Consequently, further additional repeat orders for 3,063 transformers against the original tender (June 1999) had to be placed in December 2001. The price *per* piece in the original tender with capitalised losses[**] was higher than the price *per* piece in the new tender with capitalised losses by Rs.2,047 for 25 KVA, Rs.3,250 for 63 KVA and Rs.5,986 for 100 KVA transformer. As a result, the placement of additional orders in October and December 2001 due to delay in finalisation of new tender with lower rates resulted in an extra expenditure of Rs.1.99 crore.

In reply to an audit query the Chief Engineer (Materials) [CE(M)]stated (May 2002) that the comparison of the last tender and present tender with regard to capitalised cost in loading was hypothetical for loss comparison and cost only, and not for purchase price. The reply was not acceptable as the financial implication of the repeat orders of December 2001 was recorded in the files and decision to go in for the repeat order notwithstanding the financial implication was due to the urgency in material requirement and delay in finalisation of the new tender.

** Capitalised loss means the load losses offered by each supplier, which is capitalized with the price offered to arrive at the actual cost of the transformer.

Inordinate delay in finalisation of tender resulted in invitation of revised price bid and consequent additional expenditure of Rs.2.94 crore.

3A.4.2.1.2 The Board invited (February 1999) and opened (March 1999) tenders for 6,266 Kms. of ACSR[@] conductors *viz.* (Zebra: 1,900 kms., Panther: 1,366 kms. and Dog: 3,000 kms.). Based on the stock availability, works to be carried out and the pending supply in the pipeline, the quantity to be procured underwent four revisions. Finally the Purchase Committee recommended (January 2000) procuring of 3,600 kms. of various sizes of conductors from four firms which had agreed to extend their validity up to February 2000. In view of the price difference of L-1 firm with the price of the other three short listed firms, the Purchase Committee also directed negotiation with these firms. However, these four firms were ready to supply the quantity only at their quoted price and did not agree to match their rates with L-1 of the four selected firms due to increase in raw material cost. Consequently, the Board called (April 2000) for revised price bids from all the technically qualified firms and resolved (26 July 2000) to procure 4,650 kms of ACSR conductors. The prices in the revised price bids were higher by Rs.18,285 *per* km. for Zebra conductors, Rs.8,579 *per* km. for Panther conductors and Rs.4,490 *per* km. for Dog conductors, as compared to the L-1 rate of the original tender. The Board procured (October/December 2000) 2,485 kms of conductors (Zebra: 1,245 kms, Panther: 250 kms and Dog: 990 kms) at higher cost. Thus, due to inordinate delay in finalisation of the tender and placement of orders, the Board incurred an additional expenditure of Rs.2.94 crore.

3A.4.2.2 Placement/Non-placement of repeat orders

In placement of all the orders, the Board reserved the right to place repeat orders up to 50 *per cent* of the ordered quantity, on the same terms and conditions, within four months of the date of original order. In the cases mentioned below, the Board incurred extra expenditure of Rs.1.99 crore either due to not exercising its right to place repeat orders at lower rates or due to placement of such orders at higher rates in spite of an apparent decreasing trend in prices.

Delay in finalisation of new tender resulted in extra expenditure of Rs.1.46 crore as opportunity to place repeat order was lost.

3A.4.2.2.1 The T&D Department forwarded indents for the purchase of XLPE[*] cables of assorted ratings to the SPS in November 1998 and February 1999. Tenders were invited in November 1999 and orders were placed in June 2000 for 158.9 kms. of XLPE cables at a total end cost of Rs. 13.47 crore. Thus, the Board took 504 days in placing the orders, as against the norms of 98 days. The end cost obtained in the tender was 35 to 55 *per cent* higher than the previous tender for which orders were placed (March/April 1999) for 116.70 kms. cables of assorted ratings. If the new tender had been finalised within 98 days, the Board would have an opportunity to compare the new rates with the existing rates. Thus, the Board could have then placed repeat order for 50 *per cent* quantity (*i.e.* 58.35 kms.) of the previous order at the old rates (which were lower) and saved Rs.1.46 crore.

@ All Aluminium Conductor Steel Reinforced.

* XLPE : Cross linked polyethylene.

In reply to an audit query, the CE(M) stated (May 2002) that in order to have better cable with the latest technology, the user department in April 1999 was addressed and by the time the previous tender was finalised and orders placed in April 1999. The reply was not tenable as the user department should have considered this aspect prior to issue of indents.

Placement of repeat order at higher rates resulted in extra expenditure of Rs.0.53 crore.

3A.4.2.2.2 The Board invited (November 1998) tenders (SP/2254/II) for the procurement of 90 KN Antifog Disc Insulators and opened the price bids in January 1999. The lowest price quoted in the tender was Rs.307.90 *per* insulator. The price in the tender was finalised (June 1999) at an end cost of Rs.248.36 *per* unit. However, the Board issued repeat orders (February 1999) against earlier tender (SP/2213/II) on four parties for procurement of 43,000 numbers of 90 KN Antifog Disc Insulators at an end cost of Rs.353.34 *per* unit. As a result of placing repeat orders at higher prices in spite of a visible downward trend, the Board incurred an extra expenditure of Rs.0.53 crore (Rs.45.14 lakh *plus* Rs.7.44 lakh for GST unloaded).

3A.4.2.3 Improper continuance of unloading of Gujarat Sales Tax

Continuance of unloading of GST resulted in avoidable expenditure of Rs.1.43 crore.

3A.4.2.3.1 The Government of Gujarat vide its circular dated 4 January 1978 directed that while evaluating the price bids of suppliers, Gujarat Sales Tax (GST) should not be loaded in the case of Gujarat State based firms, which would be reimbursed by the Government of Gujarat, whereas, Central Sales Tax (CST) should be loaded in the case of firms based outside Gujarat State. The Government of Gujarat had withdrawn the circular in December 1998. However, the Board continued to implement the circular of January 1978 till December 1999, resulting in avoidable expenditure of Rs.1.43 crore, as tabulated below:

(Rupees in lakh)

Tender No.	Month of order placement	GST unloaded
2,247 (LT PVC 3.5 core cables)	April 1999	66.80
2,236 (4 core LT PVC cables)	January and March 1999	6.02
1,859 (SF – 6 breakers)	December 1999	5.22
1,928 (ACSR Rabbit conductors)	August 1999 (3,149 kms)	53.31
2,248 (11 KV & 22KV lightning arrestors)	August 1999	11.15
Total		**142.50**

3A.4.2.3.2 Unloading of GST in inadmissible cases

The purpose of the Government circular referred to in paragraph 3A.4.2.3 *(supra),* was to ensure that Gujarat State based firms were not put to a disadvantage in comparison to firms based outside Gujarat State due to the higher incidence of sales tax in the State. It was, however, observed that the unloading was also done in tender evaluations where there were no firms based outside Gujarat State.

3A.4.2.3.2.1 In respect of purchase orders placed between June 1998 and December 1999 for procurement of 7,172 numbers of 25 KVA transformers against the tenders opened in August 1997, though all the parties were Gujarat

Unloading of GST in inadmissible cases resulted in avoidable expenditure of Rs. 1.21 crore.

based firms, GST was unloaded in price evaluation which resulted in avoidable expenditure of Rs.0.94 crore.

3A.4.2.3.2.2 In another evaluation of tender (March 1998) for purchase of 200 KVA and 500 KVA transformers, though all the purchase orders were to be placed on Gujarat based firms, GST of Rs.27.03 lakh was unloaded though it was not recoverable as per above circular. This resulted in avoidable expenditure of Rs.27.03 lakh.

In reply to an audit query, the CE(M) stated (May 2002) that though Government of Gujarat had withdrawn Sales Tax reimbursement in December 1998, the Board had taken up the matter with the Government for reviewing the policy, hence, the unloading was continued up to December 1999. Reply was not acceptable as when there was a clear cut Government direction, the Board could not set it aside on the pretext of a reference having been made against the direction.

3A.4.2.4 Purchases in excess of requirement

The SPS invited tenders based on material indents received from user departments. Audit analysis of these indents revealed that though not provided in the purchase procedure, the annual requirements were loaded with a buffer stock of 20 *per cent*. Further, the existing stock or pending orders were not taken into consideration before making the loading. No comparisons were made with past consumption patterns and consequently no justification was given for additional requirements projected for the year. Though the SPS did scale down requirements based on available stock and pending orders, the reduced purchases were also in excess of past consumption patterns or actual consumption leading to excess expenditure of Rs.4.35 crore, as discussed below:

Failure to relate purchase with utilisation resulted in excess purchase of Rs.22.40 lakh.

3A.4.2.4.1 The Board placed (October 1998) orders for 243 (22 KV) CTPT* units in three categories on three regular firms and two trial firms. At the time of placing of orders, the Board had a stock of 96 (22 KV) CTPT units in two categories though the same was not considered in assessing requirement. It was seen in audit that the Board had only two patches of 22 KV distribution lines where the 22 KV CTPT units were required. The supplies of 22 KV CTPT units, scheduled to be completed by May 1999, were completed only to the extent of 46 units by February 2000. The delay did not affect the Board, as there was a stock of 121 (22 KV) CTPT units as on April 2000. If the Board had monitored the stock position and actual utilisation of 22 KV CTPT units, which was around one unit *per* month, it could have cancelled the deliveries of 74 units (30 *per cent* of ordered quantity) made after April 2000 up to March 2002 and avoided excess purchase of Rs.22.40 lakh. Even as on 31 March 2002, the Board had stock of 116 (22 KV) CTPT units of the above three varieties.

* CTPT : Current Transformer Potential Transformer

In reply to an audit query, the CE(M) stated (May 2002) that the utilisation of 22 KV CTPT units of the above three varieties had been low due to recession in industry and that the remaining orders after May 2002 had been cancelled. Reply was not acceptable as the action of the Board was a belated one and did not prevent the excess purchase pointed out above.

3A.4.2.4.2 The Board invited (November 1999) tenders against the indents of November 1998 and February 1999 for different quantities of XLPE cables of assorted range for meeting the requirements of T&D Wing for the year 1999-2000. As the tenders were opened only in November 1999, it was planned to use the purchases for the spill over works of 1999-2000 and new works of 2000-2001. It was observed that the requirement for the Distribution wing had been overassesed, as the consumption in 2000-01, even after catering to the spill over work of 1999-2000, was much less than the indented quantity, as tabulated below:

Items	**Indented quantity**	**Existing stock (1 April 2000)**	**Consump-tion 2000-01**	**Requirement {4 *plus* (20 *per cent* of 4) *minus* 3}**	**Excess purchase**	**Percentage of excess purchase**	**Rate *per* Km.**	**Value**
1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
11 KV XLPE cables	**(In kms.)**						**(In Rupees)**	**(Rupees in lakh)**
150 mm^2	13	Nil	9	10.8	2.2	17	7,04,118	15.49
185 mm^2	41	2.708	22	23.7	17.3	42	8,16,319	141.22
240 mm^2	17	0.793	9	10	7	41	9,34,687	65.43
22 KV XLPE cables								
185 mm^2	10	Nil	3	3.6	6.4	64	11,27,280	72.15
Total								**294.29**

Incorrect assessment resulted in excess purchase of Rs.2.94 crore.

Further audit scrutiny revealed that the purchase was sufficient even to meet the requirements of 2001-02, which were 1.81, 12.49, 4.42 and 2.69 kms respectively. Thus due to incorrect assessment of requirement, the Board had purchased nearly three years requirement in one year leading to overstocking as discussed in paragraph 3A.5 *(infra)*.

In reply to an audit query, the CE(M) stated (May 2002) that the utilisation might not have been as planned due to delay in acquisition of land, completion of civil works *etc.* Reply was not to the point as audit comment was not on the material purchased in the same tender for the transmission wing but only on the material purchased for the distribution wing.

Excess procurement resulted in blocking of Rs.36.69 lakh.

3A.4.2.4.3 The Board invited (July 1997) and opened (August 1997) tenders for procurement of 13,75,000 numbers of Galvanised Iron (GI) nuts and bolts for low-tension (LT) shackle insulators for the yearly requirement of 1997-98. Considering the opening stock of 3,47,365 numbers and pending orders for 2,33,566 numbers, the SPS scaled down the ordered quantity to 7,94,069 numbers. Audit scrutiny revealed that the average annual consumption during 1994-97 was only 3,57,718 numbers. Thus, the Board could have avoided the entire purchase as the availability was 62 *per cent* more than the average annual consumption and saved blocking of funds of Rs.36.69 lakh. A further scrutiny in audit revealed that the consumption during 1997-98 was only

5,42,976 numbers and supplies against the subject order for 7,94,069 numbers were received in March/April 1998 and used only in 1998-99.

Excess procurement resulted in blocking of funds of Rs.0.82 crore.

3A.4.2.4.4 The Board invited (February 1998) tenders and placed (November 1998) order for procurement of 157 numbers of 500 KVA, LT distribution boxes with ACBs. This procurement was in excess of projected requirement and past consumption. The projected requirement for 1998-99 by the user department was 125 units. The past consumption was 36 numbers in 1994-95, seven numbers in 1995-96, 81 numbers in 1996-97 and 73 numbers in 1997-98. As there was an existing stock of 41 numbers, which was 50 *per cent* of the highest past consumption, the Board could have restricted the purchase to 84 units only, as this would have fully taken care of the projected requirement also. Owing to the excess purchase of 73 numbers (47 *per cent* of total ordered quantity), there was avoidable blocking of funds of Rs.0.82 crore for a period of one year as the consumption of 1998-99 was only 67 units and the balance was consumed in 1999-2000 and no new tenders were invited for the next year.

3A.4.2.5 Loss due to ignoring or not matching with L-1 tender

The stores procedure code provided that where L-1 firms were ignored for reasons other than variations in technical specifications, the reasons thereof should be recorded in writing. A test check of tenders revealed that the ignoring of L-1 firm was not justified in two cases, as detailed in the following paragraphs, resulting in extra expenditure of Rs.31.55 lakh. Further, as per Board's convention, once a party was approved as the L-1 regular firm for order placement, all other approved parties had to match end cost with the L-1 firm. Audit scrutiny revealed that exceptions had been made in two cases resulting in extra expenditure of Rs.1.28 crore.

Non-consideration of L-1 firm resulted in extra expenditure of Rs.31.55 lakh.

3A.4.2.5.1 The Board invited (June 2000) tenders for the procurement of 200,000 numbers of 11 KV, 90 KN antifog disc insulators* for the annual requirement of 2000-01. Out of the four technically qualified parties, orders were placed on three parties in January 2001 for a total quantity of 1,03,775 numbers at a negotiated end cost of Rs.349 *per* unit. It was observed that the Board had not considered the offer of one technically qualified firm on whom a stop dealing order was issued in August 2000, though the same had been revoked (October 2000) before the Purchase Committee approved (December 2000) the purchase order. The firm represented (October 2000) that the Board by opening its price bid would save more than Rs.93 *per* insulator as compared to the three bidders considered by the Board. As the bid of this supplier was not opened by the Board, the price quoted by the supplier remained unknown. The firm had also claimed that it had received an order for supply of the above material at an end cost of Rs.318.60 *per* unit in September 2000 from Tamil Nadu Electricity Board (TNEB). The difference between price on which the supplier received order from TNEB and that on which the

* The antifog disc insulator maintains the electrical path which is disturbed by atmospheric pollution and gives increased creepage of power while designing economic towers for the lines.

Board placed order for insulator was Rs.30.40 *per* unit. Even on conservative side based on the difference of Rs.30.40 *per* unit, the Board had incurred extra expenditure of Rs.31.55 lakh by not considering the bid of the supplier.

In reply to an audit query, the CE(M) stated (May 2002) that before the revocation of the stop dealing order in October 2000, the proposal was under way, hence, the price bid was not considered. Reply was not acceptable as the L-1 price bid could have been considered at least prior to the purchase committee's approval.

Non-adherence to the competent authority's direction to match the prices with L-1 price led to extra expenditure of Rs.16.46 lakh.

3A.4.2.5.2 The Board placed (March/April 1999) orders for 10,375 numbers of 100/5 ampere and 10,160 numbers of 200/5 ampere Resin cast current transformer blocks (CT blocks) to seven suppliers. As 100/5 ampere CT blocks were being purchased for the first time, there were no regular suppliers to the Board for the item. While approving (March 1999) the orders the competent authority recorded that five out of seven firms who had earlier supplied 200/5 ampere LT blocks were to be considered for 80 *per cent* and remaining two firms for 20 *per cent* quantity allocation. Further, the competent authority also recorded that the prices had to be matched with L-1 firm. However, the CE (M), while implementing the decision did not insist on other suppliers to match the L-1 price and consequently the two new firms supplied 20 *per cent* of the quantity at their respective end cost of Rs.940.88 *per* unit and Rs.999 *per* unit and the five regular firms supplied 80 *per cent* of the quantity at the matching end cost of Rs.1,131.90 *per* unit. The Board, therefore, incurred an additional expenditure of Rs.16.46 lakh due to not insisting on matching with L-1 price of Rs.940.88 *per* unit as envisaged by the competent authority.

Not insisting on matching with L-1 price resulted in additional expenditure of Rs.0.80 crore.

3A.4.2.5.3 The Board invited (March 2000) and opened tender (May 2000) for PVC unarmoured cables of 3.5 core X 25 mm^2, 50 mm^2, 70 mm^2 and 150 mm^2 in assorted quantities. Price bids were opened in June 2000 and LOI was issued (August 2000) to five firms for a total quantity of 1,346 kms. at matching L-1 cost. Only two firms accepted the LOI for a quantity of 128 kms. The L-1 firm itself backed out stating that it had made a mistake in calculations. As the regretted quantity was very large, the Board decided (September 2000) to call for revised price bids from seven firms. In December 2000, it was decided to place orders for 1,295 kms on the six qualifying firms at their quoted revised cost. Though the L-1 firm had offered full quantity, the Board did not insist on other firms to match L-1 cost as per its normal practice and thereby incurred an additional expenditure of Rs.0.58 crore. In January 2001, orders for further quantity of 230 kms of the above cables were placed on two parties once again at the quoted rates, and thereby, the Board incurred further additional expenditure of Rs.22.42 lakh.

In reply to an audit query, the CE(M) stated (May 2002) that though the L-1 firm had offered full quantity, it required prolonged delivery period and considering the urgency of the material, orders had to be placed on selected firms at their quoted price. The reply was not acceptable as the L-1 firm had offered a delivery schedule of 180 numbers of assorted range in one quarter which was the requirement initially projected by the Board. The urgency arose because of the delay of 144 days as compared to norms in the finalisation of the tender. Further, the matching with the L-1 cost which was an accepted convention was made compulsory in the purchase policy adopted in October 2000 after which these orders were placed.

3A.4.2.6 Procurement of ready-made poles at higher cost

The requirements of prestressed concrete poles (PSC) for T&D works of the Board were initially catered by the job work pole fabricating factories, to whom materials were provided free of cost by the Board. These pole factories were owned by the job work contractors and supervised by the O&M Divisions of the Board. In April 1997, there were 41 such pole factories having a total established capacity of 37,528 poles *per* month. However, the factories produced/supplied 20,508 to 25,299 poles *per* month during 1994-98 due to delay in supplying materials by the Board and labour problems.

Considering the projected demand of 39,000 poles *per* month for the year 1997-98, the Board invited (December 1996) tenders for the supply of ready-made poles but did not approve (November 1997) the proposal for the procurement of ready-made poles as the existing job work pole factories, besides others, had quoted higher rates for the ready-made poles. The Board recommended continuation of the present practice and further directed to increase the production of the existing capacity.

However, the Board altered the said decision in view of projected requirement and decided to procure such poles (May 1998) from ready-made pole casting factories. These factories which came into existence after May 1998 were not under the supervision of the Board and were owned by the ready-made pole supplying contractors. The ready-made pole factories started supplying ready-made poles from September 1998 and total procurement from 20 such factories (7 new factories *plus* 13 job work converted factories) up to March 2002 was 5,33,537 poles (12,408 poles *per* month). The average end cost of ready-made poles received by the Board from September 1998 to March 2002 was Rs.1,049.60 *per* pole.

With the emphasis of the Board shifting from job work supply to procurement of ready-made poles, thirteen job work factories also converted themselves into ready-made pole factories. Thus, the average supply from job work during 1998-2002 reduced from 26,073 to 13,417 poles *per* month. However, the average end cost including material and labour of the job work poles was only Rs.692.23 *per* pole during 1997-2002. An analysis of actual consumption of

Purchase of ready-made PSC poles based on unrealistic assessment at higher price had led to extra expenditure of Rs.19.07 crore.

poles revealed that 15,84,521 poles (*i.e.* 26,409 poles *per* month) were consumed during 1997-2002, as against the unrealistic projected demand of 39,000 poles *per* month. Thus, an yearly review of the actual usage would have revealed to the Board the non-requirement of ready-made poles at a higher cost as the then existing 41 job work factories could supply upto 25,000 poles *per* month. The actual consumption of poles during the period 1997-2002 was 15,84,521 numbers. However, the existing job work factories had manufacturing capacity of 22,51,680 poles (37,528 x 60), which was much more than the total consumption of poles during the same period. Thus, the entire requirement could have been met by the Board from the job work factories by supplying raw materials in time. In the process the Board could have saved extra expenditure of Rs.19.07 crore by avoiding the entire purchase of 5,33,537 ready-made poles.

3A.5 Inventory control and stores management

3A.5.1 Overstocking at various stores centres

The stock position of the Board as given in the annual accounts for the five years ending March 2002 is given in *Annexure*-14. The closing stock represented 97 to 149 days' consumption in terms of value during the above period. The Board had fixed quantitative stocking norms as 15 days' consumption for high value items, one month's consumption for medium value items and two months' consumption for low value items.

3A.5.1.1 A test check of certain high and medium value items in all 13 RSOs based on compiled stock returns revealed overstocking, as tabulated below :

There was an overall increase in overstocking of selective high/medium value items in 13 RSOs.

High (H) and Medium (M) value stores of RSOs

Item	Range of normative stock		Range of overstocking		Value @ (Rupees in lakh)	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Conductors (H) (in kms.)	7 to 22.5	15 to 1,054	45 to 48	64 to 196	23.82	110.44
Cables (H) (in kms.)	0.12 to 7.5	0.120 to 103.96	2.04 to 4.79	2.94 to 68.23	40.54	67.32
Cables (M) (in kms.)	0 to 17.724	0 to 108.82	0.040 to 13.45	0.040 to 14.4	144.27	94.76
Meters (H) (in nos.)	0 to 6	0 to 7,281	3 to 114	42 to 4,215	27.46	25.06
Meters (M) (in nos.)	0 to 6	0 to 1	29 to 1,297	30 to 1,297	12.49	15.19
Transformers (H) (in nos.)	14	11 to 159	8	13 to 27	6.15	17.53
22 KV CTPT units (M) (in nos.)	1 to 2	1 to 2	11 to 70	13 to 81	50.64	44.24
Total					**305.37**	**374.24**

@ The value of overstocking indicates the total overstocking in terms of value for all the sub-items under a material head.

It would be seen from the above that overstocking increased from Rs.3.05 crore in 2000-01 to Rs.3.74 crore in 2001-02.

The overstocking of XLPE cables (included in cable M) and 22 KV CTPT units were due to excess purchase as discussed in *paragraphs* 3A.4.2.4.1 and 3A.4.2.4.2 (*supra)*.

There was an overall increase in overstocking of selective items in eight divisional stores.

3A.5.1.2 A test check in audit of the stock level of certain high and medium value materials in eight O&M and construction divisions based on quantitative stock returns submitted revealed overstocking, as tabulated below:

High(H) and Medium(M) value items of O&M and Construction Stores

Item	Range of normative stock		Range of overstocking		Value # (Rupees in lakh)	
	2000-01	2001-02	2000-01	2001-02	2000-01	2001-02
Conductors (O&M) (H)	1 to 4 kms.	1 to 14 kms.	3 to 21 kms.	6 to 88 kms.	6.32	47.72
Transformer (O&M) (H)	1 to 4 nos.	3 to 8 nos.	2 to 9 nos.	2 to 3 nos.	15.97	4.55
Cables (O&M) (M)	12 to 1,108 mtrs.	13 to 52,100 mtrs.	17 to 2,431 mtrs.	50 to 32,800 mtrs.	6.90	73.92
Conductors (Const.) (H)	1 to 6 kms.	1 to 10 kms.	2 to 9 kms.	1 to 10 kms.	11.71	18.03
Cables (Const.)(M)	101 to 1,273 mtrs.	66 to 569 mtrs.	127 to 6,027 mtrs.	41 to 4,744 mtrs.	31.26	23.56
Total					**72.16**	**167.78**

It would be seen that overstocking of Rs.0.72 crore in 2000-01 increased to Rs.1.68 crore in 2001-02.

A periodical review of at least the high and medium value items by the Board would prevent avoidable overstocking of materials and resultant blocking up of scarce funds.

3A.5.2 Ineffective system of compilation and monitoring of store returns

In order to monitor the adherence to norms, the stores centres were required to submit every month two returns *viz*. the Monthly Inventory Control Return (MICR), giving stock value at the end of each month for different groups of materials and the Monthly Store Return (MSR), giving quantitative details of opening stock, receipts, issues and closing stock for each item of stock. Audit scrutiny revealed that these returns were not being submitted in time leading to an ineffective system of consolidation of these returns at Head Office and consequent excess purchase and overstocking.

The value of overstocking indicates the total overstocking in terms of value for all the sub-items under a material head.

MICRs of RSOs only were computerised and therefore, these returns gave quantitative and qualitative details of stock position, receipts and issues. The MICRs of RSOs were consolidated in the Information Technology section by the 10th of each month. However, the trends depicted by these monthly consolidated statements were not analysed for effective inventory control. The MICRs of O&M divisions and construction divisions were not computerised and hence, did not give quantitative details. The quantitative MSRs of these divisions were compiled only in March each year. Even this annual compilation did not include the details of divisions not submitting these returns. In the absence of monthly compilations in respect of these stores centres the consolidated position was available to the Head Office only once in year and there was no possibility of analysing trends in issues, stocking *etc*. For effective inventory control the Board needs to ensure regular submission of stock returns by all store centres, computerisation of all stores centres and effective monitoring of the trends depicted in the various returns.

3A.5.3 Stores management

The material purchased by the SPS was delivered at the RSOs and Transmission Construction Stores from where it was issued to various divisional stores for onward transmission to works or was directly issued to works. Efficient stores management required issue of material without delay after its receipt, avoidance of unnecessary inter divisional and inter RSO transportation of material, regular monitoring of non-moving and scrap items and ensuring safety and security of stores materials at all times. A test check of the stores management in 28 stores centres (as mentioned in paragraph 3A.3 *supra*) revealed the following deficiencies:

3A.5.3.1 Avoidable transportation expenditure on inter-circle transfer

The centralised purchases made for O&M requirements were delivered at the RSOs. The Board had 16 O&M circles of which 13 circles had their own RSOs. The three circles not having their own RSOs were catered to by the nearest RSO. The SPS while placing the purchase orders did not specify the destination of the material though freight cost was loaded in all purchase orders. After inspection of each lot of material of the supplier, the SPS issued allotment advice to the suppliers. The allotment was not made at the respective RSOs depending upon the requirement of each circle. This necessitated a lot of inter circle transfer of material. Total materials received at the different RSOs, utilized within the circle and issued outside the circle for the period 2000-01 and 2001-02 (up to December 2001) are tabulated in *Annexure*-15.

It would be observed from the A*nnexure* that in respect of RSOs of Bharuch, Mehsana, Navsari, Rajkot and Nadiad, the purchases received were much higher than the requirements of the circle. The additional materials delivered at these RSOs were reallocated to other circles at Board's expense. Similarly, in respect of other RSOs like Shahpur, Bhuj, Palanpur, Himatnagar and Jamnagar, the requirement of the circles was met by transfer from other circles/RSOs.

The Board had the discretion to decide the destination of the material at the time of placement of order itself. If this had been done prudently based on proper assessment of requirement of each circle, unnecessary inter circle transfer of material could have been avoided. The RSOs and O&M divisions incurred transportation expenditure of Rs.1.75 crore and repairs and maintenance expenditure of Rs.2.53 crore on trucks and vehicles during 2000-02, which could have been minimised.

Seven tenders involving 13 order placements were reviewed in audit to study reallocations out of circle. The findings including estimated transportation expenditure is tabulated below:

	Description of items	**Quantity received in RSO**	**Quantity allotted out of circle**	**Estimated transportation cost (Rupees in lakh)**
	Nadiad RSO			
1.	2.5. core and 4 core cables.	32,380 coils	17,330 coils	6.45
2	34 mm^2 and 55mm^2 conductors	651.7 kms.	216.399 kms.	
3	3.5 core x 25, 70mm^2 cables.	21.534 kms.	11.004 kms.	
4	11 KV XLPE cables	9,007 mtrs.	672 mtrs.	
	Rajkot RSO			
1	2.5. core and 4 core cables.	18,100 coils	12,845 coils	4.58
2	34 mm^2 and 55mm^2 conductors	262.82 kms	100.78 kms.	
3	3.5 core x 25, 70mm^2 cables.	13.093 kms.	7.093 kms.	
	Dhasa RSO			
1	2.5. core and 4 core cables.	1,600 coils	400 coils	1.65
2	34 mm^2 and 55mm^2 conductors	260.28 kms.	104.88 kms.	
3	3.5 core x 25, 70mm^2 cables.	15.017 kms.	10.508 kms.	
	Himatnagar, Surendranagar, Shahpur, Jamnagar, Mehsana, Palanpur and Vatva RSOs			
1	2.5. core and 4 core cables.	3,200 coils	2,300 coils	2.83
2	34 mm^2 and 55mm^2 conductors	2,371.52 kms.	1,116.69 kms.	
3	3.5 core x 25, 70mm^2 cables.	20.037 kms.	14.519 kms.	
	Total			**15.51**

Transportation expenditure has been calculated based on contracted transport rates and distance involved on the assumption that materials will be transported within one month of receipt, as per stocking norms, either alone or in combination with other materials.

In reply to an audit query, the CE(M) stated (May 2002) that all care was being taken to prevent inter circle transfer of materials though sometimes circumstances prevailed to do so. Reply was not acceptable as transfers could be prevented with proper planning prior to placement of orders.

3A.5.3.2 Delay in utilisation of materials –blocking of funds

Delay in utilisation of materials resulted in blocking of funds of Rs.3.95 crore for 25 months with consequential loss of interest of Rs.0.96 crore.

3A.5.3.2.1 An indent for the purchase of one 315 MVA 400/220/33 KV CT auto transformer for augmentation of 400 KV Amreli sub-station was received by Head Office in December 1997. As per the original work schedule, delivery was to be completed by September 1998, which was later revised to April 1999. The transformer was actually received in September 1999 but was commissioned only in January 2002. The Board stated that the delay was on account of shortage of other critical items such as switchyard, structures and isolators. The reply indicated lack of proper planning. The delay had led to blocking of funds of Rs.3.95 crore for 25 months. This also resulted in loss of interest of Rs.0.96 crore (calculated at 12 *per cent per annum* up to January 2002 after giving three months allowance for installation).

3A.5.3.2.2 The Board placed (February 2001) order for supply of 274 kms. of ACSR Moose conductors on a firm for a value of Rs.4.53 crore. The firm supplied 119.932 kms. valuing Rs.2.30 crore at Tower bank Viramgam under Nadiad construction division between July and August 2001. The above material though purchased for 400 KV Dehgam – Ranchodpura line could not be utilised there, as the work contract for the above line had not been awarded.

Non-utilisation of material indented for the works resulted in blocking of funds.

In October 2001, the Board instructed Jambuva construction division to collect the above material for the deposit work of Sardar Sarovar Narmada Nigam Limited at Navagam. However, this material had not been lifted till April 2002. This had resulted in blocking of funds of Rs.2.30 crore for more than eight months and also in loss of interest of Rs.18.37 lakh (calculated at 12 *per cent per annum* up to April 2002).

3A.5.3.3 Delayed utilisation not reflected in stores balances

The construction divisions maintained booking bin cards separately over and above the stores bin cards maintained in the stores section. The stores purchased against a particular work though not consumed, were transferred from the stores bin cards to booking bin cards at the end of the financial year. Such transfers represented materials charged to works though not actually issued to works. This system led to reduction of store balances without actual issue to works. This practice was commented upon in the Separate Audit Reports on the accounts of the Board for the years 1998-2001, as it had resulted in understatement of stock balances and overstatement of work-in-progress to the extent of Rs.38.53 crore, Rs.18.99 crore and Rs.25.24 crore, respectively, for the above three years.

A test check in selected construction divisions revealed that this practice was not only an year-end adjustment but was also carried throughout the year and thus, in four cases resulted in materials valuing Rs.1.81 crore lying out of stores balances for 6 to 17 months without getting reflected as delayed issue. Some such instances are discussed below:

(a) In Jambuva construction division, ACSR zebra conductors worth Rupees one crore received between March and May 2001 were immediately transferred to booking bin cards but were actually issued to works only in December 2001.

(b) In Mehsana construction division, 11 KV disc insulators worth Rs.12.27 lakh were received between April and July 2000 and transferred to booking bin cards in February 2001. They were yet to be issued to works (May 2002). The division received 220 KV outdoor CTs valuing Rs.31.82 lakh between July and October 2000. They were transferred to booking bin cards in January 2001 but were lying there till May 2002. ACSR Panther conductors worth Rs.37.62 lakh received by the division in February 1999 were immediately transferred to booking bin cards and were transferred to Navsari construction division only in April 2000, as the same could not be utilised in Mehsana construction division.

This practice understated the actual stock balances in construction divisions, which may lead to lack of control on the stock.

3A.5.3.4 Ineffective monitoring of non-moving and scrap items

The details of the stock position of the Board as on 31 March 2001 and 2002 under the various stores centres, including power station stores of the Board, classified as active, slow moving, non-moving, obsolete and scrap are given in *Annexure*-16. The percentage of active material, which was 78 *per cent* as on 31 March 2001 reduced to 75 *per cent* on 31 March 2002.

Conclusion

The Board has over the years developed purchase policies and procedures for the protection of the interest of the Board. On many occasions, however, time limits and purchase policies/procedures were not adhered to and prudent practices were not followed leading to avoidable extra expenditure. The norms fixed by the Board on stocking were not adhered to leading to avoidable stocking of materials. The existing non-moving stocks and scrap stocks were not properly monitored leading to blocking of funds under such categories.

The Management Information System of the Board needed to be revamped. The Board needs to conduct a review of all the classified and

unclassified non-moving stock lying under the different stores centres and divisional stores and initiate immediate action for their use or disposal.

The matter was reported to the Government/Board in June 2002. Their replies had not been received (November 2002).

Gujarat State Financial Corporation

3B Defaults and Recovery Performance

Highlights

The Corporation was set up in May 1960 to assist the small and medium industrial units for development of industries in the State.

(Paragraph 3B.1)

Interest income which was Rs.189.89 crore during 1998-99 decreased to Rs.96.51 crore in 2000-01 and to Rs.92.73 crore in 2001-02. As a result thereof, the Corporation which was earning profit of Rs.12.85 crore in 1998-99 incurred loss of Rs.77 crore in 2000-01 and of Rs.79.92 crore (excluding provision against non-performing assets) in 2001-02.

(Paragraph 3B.4)

Due to insufficient recovery, the Corporation depended mainly on refinance from Small Industries Development Bank of India, issue of bonds and loans from banks. This resulted in heavy interest burden of Rs.756.82 crore on the Corporation during the last five years ended 2001-02.

(*Paragraph* 3B.5)

The target for recovery of dues was fixed based on the collection of previous years rather than on the basis of amount recoverable. The actual recovery ranged from 17 to 47 *per cent* of amount recoverable during the last five years ended March 2002.

(Paragraph 3B.7.2)

The overdues had increased from Rs.360.91 crore in 1997-98 to Rs.1,071.46 crore in 2001-02 and 89 *per cent* of the total overdues were more than two years old.

(Paragraph 3B.7.3)

Due to poor recovery performance, non performing assets had increased from Rs.271.59 crore (24 *per cent*) in 1997-98 to Rs.690.56 crore (59 *per cent*) in 2001-02.

(Paragraph 3B.7.4)

Deficiencies in appraisal, sanction, disbursement and post disbursement follow-up had resulted in non-recovery of outstanding amount of Rs.29.24 crore in 17 cases test checked in audit.

(Paragraph 3B.9)

As against the outstanding residual recovery amount of Rs.38.17 crore from 72 units, the Corporation initiated action for recovery from 13 units (Rs.5.65 crore) only by invoking personal guarantee given by the promoters.

(Paragraph 3B.11)

Of the 794 units test checked in audit, which were under possession of the Corporation (amount outstanding : Rs.341.30 crore), 464 units (amount outstanding : Rs.182.55 crore) were not disposed of for more than 24 months.

(Paragraph 3B.12)

In 686 cases test checked in audit, outstanding amount of Rs.108.02 crore was settled for Rs.60.12 crore under One Time Settlement scheme resulting in loss of Rs.47.90 crore (including loss of principal amount of Rs.3.11 crore in 71 cases). Of 686 cases, one time settlement was allowed in 94 cases against eligibility criteria resulting in loss of Rs.14.13 crore.

(Paragraph 3B.13)

3B.1 Introduction

Gujarat State Financial Corporation (the Corporation) was set up under State Financial Corporations (SFC) Act, 1951 on 1 May 1960 to assist the small and medium industrial units for development of industries in the State. The Corporation provides financial assistance up to maximum amount of Rs.2.40 crore (increased to Rs.5 crore in September 2000) to industrial units in the form of term loans, hire purchase, lease finance and subscription to the shares, bonds and debentures of industrial units *etc*.

3B.2 Organisational set up

The management of the affairs and business of the Corporation is vested in Board of Directors (BOD) and the constitution of BOD is governed by Section 10 of SFC Act, 1951 (as amended) as follows:

- Chairman : Nominated by Small Industries Development Bank of India (SIDBI) in consultation with the State Government.
- Managing Director : Nominated by the State Government in consultation with SIDBI.
- Two directors : Nominated by the State Government
- Two directors : Nominated by SIDBI
- Two directors : Nominated by Shareholders of public sector banks and insurance company.
- Three directors : Nominated by other shareholders.

As on 31 March 2002, BOD had five directors comprising the Chairman, Managing Director, one director nominated by the State Government and two directors nominated by SIDBI. The Managing Director was the chief executive and assisted by two General Managers at head office. During the period under review there were seven Managing Directors, whose tenure ranged from one month to 28 months. Such frequent changes in the Chief executive is likely to affect the smooth functioning of the Corporation. The Corporation has nine* Regional Offices in the State, each headed by a Regional Manager.

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* Ahmedabad, Vadodara, Surat, Rajkot, Bhavnagar, Mehsana, Valsad, Ankleshwar and Gandhinagar

3B.3 Scope of Audit

The recovery performance of the Corporation was last reviewed in audit and results thereof were included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1995 (Commercial) Government of Gujarat. The Report was discussed by the Committee on Public Undertakings in November 1998 and their recommendations were awaited (March 2002).

The present review, which was conducted during the period from December 2001 to April 2002, covers 'Defaults and recovery performance of the Corporation' against term loans, noticed during test check of records maintained by Head Office and its two[#] regional offices during the last five years from 1997-98 to 2001-02. The test check was made in respect of default cases exceeding Rs.0.50 crore and the loans sanctioned during 1997-2002.

3B.4 Working results

The working results of the Corporation during 1997-2002 are tabulated below:

(Rupees in crore)

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
(A) Income					
(i) Interest on loans and advances	165.42	189.89	170.75	96.51	92.73
(ii) Interest on term deposits, lease rental and other income	32.90	44.36	28.60	11.95	7.41
Total	**198.32**	**234.25**	**199.35**	**108.46**	**100.14**
(B) Expenditure					
(i)Cost of borrowings					
- Interest on refinance, bonds, *etc.*	140.59	177.92	143.00	145.65	149.66
- Financial charges	2.96	2.35	1.98	2.05	2.44
(ii) Operating expenses	10.82	21.66	24.83	24.71	21.69
(iii) Other expenses	17.98	16.12	14.03	13.05	6.27
(iv) Provision against non-performing assets	--	--	--	--	46.93
Total	**172.35**	**218.05**	**183.84**	**185.46**	**226.99**
Profit / loss(-) before tax	25.97	16.20	15.51	(-)77.00	(-)126.85
Profit/loss(-) after tax	**22.82**	**12.85**	**12.00**	**(-)77.00**	**(-)126.85**

Due to fall in interest income, the Corporation incurred loss of Rs.126.85 crore in 2001-02.

The profit after tax declined from Rs.22.82 crore in 1997-98 to Rs.12 crore in 1999-2000 and the Corporation incurred loss of Rs.77 crore in 2000-01 and of Rs.126.85 crore in 2001-02. The reduction in profit and the subsequent loss in two years ended 2001-02 was mainly due to fall in interest income from the loanees. It was further seen that against the targeted interest recovery of

[#] Ahmedabad and Gandhinagar

Rs.994.25 crore during 1997-2002, the actual recovery was Rs.744.25 crore (75 *per cent*) only.

The Corporation stated (March 2002) that due to recession in the economy and natural calamity, the recovery declined in last three years and further steps were being taken to improve the recovery by way of reduction in interest rate and a scheme for settlement of dues. The reply is not tenable as the Corporation did not take effective steps for disposal of units under possession, as discussed in paragraph 3B.12 *infra*.

3B.5 Sources of finance

The table below indicates the sources of finance and their utilisation for the last five years up to 2001-02:

(Rupees in crore)

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
(A) Sources					
(i) Borrowings					
Refinance (SIDBI/IDBI)	96.17 (11.39)	155.79 (18.37)	108.56 (14.82)	112.16 (19.13)	134.66 (30.01)
Bonds	76.00 (9.00)	-- (--)	13.00 (1.77)	36.73 (6.27)	29.66 (6.61)
Others (bank loans, *etc*.)	6.66 (0.79)	46.00 (5.42)	86.30 (11.78)	72.52 (12.37)	31.05 (6.92)
Total	**178.83**	**201.79**	**207.86**	**221.41**	**195.37**
(ii) Other than borrowings					
Share capital	12.66 (1.50)	0.40 (0.05)	0.01 (--)	0.08 (0.01)	-- (--)
Recovery from loanees	418.59 (49.59)	457.59 (53.96)	475.69 (64.95)	316.59 (54.01)	208.72 (46.51)
Others	234.05 (27.73)	188.26 (22.20)	48.90 (6.68)	48.13 (8.21)	44.64 (9.95)
Total	**665.30**	**646.25**	**524.60**	**364.80**	**253.36**
Grand total (i) + (ii)	**844.13**	**848.04**	**732.46**	**586.21**	**448.73**
(B) Utilisation					
Disbursement of loans	292.17 (34.61)	301.34 (35.53)	315.30 (43.05)	219.37 (37.42)	90.41 (20.15)
Repayment of bonds	7.70 (0.91)	21.18 (2.50)	13.45 (1.84)	4.95 (0.85)	19.57 (4.36)
Repayment of loans	153.34 (18.17)	197.48 (23.29)	159.11 (21.72)	143.52 (24.48)	142.36 (31.73)
Others	390.92 (46.31)	328.04 (38.68)	244.60 (33.39)	218.37 (37.25)	196.39 (43.76)
Total	**844.13**	**848.04**	**732.46**	**586.21**	**448.73**
Percentage of disbursement of loans to borrowings	**61.21**	**66.96**	**65.92**	**100.93**	**216.09**

(Figures in brackets indicate percentage of each item to total sources/utilisation.)

Refinance, issue of bonds and loan from banks increased from Rs.178.83 crore in 1997-98 to Rs.221.41 crore in 2000-01 and decreased to Rs.195.37 crore in 2001-02. The dependence on the above sources increased as percentage of disbursement of loans to borrowing increased from 61.21 in 1997-98 to 216.09 in 2001-02.

Low recovery of dues resulted in heavy interest burden of Rs.756.82 crore.

This was due to low recovery of dues in respect of principal and interest from loanee to meet the needs of lending operations. This had resulted in heavy interest burden on borrowed funds aggregating Rs.756.82 crore during 1997-2002. The Corporation, being a financial institution should have optimised its recoveries to reduce the interest burden on borrowings.

The Corporation stated (March 2002) that its dependence on borrowings has gone up during the last three years mainly due to overall recession in industries and several natural calamities faced by the State. The reply is not tenable as the Corporation did not initiate action for recovery of dues by way of disposal of assets of the units, which were taken over by it.

3B.6 Procedure for financial assistance

The Corporation provides financial assistance for setting up of new industrial units as well as for expansion, diversification and modernisation of existing units. Financial assistance was given to the beneficiaries on receipt of applications accompanied by detailed project reports. The Corporation conducts technical and financial appraisals in order to assess the economic viability of the projects. The Corporation also stresses on the promoter's background, the product, its marketability, viability of the project and the prescribed margin to be borne by the loanee before it sanctions a loan to a unit. The loan amount up to Rs.15 lakh (increased to Rs.25 lakh in May 2001) was sanctioned by the Regional Office and the loan amount over and above this limit up to Rs.2.40 crore (increased to Rs.5 crore in September 2000) was sanctioned by the Head Office as per delegation of powers.

The disbursement of the loan was required to be made after ensuring a clear title deed, non-encumbrance and mortgage deed of the land, plant and machinery of the project. The Corporation was also required to obtain personal guarantee of promoters and the collateral security. Instalments of the loan were released on the basis of progress of implementation of the project.

3B.6.1 Sanction and disbursement of loan

A comparative statement showing the receipt of applications, sanction and disbursement of term loan made during the last five years ended 2001-02 is given below:

(Amount : Rupees in crore)

Particulars	1997-98		1998-99		1999-00		2000-01		2001-02	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Loan applications pending at the beginning of the year	211	110.84	128	80.31	198	128.44	157	185.89	44	40.72
Add: applications received	622	289.43	632	271.60	597	375.55	629	254.16	640	157.77
Less: applications lapsed/withdrawn	255	129.71	157	65.57	194	43.70	268	157.40	97	59.34
Net balance	578	270.56	603	286.34	601	460.29	518	282.65	587	139.15
Loans sanctioned	450	190.25	405	157.90	444	274.40	474	241.93	535	86.99
Loans disbursed*	NA	155.51	468	117.34	865	240.00	858	193.25	766	76.81

The loans sanctioned and disbursed by the Corporation during the last five years up to 2001-02 amounted to Rs.951.47 crore and Rs.782.91 crore respectively. It could be seen from the table that disbursement of loans decreased from Rs.240 crore in 1999-00 to Rs.76.81 crore in 2001-02. The decrease in disbursement of loan was mainly due to not fulfilling the conditions by the loanees.

3B.7 Recovery performance

3B.7.1 Procedure

The instalments of repayment were fixed on quarterly basis, which became due on first day of May, August, November and February of the year after 12 or 24 months of moratorium from the first date of disbursement. Recovery was required to be monitored in all cases by the regional offices. In the event of default by the loanees, action under Section 29 of SFC Act was initiated under which possession of the assets of the unit was taken by the Corporation and realisation through sale of the assets in open tender was adjusted against the dues. In cases where outstanding amount was not fully received in the tender sale, residual amount was recovered by selling the collateral security and invoking the personal guarantee of the promoters.

3B.7.2 Recoveries and default

The details of the term loan due for recovery, target fixed for recovery, amount recovered and the shortfall during the last five years up to 2001-02 are given below:

∗ This includes disbursements made for loans sanctioned in previous years.

(Rupees in crore)

Sl. No.	Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
1	Amount recoverable (including interest)	665.08	714.81	636.24	977.52	1,163.18
2	Targets fixed for recovery	340.00	350.00	355.00	350.00	350.00
	Percentage of target to amount recoverable	51	49	56	36	30
3	Amount recovered					
	a) Old dues (recoverable up to previous year)	16.66	16.38	11.05	14.08	1.03
	b) Current dues	297.53	267.06	288.25	251.70	191.27
	c) Total (a + b)	314.19	283.44	299.30	265.78	192.30
4	Amount recoverable at the end of the year (1-3)	350.89	431.37	336.94	711.74	970.88
5	Adjustment of advance receipts	10.02	37.97	42.91	90.81	100.58
6	Total recoverable	360.91	469.34	379.85	802.55	1,071.46
7	Percentage of recovery to					
	a) Amount recoverable	47	40	47	27	17
	b) Target	92	81	84	76	55

From the above table, it would be seen that:

Actual percentage of recovery to the amount recoverable ranged between 17 and 47.

(i) During the last five years up to 2001-02, the target fixed for recovery was very low and ranged between 30 and 56 *per cent* of the amount recoverable. The actual recovery ranged between 17 and 47 *per cent* of amount recoverable only. Consequently, the blocking up of substantial funds in outstanding dues prevented their recycling. Besides, the Corporation remained dependent on borrowings which amounted to Rs.1,005.26 crore during 1997- 2002.

(ii) Separate targets for recovery of old and current dues were not fixed.

(iii) The Corporation had fixed targets for recovery of dues based on the collection of previous years' rather than on the basis of amount recoverable during the year.

(iv) The amount recovered had steadily declined from Rs.314.19 crore in 1997-98 to Rs.192.30 crore in 2001-02. Further, recovery as a percentage of target had also declined from 92 to 55 during this period indicating reduced effectiveness in recovery of dues.

While accepting the audit observation (September 2002) on fixing of separate target for old and current dues, the Corporation stated that the target for recovery was fixed after considering the amount recoverable during the year. The reply lacked justification as the target fixed for recovery was very low.

3B.7.3 Age-wise details of overdues

The table below indicates the age-wise analysis of overdues for the five years ended 2001-02:

(Rupees in crore)

Age of overdues	1997-98	1998-99	1999-00	2000-01	2001-02
More than one year and up to two years	68.22 (19)	83.62 (18)	40.59 (11)	99.49 (12)	115.46 (11)
More than two years	292.69 (81)	385.72 (82)	339.26 (89)	703.06 (88)	956.00 (89)
Total	**360.91**	**469.34**	**379.85**	**802.55**	**1,071.46**

(Figures in brackets indicate percentage of total overdues)

Total overdues increased from Rs.360.91 crore in 1997-98 to Rs.1071.46 crore in 2001-02.

The total overdues increased from Rs.360.91 crore in 1997-98 to Rs.1,071.46 crore in 2001-02. Eighty nine *per cent* (Rs.956.00 crore) of total overdues (Rs.1,071.46 crore) was more than two years old. Increase in overdues was mainly due to low recovery, which was between 17 and 47 *per cent* of the amount recoverable during 1997-2002.

3B.7.4 Classification of outstanding loans

In the case of financial corporations, Industrial Development Bank of India (IDBI) had classified (March 1994) the loans into following groups depending upon their chances of realisation:

- Standard assets : where repayments are regular.
- Sub-standard assets : where loans as well as interest remain overdue over a period for one year but not exceeding two years.
- Doubtful assets : where loans as well as interest remain overdue beyond two years.
- Loss assets : where loans for which loss was identified but not written off wholly or partly.

The table below indicates the position of outstanding loans, classification of loans as standard, sub-standard, doubtful assets for the last five years up to 2001-02:

(Rupees in crore)

Sl. No.	Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
1	Loans outstanding at the close of the year	1,147.28	1,170.03	1,186.64	1,143.63	1,161.76
2	Classification of loans					
	a) Standard assets	875.69	852.07	782.63	512.86	471.20
	b) Sub-standard assets	177.97	167.40	282.90	457.80	331.01
	c) Doubtful assets	93.62	150.56	121.11	172.97	359.55
	d) Loss assets	Nil	Nil	Nil	Nil	Nil
3	Total non-performing assets (NPA)* {2(b)+(c)}	271.59	317.96	404.01	630.77	690.56
4	Percentage of NPA to total outstanding	24	27	34	55	59
5	Provision for NPA	53.70	73.40	65.19	97.20	144.13

Due to poor recovery performance, non performing assets had increased from Rs.271.59 crore in 1997-98 to Rs.690.56 crore in 2001-02.

Against the total loan outstanding, NPA had increased from Rs.271.59 crore (24 *per cent)* in 1997-98 to Rs.690.56 crore (59 *per cent)* in 2001-02 indicating a poor performance of the Corporation in recovery of dues. The increase of NPA due to poor recovery of dues had not only affected the financial position of the Corporation adversely but also increased the borrowings up to Rs.1,005.26 crore as on 31 March 2002.

3B.8 Industry-wise analysis of overdues

The Corporation extended financial assistance to various types of industries, *viz*. textile, chemical, engineering, plastic, paper and miscellaneous industries. Though the Corporation had maintained data relating to sector-wise industrial performance and overdues, it was noticed in audit that the same were not analysed in a number of cases at the time of appraisal. Non-utilisation of such data deprived the Corporation of the opportunity to monitor/plan its investment policy so as to ensure that the industries, which had adequate potential, could be assisted with higher investment and other industries could be monitored closely.

3B.9 Deficiencies in appraisal, sanction and disbursement of loan

In order to reduce its over dependence on the borrowed fund and to improve its recovery performance, the laid down procedure in respect of sanction, disbursement, post disbursement follow-up *etc.*, were to be adhered to by the Corporation. In test check of records, it was noticed that the loans were sanctioned by the Corporation though its appraisal notes pointed out various adverse factors against the proposed loanee such as recession in the industry,

* NPA – Interest remains overdue for a period of more than 180 days and / or instalment of principal remains overdue for a period of 365 days or more

stiff competition in marketing of the product and various risks involved in implementation of the projects *etc.* The disbursement of loan was made without adhering to the general terms and conditions of sanction *viz.* ensuring availability of working capital from the banks, conducting proper inspection of unit *etc*. Apart from that, proper post disbursement follow-up such as appointment of nominee director, verification of renewal of insurance policy of the assets mortgaged *etc*., was not made.

Due to deficiencies in appraisal, sanction and disbursement, an amount of Rs.29.24 crore remained to be recovered from 17 units.

A test check in audit revealed that due to deficiencies in appraisal of projects, sanction, disbursement of loans and follow-up, an amount of Rs.29.24 crore was outstanding (March 2002) against 17 units, as discussed in succeeding paragraphs.

3B.9.1 Deficiencies in appraisal/sanction of term loan

3B.9.1.1 Sanction of loan without verifying the credentials of NRI promoters

The Corporation had sanctioned (August 1997) a term loan of Rs.1.70 crore followed by an additional loan (July 1998) of Rs.32 lakh to Vibha Polymers Private Limited, Silvassa for manufacturing stretch blow moulded PVC bottles and mineral water bottles and disbursed Rs.2.01 crore between November 1997 and August 1998. The unit was promoted by two Indian entrepreneurs[@] and four non-resident Indians[@@] (NRIs). The unit could not function properly due to damage of main imported machinery and was found (June 1999) closed during field visit by the Corporation's officials. The Corporation took over (September 1999) the possession of the unit and found that the main imported machinery was missing for which a criminal complaint was filed (November 1999) against the promoters. An amount of Rs.3.82 crore (principal : Rs.2.01 crore, interest : Rs.1.72 crore and others : Rs.9 lakh) was outstanding against the unit (March 2002). The Corporation had not initiated (June 2002) action for invoking personal guarantees, as majority of the promoters were NRIs.

Credentials of NRI promoters were not verified and security from Indian promoters was not obtained.

Audit analysis revealed that, the Corporation collected fixed deposits of Rs.20 lakh only as collateral security from the unit, as against the accepted policy of collecting 30 *per cent* of the loan amount in the form of tangible assets. The Corporation had considered during appraisal of the unit that most of the promoters were NRIs and did not possess any immovable property having free titles in India. However, the Corporation failed to collect collateral securities of prescribed amount from the two Indian promoters. The nominee director representing the Corporation was also appointed (June 2000) with a delay of three years on the Board of the unit after disbursement of loan (November 1997) and closure of the unit in June 1999.

Thus, the Corporation's failure in collecting the collateral security of prescribed amount, appointing nominee director timely and verifying the

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[@] Shri Lalit S. Bhojak and Shri Prakash I. Acharya

[@@] Smt. Jyoti D. Bhojak, Shri Deepak T.Bhojak, Smt. Vibha D. Bhojak and Shri Dushyant S. Bhojak credentials of NRI promoters had resulted in non-recovery of Rs.3.82 crore (March 2002).

The Corporation stated (September 2002) that they had filed criminal complaint against the promoters. However, reasons for failure to obtain collateral security, delay in appointment of nominee director and non-verification of credentials of NRI promoters were not furnished.

3B.9.1.2 Sanction of loan to an unviable project

Corporation failed to appraise the marketability of a new product.

(a) The Corporation sanctioned (February 1997) a term loan of Rs.0.90 crore to Bita Writing Instruments (India) Private Limited, Ahmedabad for manufacturing polymer pencils and disbursed Rs.0.75 crore between March 1997 and July 1998 to the loanee. The product being non-traditional and introduced in the State for the first time, could not capture the market from the existing conventional wooden pencil. Consequently, the unit had become a defaulter and the Corporation took possession of the unit in September 1999. The unit was sold by the Corporation for Rs.20 lakh in November 2001, and action for invoking personal guarantee and collateral security for recovery of balance amount of Rs.1.54 crore was not initiated (June 2002). Thus, the failure of the Corporation in properly appraising the marketability of a new project had resulted in non-recovery of Rs.1.54 crore (principal: Rs.0.72 crore, interest : Rs.0.79 crore and others : Rs.3 lakh) as on 31 March 2002.

The Corporation stated (April 2002) that it had taken due care at appraisal stage. The Corporation further added (September 2002) that the marketability of a product as projected at appraisal stage may not eventually emerge to be same at sanction stage. The reply of the Corporation is not tenable as due care was not taken regarding marketability of the product at the appraisal stage.

Ignoring the marketing constraints loan was sanctioned.

(b) The Corporation sanctioned (May 1998) a term loan of Rs.45 lakh to Yogeshwar Cement Private Limited, Baroda for setting up grinding plant for manufacturing cement and disbursed Rs.44.72 lakh between July 1998 and October 1999. Power connection of the unit was disconnected due to non-commencement of production and the unit was closed (August 2000). The unit was taken under possession in November 2001 and its disposal was pending (June 2002). As on 31 March 2002 the total outstanding against this unit was Rs.0.67 crore (principal: Rs.44.72 lakh, interest : Rs.21.51 lakh and others : Rs.0.31 lakh).

Audit scrutiny revealed that at the time of sanction of loan, the Corporation was aware of the fact that the mini-cement plants were facing stiff competition in the market against the brand names of big cement industries. Further, on the instructions of the Managing Director, the Corporation instead of keeping 10 *per cent* of the sanctioned loan (Rs.4.50 lakh) as fixed deposit till the repayment of loan, refunded the same earlier and thereby deviated from the terms and conditions of sanction.

Thus, sanction of loan when the various risks involved in the project were known to the Corporation, had resulted in non-recovery of outstanding amount of Rs.0.67 crore.

(c) The Corporation sanctioned (June 1995) a term loan of Rs.0.63 crore to Ghanshyam Oxygen Private Limited, Bhavnagar for production of oxygen gas which was mainly used in ship breaking industries located in the area and disbursed Rs.0.60 crore between June 1995 and January 1996. The unit could not function well due to non-achievement of requisite quality of the product from the plant and machinery of 'Titan' make. While expressing their inability to pay the dues, the unit narrated that according to market survey conducted by it, `Titan' make plant was sub-standard as compared to output of `Sanghi' make plant. But, the Corporation did not ensure whether Titan make plant was actually sub-standard or not. Moreover, installation of plant capacity of 80 cubic metre *per* hour (CUM/hour) was not viable and the unit could not compete with other plants having capacity of 100 CUM/hour to 200 CUM/hour in oxygen industries. Apart from that, the unit was running with diesel generator (D.G.) set instead of electricity, thus leading to increase in the cost of production. The unit could not achieve even break-even level and suffered loss. The unit became defaulter. The amount outstanding as on 31 March 2002 was to the extent of Rs.1.38 crore (principal: Rs.0.78 crore, interest : Rs.0.57 crore and others : Rs.3 lakh). The unit was taken over in October 2000 and the disposal of the same was pending (June 2002). The Corporation did not initiate action for taking possession of collateral security though final notice was issued (January 2001).

Loan was sanctioned without proper appraisal.

Thus, on account of improper appraisal at the time of sanction of loan in regard to quality and capacity of the plant and non-consideration of cost of production on account of usage of D.G. set had resulted in non-recovery of outstanding amount of Rs.1.38 crore.

(d) The Corporation sanctioned (July 1995) a term loan of Rs.0.63 crore to Nilkanth Oxygen, Bhavnagar for setting up oxygen gas plant and disbursed Rs.0.53 crore between July and December 1995. Due to non-achievement of production as per rated capacity and not getting desired quality of product from the 'Titan' make plant, the unit became defaulter in the repayment of Rs.47.11 lakh which was subsequently settled for Rs.23 lakh under One Time Settlement scheme (January 2001) by sacrificing Rs.24.11 lakh. While considering the one time settlement proposal of the unit, it was remarked by the Corporation that the 'Titan' make plant was found to be of sub standard and plant was not able to give production of required quality. The Corporation had not analysed the facts at the appraisal stage, which caused loss of Rs.24.11 lakh.

Loan was sanctioned without proper appraisal.

3B.9.1.3 Sanction of loan to a completed project facing recession and working capital problem

Loan was given to a completed project facing recession and working capital problem.

Himali Steels Limited, Khatraj, an existing unit since March 1998 manufacturing mild steel sheets, had availed a loan of Rs.1.05 crore from Corporation Bank. As it was facing liquidity crunch and financial assistance provided by the bank was inadequate, the unit approached (April 1999) the Corporation with a request to sanction Rs.2 crore as term loan. The Corporation had sanctioned (June 1999) a term loan of Rs.2 crore and disbursed Rs.1.92 crore in August 1999 without ensuring availability of working capital as per general terms and conditions of sanction. Due to recession and continuous working capital problems, the unit became sick and failed to repay the loan with interest (March 2002) amounting to Rs.2.71 crore (principal: Rs.1.92 crore, interest : Rs.0.76 crore and others : Rs.3 lakh). Though the possession of the unit was taken in May 2001, the assets were not disposed of (March 2002). The Corporation could not take action for invoking personal guarantee and taking possession of collateral security because the unit was registered with the Board for Industrial and Financial Reconstruction (BIFR). The collateral security holder filed a suit (July 2001) against the recovery action of the Corporation for taking possession of the collateral security. Thus, sanction and disbursement of loan by the Corporation for the completed project by over looking the pre condition of disbursement of loan had resulted in non-recovery of outstanding amount of Rs.2.71 crore.

3B.9.1.4 Inadequate pre-sanction appraisal

The Corporation sanctioned a term loan of Rs.2 crore (April 1998) to Marigold Hydro-chem Limited, Mehsana followed by another sanction (April 1999) of Rs.20 lakh for production of sodium hydrosulphate, maroline and marolite. The unit had availed of loan of Rs.0.59 crore between May 1999 and March 2000. However, the promoters failed to implement the project and the Corporation cancelled balance loan of Rs.1.61 crore in October 2001. Though an amount of Rs.0.82 crore (principal: Rs.0.59 crore, interest : Rs.22.87 lakh and others : Rs.0.72 lakh) was recoverable from the unit (March 2002), the Corporation had not initiated action to take the possession of the unit under section 29 of SFC Act (June 2002).

Loan was sanctioned based on inadequate appraisal of project.

Audit analysis revealed that the unit could not complete the construction and purchase of machinery due to paucity of funds as the unit made temporary investments of Rs.1.24 crore in two separate firms. The sanction of the loan was also deficient in as much as the Corporation was aware of various risks involved *viz.* the promoter’s inexperience, inferior quality of the product, stiff competition to be faced from large scale units and availability of substitute products.

Thus, irregular sanction of the loan and inaction on the part of the Corporation to initiate action had resulted in overdue of Rs.0.82 crore (March 2002).

The Corporation stated (September 2002) that though the promoters had no experience in the proposed chemical line, they proposed to employ an experienced technical director. However, the Corporation had not given any specific reasons for failure of the unit at implementation stage itself.

3B.9.2 Deficiencies in disbursement of loan

3B.9.2.1 Disbursement of term loan without ensuring availability of working capital/power supply

According to general terms and conditions of sanction, the Corporation has to disburse the loan after getting sanction of working capital by the bank and getting evidence regarding power connection from Gujarat Electricity Board.

It was noticed that the loan amount was disbursed by the Corporation without adhering to the above conditions in following cases:

Sl. No.	Name of the unit	Month of sanction and amount	Amount disbursed and month of disbursement	Amount outstanding as on March 2002	Remarks
1	Pan Packaging Industries Limited, Vapi	July 1996 Rs.2.40 crore	Rs.2.24 crore Between March 1999 and April 2000	Rs.3.09 crore (Principal Rs.2.23 crore, Interest Rs.0.84 crore, Others Rs.2 lakh)	Power connection and working capital were not obtained. The loan was released based on the reference received from the then Industries Minister. Unit was taken over (April 2002) and not disposed of (July 2002).
2	Dolvan Bio-tech Limited, Surat	July 1996 Rs.30.15 lakh	Rs.29.88 lakh Between September 1996 and January 1998	Rs.0.55 crore (Principal Rs.29.88 lakh, Interest Rs.24.74 lakh, Other Rs.0.78 lakh)	Working capital was not obtained from the bank. Unit was closed in August 1998 and not taken over. No action was taken for missing machinery though noticed in August 1999. Attachment of collateral security was not made (March 2002).
3	Rahul Mould Plast Private Limited, Silvassa	January 1999 and November 1999 Rs.2.40 crore	Rs.2.36 crore Between January 1999 and December 1999	Rs.3.41 crore (Principal Rs.2.36 crore, Interest Rs.1.03 crore, Others Rs.2 lakh)	Working capital was not obtained. The unit was taken over (July 2001) and not disposed of (June 2002).
4	Parmax Pharma Limited, Rajkot	July 1995 Rs.1 crore	Rs.0.69 crore December 1995 and June 1996	Rs.2.20 crore (Principal Rs.0.78 crore, Interest Rs.1.30 crore, Others Rs.12 lakh)	Working capital was not obtained. Unit was taken over in December 1997 and not disposed of (June 2002).
5	Jyoti Steel Industries, Surat	February 1996 Rs.0.52 crore	Rs.38.71 lakh March 1996 and July 1996	Total dues Rs.0.92 crore One Time Settlement accepted Rs.39 lakh	Working capital was not obtained. One Time Settlement was allowed in July 1999 by foregoing Rs.0.53 crore.

The Corporation stated (September 2002) that in respect of unit at serial number 1, the unit had got (October 1999) acknowledgement of its application for power connection from GEB and relaxation in working capital was approved by the Managing Director. The reply is not tenable as the unit could obtain the power connection only after installation of secondary treatment plant. Thus, the disbursement of loan exceeding 75 *per cent* before having required power connection and sanction of working capital was not in order. Regarding unit at serial number 2 above, the Corporation stated that *in lieu* of working capital from bank, the unit had brought equity of Rs.2.29 lakh. The reply is not acceptable as the requirement of working capital will vary from year to year and the investment in the form of equity *in lieu* of working capital is not feasible. In the case of unit at serial number 5, the Corporation stated that as per norms the actual sanction letter for working capital from the bank was required at the time of disbursement beyond 75 *per cent* of sanctioned loan and in present case, the unit had availed loan up to 75 *per cent* only. The reply required justification in view of the fact that in such cases, the Corporation’s interests were at stake.

3B.9.2.2 Disbursement of loan without security

Without ensuring clearance of machinery, loan amount was disbursed.

The Corporation sanctioned (July 1995) a term loan of Rs.0.61 crore to Ham Thermowares, Gandhinagar for manufacturing disposable thermocol containers and disbursed Rs.13.73 lakh between March and October 1997. After getting credit facility from Gujarat State Export Corporation Limited (GSECL), the loan amount of Rs.37 lakh was released to GSECL (February 1999) for clearing documents for the imported machinery arrived at Mumbai Air Port (December 1998). The unit failed to pay customs duty amounting to Rs.23.11 lakh due to non-availability of working capital. Further, an amount of Rs.9.53 lakh was disbursed to the unit in February and May 1999. The unit failed (March 2002) to clear the imported machinery from customs and the project was abandoned. The possession of the unit was taken over by the Corporation (December 1999) and its disposal was pending (June 2002). As on 31 March 2002, an amount of Rs.1.14 crore (principal: Rs.0.60 crore, interest: Rs.0.50 crore and others : Rs.4 lakh) was overdue against the unit.

Audit analysis revealed that there was no credible system to ensure the customs clearance of goods before releasing the payment, which had resulted in releasing the loan amount without security and the Corporation had also not analysed the promoter's financial capability and working capital arrangements.

The Corporation stated (February 2002) that proper procedure had been laid down now for ensuring the actual clearance of imported machinery before releasing the loan.

3B.9.2.3 Disbursement of loan without ensuring clearance of bank’s loan

The Corporation sanctioned (May 2000) a term loan of Rs.32.85 lakh to Ekay Infosystems, Baroda for a project of computer training centre and disbursed Rs.32.10 lakh (June 2000). Subsequently, the Charotar Nagarik Sahakari Bank Limited, Anand stated (December 2001) that the unit had already availed of (September 1999) a short term loan of Rs.36 lakh against the project security and stressed that their charge on the entire project was prime and exclusive. The security offered by the unit to the bank and the Corporation was the same. The Corporation took over the possession of the unit in December 2001 and its disposal was pending (June 2002). The Corporation did not initiate action for taking over possession of the collateral security and for invoking personal guarantee. As on 31 March 2002 the outstanding amount was Rs.41.35 lakh (principal: Rs.32.10 lakh, interest : Rs.9.04 lakh and others : Rs.0.21 lakh).

Loan was disbursed without ensuring discharge of liability of bank.

Scrutiny of records in audit revealed that though it was mentioned in the appraisal note that this unit availed of a short term loan from the bank for Rs.31 lakh for four months, the Corporation had neither stipulated the suitable condition in the sanction letter in regard to obtaining no due certificate before disbursement of loan nor enquired with the bank in this regard. The loan had been released to the unit without obtaining no due certificate in spite of remarks of the Corporation's official in this regard.

Thus, disbursement of loan without ensuring discharge of liability of bank resulted in non-recovery of outstanding dues. Besides, the Corporation was likely to face the legal problem on account of defective documents offered by the unit. No responsibility for the lapses has been fixed by the Corporation.

3B.9.2.4 Lapses noticed in pre/post disbursement follow up

Disbursement of loan was made without proper inspection and monitoring.

(a) The Corporation sanctioned (June 1999) a term loan of Rs.2.40 crore to Shri Sharda Proteins Private Limited, Ahmedabad for edible oil project and disbursed Rs.1.77 crore between March and August 2000. The Corporation had not conducted inspection of the unit before disbursement of second instalment in August 2000. During the inspections carried out in December 2000 and March 2001, it was noticed that the unit had not completed the project and did not pay even a single instalment. The Corporation took over possession of the abandoned unit in July 2001. The available machinery, land and building of the project was valued at Rs.16.84 lakh (August 2001). Though, this was far below the documented value of Rs.2.97 crore, the Corporation had not initiated any action for missing assets valued Rs.1.42 crore. The disposal of the unit was yet to be made (June 2002). Thus, disbursement of loan without proper inspection, non-monitoring of the implementation of the project and delay in taking over possession of the abandoned project had resulted in total outstanding of (March 2002) Rs.2.27 crore (principal: Rs.1.77 crore, interest : Rs.49 lakh and others : Rs.1 lakh). No responsibility has been fixed for the lapses by the Corporation.

The Corporation stated (September 2002) that the inspection of the unit was conducted in March 2000 and there was no incident of theft or dilution of security reported, hence, no action for missing assets was initiated. The reply is not tenable as the inspection conducted in March 2000 was for the disbursement of first instalment, whereas, before releasing second instalment in August 2000, no inspection was carried out. Also, the Corporation did not justify the reasons for wide variation in documented value and valuation report on the assets.

(b) The Corporation sanctioned (April 1999) a term loan of Rs.1.74 crore to Exhort Agro Private Limited, Ahmedabad for manufacturing edible oil and disbursed a loan of Rs.1.37 crore (including adjustment of Rs.5.68 lakh in respect of defaulted interest) between August 1999 and March 2000. The unit had not completed the construction of the factory building and the machinery was not installed (August 2000). Subsequently, the unit became defaulter and not even a single instalment was paid by them. The possession of the unit was taken (July 2001) by the Corporation and the same was yet to be disposed of (June 2002). The total outstanding as on 31 March 2002 stood at Rs.1.68 crore (principal: Rs.1.36 crore, interest : Rs.30 lakh and others : Rs.2 lakh).

Inspection was not conducted before disbursement of second instalment.

Audit analysis revealed that the Corporation had disbursed second instalment of Rs.0.57 crore in September 1999 without conducting inspection and without obtaining evidence of power connection and sanction of working capital from bank. As per valuation, the value of the assets (August 2001) was Rs.21.47 lakh as against the security of Rs.2.29 crore offered at the time of disbursement of loan. The Corporation had not initiated action for identifying missing assets.

Thus, failure on the part of the Corporation to ensure the progress made in completion of the project and disbursement of the second instalment of the loan without proper inspection has resulted in total outstanding of Rs.1.68 crore. No responsibility has been fixed for the lapses by the Corporation.

The Corporation replied (September 2002) that inspection of the unit was conducted in August 1999 and the disbursement beyond 75 *per cent* was made after obtaining working capital sanction letter and power connection. The reply was not tenable as the inspection conducted in August 1999 was for first disbursement and before disbursement of second instalment inspection was not carried out. Also, the Corporation had not given reasons for missing assets.

3B.9.2.5 Disbursement of loan without proper verification of assets and documents

The Corporation sanctioned (March 2000) a term loan of Rs.2.40 crore to Mama Dev Silk Mills Private Limited, Surat. Loan amount was subsequently increased to Rs.3.75 crore (May 2001) by way of sanctioning an additional loan of Rs.1.35 crore for setting up of a textile process house. While considering the additional loan of Rs.1.35 crore in March 2001, the Corporation decided to ascertain the condition of machinery. After getting satisfactory report in this regard, the disbursement of Rs.2.60 crore was made between July 2000 and August 2001. As per the reference of Anti Corruption Bureau, Surat, (ACB) and report of Regional Office of the Corporation at Surat, the unit had produced false certificate of chartered accountant, false bank statement and false bills for the purchase of machinery. Consequently, the unit was taken over in November 2001. According to the valuation report, the value of the unit was assessed at Rs.1.22 crore only and it was noticed that a part of the machinery was old one. The total outstanding was Rs.2.78 crore (principal: Rs.2.60 crore, interest : Rs.12 lakh and others : Rs.6 lakh) as on 31 March 2002.

Loan was disbursed without proper inspection of machinery.

Scrutiny of records revealed that the certificate of Chartered Accountant given at the time of release of first instalment (July 2000) had not indicated the date. But the Corporation had not referred the matter to the concerned chartered accountant for clarification.

Thus, disbursement of loan without conducting proper inspection of machinery and verification of documents, resulted in non-recovery of outstanding amount. No responsibility for the lapses has been fixed by the Corporation. However, the Corporation had filed a criminal complaint against the unit and its promoters.

3B.9.2.6 Nominee directors

The term loan agreements entered into with the assisted units empowered the Corporation to nominate director on the Board of the assisted units. According to the guidelines prescribed (May 1996) by the Corporation, nominee director would be appointed to the assisted units where the loan sanctioned was Rs.0.75 crore and above. This limit was increased to Rs.1.00 crore from May 2000. The nominee director would be withdrawn from the units where legal action under Section 29 of SFC Act was initiated. The Corporation had not kept any consolidated records to show the number of units in which nominee director is to be appointed, number of nominee directors appointed, number of meetings attended by nominee directors, number of directors from whom the reports were received and action taken on the reports *etc*.

Against 184 eligible units, only 82 nominee directors were appointed.

The Corporation stated (June 2002) that 82 nominee directors were appointed as against 184 units eligible for appointment of nominee directors during 1998-2002. However, reasons for non-appointment of nominee directors in 102 units and whether the nominee directors regularly apprised the Corporation regarding performance of the units, were not stated.

3B.10 Rescheduling of loans

The Corporation allowed rescheduling of repayment of principal instalment based on the request from the defaulters as a measure of relief to prevent further default. Consolidated records pertaining to yearwise rescheduling allowed, amount recovered *etc*. were not maintained.

The loanees continued to default even after rescheduling of the loans.

Audit analysis of loan ledgers revealed that an amount of Rs.11.60 crore had become due in respect of 51 cases of rescheduling during the last five years ended 2001-02. However, the loanees continued to default even after rescheduling. Of Rs.11.60 crore, the Corporation had realised Rs.1.71 crore only during the period and balance Rs.9.89 crore was to be recovered (March 2002). The Corporation had not evolved a system to watch the performance of the units after rescheduling. Thus, the very object of rescheduling remained unachieved in these cases.

The Corporation replied (September 2002) that the rescheduling of loan was made as a temporary relief to the sick/potentially sick units. The reply added that after rescheduling, if the unit became defaulter then the benefits extended under rescheduling were withdrawn and recovery action was initiated. However, the fact remains that in absence of consolidated proper records on rescheduling allowed, the audit could not verify as to whether follow-up action was taken timely by the Corporation.

3B.11 Residual recovery

Against residual recovery of Rs.101.72 crore receivable from 648 units, the Corporation had taken action only for Rs.5.65 crore receivable from 13 units.

For recovery of outstanding amount in respect of the units sold, the Corporation had to initiate action by invoking personal guarantees of the promoters. The amount of residual recovery outstanding for the last four years up to 2000-01 was Rs.101.72 crore pertaining to 648 units. Against this, records in respect of 72 units involving an amount of Rs.38.17 crore were made available to audit. The Corporation had not maintained any record to ensure as to whether it had initiated action for residual recovery in respect of remaining cases. Analysis of 72 units revealed that in 59 units involving residual amount of Rs.32.52 crore, the Corporation was yet to identify the guarantor's property, as it failed to obtain evidence of property details such as property card, revenue record, 7/12 *utara etc*., at the time of executing personal guarantee. Though the Corporation decided (May 2001) to obtain the evidences of properties at the time of sanction of loan, it had not taken action for the loans sanctioned prior to May 2001. Out of remaining 13 cases, in four cases involving an amount of Rs.1.38 crore, the Corporation identified the properties of the guarantors but filing of necessary application in the court was pending (March 2002). Remaining nine cases involving an amount of Rs.4.27 crore were pending disposal of courts (March 2002).

3B.12 Delay in disposal of units taken over

464 units involving Rs.182.55 crore were not disposed of for more than two years.

Section 29 of the SFC Act, *inter alia*, empowers the Corporation to take over possession of the unit in case of default in repayment of loan and interest. As on 31 March 2002, the Corporation was in possession of 794 units involving outstanding amount of Rs.341.30 crore. Age-wise analysis revealed that 176 units (Rs.67.35 crore) were under possession for 12 months, 154 units (Rs.91.40 crore) were for 13 to 24 months and remaining 464 units (Rs.182.55 crore) were under possession for more than 24 months. The Corporation had not evolved any system for early disposal of units by prescribing time limit from the date of taking over possession of the units. 31 units covering an outstanding amount of Rs.28.10 crore, though taken over between 1994 and 2001, were not disposed of (March 2002), even when the Corporation was aware of the poor saleability of the units.

Delay in disposal of the assets of the units not only resulted in blocking of funds and entailed avoidable expenditure on watch and ward but also led to deterioration in the value of assets due to efflux of time. The Corporation had not prepared any policy for quick disposal of units under possession.

The Corporation stated (September 2002) that recently it had framed a policy authorising the Regional Loan Committee to formulate a Special Committee for disposal of assets where advertisements are published for more than four times.

3B.13 One Time Settlement scheme

The Corporation had been settling the defaulter’s loan accounts under One Time Settlement (OTS) scheme to maximise recovery and reduce NPA. The

Corporation had prescribed the following eligibility criteria for consideration of cases under the scheme:

- Cases where the original last date of repayment (LDR) was over.
- Projects which had either not been implemented or lying incomplete or had been abandoned.
- The unit that had remained closed for more than two years.
- Cases of compassionate nature – like death of promoter *etc*. - affecting the project.

Based on the representations received from the defaulter loanees for OTS, the Corporation settled 1,200 cases for Rs.99.32 crore during 1997-2001. Thereafter, the OTS was suspended (September 2001). From the details of 686 cases produced to audit, it was noticed that the Corporation had settled the above cases for Rs.60.12 crore against the outstanding amount of Rs.108.02 crore and suffered loss of Rs.47.90 crore.

OTS was allowed in 94 cases against eligibility criteria resulting in loss of Rs.14.13 crore.

Audit analysis revealed that in 40 cases having outstanding amount of Rs.13.93 crore, the last date of repayment was not yet over. However, the Corporation settled these cases for Rs.7.72 crore and sustained a loss of Rs.6.21 crore. In 54 cases having outstanding amount of Rs.15.67 crore, though the units were working, the Corporation considered OTS proposals and settled the cases for Rs.7.75 crore and thereby sustained a loss of Rs.7.92 crore. Thus, the exercise of OTS in respect of these 94 cases was not in accordance with the eligibility criteria and the Corporation sustained loss aggregating Rs.14.13 crore. As per the guidelines issued by the Corporation in December 1994, the settlement amount to be approved under OTS, should never be less than the principal amount of loan outstanding. However, in 71 cases, the amount of principal outstanding was Rs.12.18 crore, whereas, the Corporation allowed OTS at Rs.9.07 crore sacrificing the principal amount to the extent of Rs.3.11 crore. The Corporation settled 15 cases for Rs.1.98 crore against the outstanding amount of Rs.3.70 crore resulting in loss of Rs.1.72 crore even though the valuation of assets was Rs.10.11 crore.

By deviating from the eligibility criteria under the scheme, the Corporation provided undue benefit to the loanees. Moreover, the OTS would tend to reduce the repayment behaviour of the regular loanee, on the pretext of availing such benefit later.

The Corporation stated (September 2002) that the deviations were approved by the BOD. Since the BOD stipulated the criteria for OTS, the deviations therein by the same authority required justification in view of the sacrifice borne by the Corporation.

Conclusion

The Corporation was established to provide financial assistance to small and medium industrial units to accelerate industrial growth in the State. Management's failure to follow the laid down procedures for sanction and disbursement of loans, lack of inspections after disbursement, poor monitoring of the recovery and imprudent settlement of cases under One Time Settlement scheme had put the Corporation's funds at stake. This had further resulted in increased borrowings and interest burden thereby adversely affecting the financial position of the Corporation.

In order to reduce the over-dependence on the borrowed funds and to improve the recovery performance, the laid down procedures in respect of sanction, disbursement, monitoring and follow-up of the loans should be adhered to. The Corporation should also evolve a system for speedy disposal of units under its possession in order to realise the outstanding amount and to avoid delay in the process of invoking guarantees and collateral securities provided by the promoters.

The matter was reported to the Government in May 2002; their replies had not been received (November 2002).