CHAPTER – 2

SECTION 2

Working of Madhya Pradesh State Agro Industries Development Corporation Limited

Highlights

The Company was incorporated in March 1969 with the objective of establishing agro-based industries in the State for production of machinery and implements required for agriculture, fisheries, poultry, etc. and promotion of agro-based industries

(Paragraph 2.1)

Four of its six functional units were incurring losses. Its mechanised agricultural farm at Babai incurred a loss of Rs.2.96 crore during 1996-2001 due to low yield.

(Paragraphs 2.6 and 2.6A(ii))

Failure of the Company to evolve suitable marketing strategy to dispose of the bio-fertilizer culture resulted in a loss of Rs.1.00 crore in the bio-fertiliser plant, Bhopal.

(Paragraph 2.6B(i)(b))

Non-levy of sales tax by Ready-to-eat food plant, Bari, resulted in a loss of Rs.1.05 crore.

(Paragraph 2.6C(iii))

The Company had to write off claims of Rs.0.93 crore for enhanced rate for supply of *Panjeeri* by Ready-to-eat Factory, Raigarh, due to lack of follow-up action.

(Paragraph 2.6D)

Setting up of two organic manure plants without developing market for their product resulted in a loss of Rs.35.98 lakh besides closure of one of the units.

(Paragraph 2.6F)

Fixation of service charges for custom hiring and well boring without considering the cost of operations, led to a loss of Rs.2.63 crore.

(Paragraph 2.8)

The Company’s failure to monitor progress of the project, delay in disinvestment and failure to insist on interest on investment though provided for in the agreement, resulted in loss of interest of Rs.0.69 crore.

(Paragraph 2.9)

Arbitrary/unplanned production of bullock-drawn implements without assessing demand resulted in locking up of Rs.1.81 crore.

(Paragraph 2.14(a))

2.1 Introduction

The Madhya Pradesh State Agro Industries Development Corporation Limited (Company) was incorporated in March 1969, as a joint venture of State and Central governments under the Companies Act, 1956, with the objective of establishing agro-based industries in the State for manufacture of machinery and implements required for agriculture, fisheries, poultry etc. and promotion of agro-industries by providing financial and management assistance to such units.

The operations of the Company are presently confined to :

(i) establishment and promotion of agro-based industries in the joint sector and of its own;

(ii) trading in fertilisers, pesticides, agricultural implements, machinery, batteries, tyres, spare parts etc;

(iii) manufacture and fabrication of implements, servicing of agricultural machinery, hiring of dozers and machinery; and

(iv) implementation of the National Project on Biogas Development.

The Company had not drawn any Corporate Plan for achievement of these objectives.

2.2 Organisational set up

The management of the Company is vested in a Board of Directors comprising representatives of Central and State governments. As on 31 March 2002, there were nine directors on the Board, of whom seven (including a Chairman and a Managing Director) were nominated by the State Government and two by the Central Government.

The Managing Director, who is the Chief Executive of the Company, is assisted by one Chief General Manager and three General Managers.

There was, however, no continuity in management due to frequent changes of Managing Directors. The Company had seven Managing Directors during the last five years up to March 2002; their tenure ranged from 1.5 to 23 months. Frequent changes of Managing Directors deprived the Company of effective supervision and control at the level of the Chief Executive. Though the paid-up capital of the Company was Rs.3.30 crore, it had not appointed a Company Secretary as required under section 383 (A) of the Companies Act 1956.

The Company has nine Regional Offices and 45 Branch Offices, each headed by a Regional Manager and a Branch Manager respectively. Besides, there were eight production units[*], two[**] of which have since been closed.

2.3 Scope of Audit

The last review on the working of the Company was featured in the Report of the Comptroller and Auditor General of India for the year 1994-95 (Commercial). The Committee on Public Undertakings (COPU) gave its recommendations in March 2000. The action taken notes on the recommendations were awaited (April 2002).

COPU's major recommendations include that efforts should be made to increase the sales by sufficient propagation of bio fertilizer, improving the quality and marketing techniques in pesticides and organic manure, better planning in RTE food, fixing norms in agricultural farm with the assistance of experts and ensuring optimum use of resources and facilities for the development of farm. However, these recommendations were not acted upon by the Company, as discussed in the succeeding paragraphs.

The present review, which was conducted during November 2001 to May 2002, covers the activities of the Company for the last five years ending March 2002, by means of a test-check of 15[*] (out of 45) of its branch offices, 6[**] production units, 3[***] regional offices and head office of the Company. The findings are discussed in the succeeding paragraphs.

2.4 Capital structure and borrowings

Loans aggregating Rs.1.97 crore were outstanding on which interest and penal interest accrued and due was Rs.4.11 crore.

The authorised share capital of the Company as on 31 March 2002 was Rs. 5 crore and the paid-up capital was Rs.3.30 crore, contributed by State Government (Rs. 2.10 crore) and Central Government (Rs. 1.2 crore). For meeting its working capital requirements, the Company had obtained loans from the State Government.

The aggregate loans outstanding as at 31 March 2002 amounted to Rs.1.97 crore on which interest and penal interest accrued and due was Rs.4.11 crore.

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[*] *Ready-to-eat (RTE) factories at Bari and Raigarh, Organic Manure Plants at Bhopal and Gwalior, Pesticides Formulation Plant at Bina, Workshop at Bhopal and a mechanised agricultural farm at Babai each headed by a manager and a Bio-fertilizer plant at Bhopal, headed by a Deputy General Manager.*

[**] *RTE Factory, Raigarh closed in April 2001 and Organic Manure Plant at Gwalior in July 2000.*

[*] *Branch offices at Jabalpur, Gwalior, Ujjain, Indore, Dhar, Chhattarpur, Panna, Tikamgarh, Sehore, Bhopal, Vidisha, Raisen, Hoshangabad, Ratlam and Khargone.*

[**] *Bio fertilizer plant at Bhopal, Ready to eat factory at Bari, Organic manure plant at Bhopal, Pesticides formation plant at Bina, Mechanised agriculture farm at Babai, and Central workshop at Bhopal.*

[***] *Jabalpur, Gwalior and Ujjain*

2.5 Financial position and working results

The Company has finalised its accounts up to 1999-2000. The financial position and working results of the Company for the last five years ending March 2000 are detailed in ***Annexures 10 and 11*** respectively.

The table given below indicates the profit earned by the Company during 1995-2000:

The profit of Rs.31.30 lakh was mainly due to non-trading income of Rs.2.13 crore.

(Rupees in lakh)

Year	1995-96	1996-97	1997-98	1998-99	1999-2000
Profit before tax	12.14	74.35	58.40	84.96	82.62
Provision for tax	8.56	55.73	36.95	37.96	37.12
Profit after tax	3.58	18.62	21.45	47.00	45.50
Previous year adjustments	(-)2.48	(-)11.45	(-) 7.81	(-) 9.68	(-) 14.20
Net profit	**1.10**	**7.17**	**13.64**	**37.32**	**31.30**

The profit of Rs.31.30 lakh for the year 1999-2000 was mainly due to accounting of non-trading income of Rs.1.15 crore and interest subsidy of Rs.0.98 crore for 1997-98 received from Government of India in 1999-2000 and not from Company's normal operations.

2.6 Operational performance

Performance of production units

As on March 1996, the Company was having eight production units of which two have since been closed. The table given below indicates profit (+) and loss (-) of eight production units during the last five years ended 31 March 2001:

(Rupees in lakh)

Name of production unit	Total Profit (+) / Loss (-)
Mechanised Agriculture Farm, Babai	(-) 152.18 (upto March 2000)
Organic manure plant Bhopal	(-) 2.77
Organic manure plant Gwalior (closed in July 2000)	(-) 33.21
Pesticides plant Bina	(-) 8.07 (upto March 2000)
Ready-to-eat plant Bari	(+) 369.68
Central workshop Bhopal	(-) 37.10
Bio fertilizer plant Bhopal	(+) 517.10
Ready-to-eat plant Raigarh (closed in April 2001)	(-) 56.15

A review of performance of the six functional units* revealed that one unit has been incurring losses continuously, the operation of three plants had resulted in a net loss and only two plants were earning profits.

Production performance of these units is discussed below:

2.6A Mechanised Agricultural Farm, Babai

The Company was having a mechanised agricultural farm at Babai (district Hoshangabad) to produce and distribute quality seeds among farmers, to demonstrate farming and use of latest agricultural machinery and to act as training ground for farmers and agricultural workers. A scrutiny of the working of the Farm revealed the following:

2.6A(i) Low capacity utilisation

The table given below indicates the total area available for cultivation, area cultivated and percentage of utilisation during the last five years ended 31 March 2001:

Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
Available land (acres)	1964	1964	1964	1964	1964
Cultivated land (acres)	1384	1541	1961	1269.50	1340
Percentage of utilisation	70.46	78.46	99.84	64.64	68.23

The percentage of utilisation fluctuated from 65 to 99 and dwindled from almost 100 in 1998-99 to 68 in 2000-01. The Company did not assign any reasons for this decreasing trend in utilisation of land.

2.6A(ii) Low yield

As regards the actual yield during 1996-2001 vis-a-vis the norms, the Farm had lost Rs. 2.96 crore due to low yield in respect of paddy, wheat, *thuvar* and potato as detailed in the ***Annexure 12***.

Due to low yield in wheat, paddy, *thuvar* and potatoes, the farm suffered a loss of Rs.2.96 crore.

It would be seen from Annexure 12 that the actual yield of wheat never touched even 50 per cent of the norm of 14.285 quintals /acre and ranged between 5.18 to 7 quintal/acre. In respect of *thuvar*, actual yield was worse, and it was in the range of 0.112 quintal/acre to 1.28 quintal /acre (2.75 to 31.37 *per cent* of the norm) only, as against the norm of 4.08 quintal / acre. The farm had, however, not cultivated *thuvar* during 1996-97 and 1999-2000 and potatoes during 1996-97 and 2001-2002 for which no reasons were on record. As regards paddy, the actual yield ranged from 11.63 to 16.00 quintal per acre, as against the norm of 16.326 quintal/acre.

The Farm was also cultivating potatoes in the area situated at Babai. The Department of Agriculture fixed an output of 35 quintal per acre in respect of commercial potatoes and 12.245 quintals in respect of true potatoes seeds (TPS).

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* *Mechanised agriculture farm Babai, Organic manure plant Bhopal, Pesticides formation plant Bina, Ready to eat plant Bari, Central workshop Bhopal, Bio-fertilizer plant Bhopal.*

The Farm had not, however, achieved the norm in any of the five years up to 31 March 2002 and the loss due to low yield worked out to Rs. 24.42 lakh.

The operating losses incurred by the Farm during 1996-2000 worked out to Rs. 1.52 crore. The Company had not analysed the reasons for the losses nor taken any remedial action.

A scrutiny of Company's records revealed that :

(a) The Company had not specifically identified the suitability of the crops for cultivation, as evident from the scrutiny of the farm plans.

(b) The Company had also not made necessary soil testing / scientific studies before taking up the cultivation in the vast area of farming, as only two soil tests were conducted over a period of 14 years.

(c) The Company had also not evolved an effective and proper system of internal controls for distribution of inputs like seeds, fertilizers, pesticides, and activities like reaping, harvesting, transporting, threshing and storage. Thus, it could not be checked in audit whether all the inputs shown as issued were actually utilised in cultivation to the extent of requirement and at appropriate time.

(d) The officials in charge of six units were unqualified and untrained in agricultural techniques and were employed as temporary employees for the last 16 years.

(e) Only one Deputy Manager was supervising the entire activities of the Farm extending to 3364 acres of land that too in addition to his overall charge of Stores and Accounts.

The Company stated (February 2002) that soil tests were conducted, adequate training was given and deployment of supervisory control was done on the basis of utility of staff and keeping in view the establishment expenses. The reply was not acceptable as there were no records to show that training was imparted, and that the officials in charge of the units were qualified. Further the staff engaged were only temporary employees.

2.6A(iii) Loss due to low sale price

A review of the cost of production and the price at which the potatoes were sold revealed that the price fetched was always lower than the cost of production resulting in loss of Rs.21.23 lakh during 1999-2001 as noted below:

Year	Quantity produced (Qtl)	Cost of production (Rs. in lakh)	Quantity sold (Qtl.)	Sales (Rs. in lakh)	Loss on sale (Rs. in lakh)	Quantity perished (Qtl.)	Loss due to perishing (Rs. in lakh)
1997-98	2035.15	13.84	1949.05	NA	NA	86.10	0.59
1998-99	1260.00	10.89	1144.75	NA	NA	115.25	1.00
1999-2000	3918.43	29.06	2599.00 784.50	5.09 5.82	14.18	167.53 367.40	1.24 2.72
2000-01	2565.19 278.00	12.58 4.81	2137.19 --	3.43 --	7.05 --	400.00 39.80	1.96 0.69
Total	**10056.77**	**71.18**	**8614.49**	**14.34**	**21.23**	**1176.08**	**8.20**

No such separate data were available for wheat, paddy and *thuvar* for analysing the profitability of these crops.

2.6A(iv) Perishability of potatoes

Though the unit had been cultivating and selling potatoes for many years, necessary precautionary efforts were not made to reduce the loss of potatoes due to perishability and 11.69 *per cent* of the produce costing Rs.8.20 lakh perished during the four-year period 1997-2001. No norms for perishability were fixed by the Company to exercise proper control over the yield.

Low yield and loss due to perishability as per the Company's internal inspection reports were mainly due to cultivation of potatoes in unsuitable land, cultivation with infected seeds resulting in large scale perishing, delayed sowing in the nursery leading to unsatisfactory sprouting of seeds, and delayed replantation resulting in adverse effects.

The Company did not conduct any detailed enquiry based on these findings nor fixed responsibility for the losses sustained.

The unit replied (March 2002) that potatoes could not be sold as seed due to shortfall in rains and consequent low demand. Further, sample test reports on potatoes sent to Central Potatoes Research Institute (CPRI), Shimla, to know reasons for the abnormal decay, were not received.

The reply was not tenable as failure to get the test report was due to non-payment of laboratory testing fee of Rs.13000 only and this led to delay in identifying the causes, as also in taking remedial action. The Company should have evolved a comprehensive plan to increase/preserve the potatoes' yield and improve the potato farming thereby avoiding losses in production.

2.6B Bio-fertiliser plant, Bhopal

2.6B(i) The Company set up (1986) a bio-fertiliser plant at Bhopal at a cost of Rs.0.67 crore for production and distribution of bio-fertiliser among farmers through Block Development Offices and cooperative societies. The details of bio-fertiliser produced, distributed, sold through branches, quantity returned and lying with branches during 1996-2001 were as follows :

(Quantity in lakh packets)

Year	Quantity produced	Quantity distributed	Quantity sold	Percentage of sales to distribution	Returned by branches and in stock
1996-97	23.557	23.524	19.430	82.60	4.094
1997-98	29.113	28.979	22.785	78.63	6.194
1998-99	37.654	37.593	26.190	69.67	11.403
1999-2000	38.662	38.607	29.215	75.67	9.392
2000-01	36.292	35.956	25.00	69.53	10.956
	165.278	**164.659**	**122.62**	**74.47**	**42.039**

Audit analysis revealed the following :

(a) The level of turnover had decreased from 83 *per cent* in 1996-97 to 70 *per cent* in 2000-01 despite COPU's recommendations that efforts be made to increase the sales and encourage the cultivators.

The Company suffered a loss of Rs.1.00 crore due to expiry of life of bio fertilisers.

(b) Out of 1.65 crore packets of culture distributed by the Plant, the branches could sell only 1.23 crore packets and 42.04 lakh packets (value: Rs.1.08 crore), the 6-month shelf-life of which had expired, were returned by them. The culture had to be reprocessed which resulted in a loss of Rs.1.00 crore. Thus, failure of the plant to plan the production according to demand and evolve suitable marketing strategy to dispose of the product had resulted in a loss of Rs.one crore.

(c) Though the Company was having packet wise (150/250 grams) details for the quantity produced and distributed, it did not, however, have break-up of the quantity sold and that in stock which were being accounted for only in number of packets without any indication as to how many of them were 150 or 250 gram packets. As such the closing stock figures were not reliable and pilferages/shortages of bio fertiliser could also not be ruled out.

Management stated (April 2002) that the lignite content was taken out after pulverisation and sterilisation of unsold culture and no reprocessing was involved. Further, sales returns of 30 *per cent* were anticipated at the time of taking up the project.

The reply was not convincing as the loss of Rs.one crore was arrived at only after reducing the cost of lignite. Further, a test-check in audit revealed that the sales returns were more than 30 *per cent* in respect of Bhopal, Sehore, Raisan and Vidisha districts. Had effective steps for marketing been taken, the plant could have substantially liquidated / reduced the unsold stock.

2.6B(ii) Idle machine

Packing machine purchased at a cost of Rs.14.40 lakh remained idle.

In order to ensure 95 to 100 *per cent* weighment accuracy for packing bio-fertiliser, the Company received (June 1996) a grant of Rs.23.81 lakh from Rajiv Gandhi Institute of Advanced Technology, New Delhi, for purchase of an automatic form-fill packing machine. Though the task force group formed for this purpose expressed (February 1997) apprehensions about the suitability of such machine, the Company purchased and installed (March 1998) a machine from I.C.M.C. Corporation, Trichy, Tamil Nadu, even without pre-delivery inspection and paid Rs.14.40 lakh (80 *per cent* of the cost) to the supplier. The trial run of the machine was not successful but the Company did not take action to obtain replacement of machine or recover the amount paid. The machine was simply kept idle (March 2002) with the Company and the Company continued with manual packing of bio-fertilizer.

Thus, the Company's acceptance of the machine without pre-delivery inspection, despite being aware of its unproven technology and its failure to recover the amount paid, resulted in machine costing Rs.14.40 lakh remaining idele for over five years.

The Company while admitting the facts stated (May 2002) that steps would be taken to repair the machine.

2.6C Ready-to-eat food plant, Bari

2.6C(i) The Company set up (June 1995) a ready-to-eat (RTE) food factory at Bari (Raisen district) with an installed capacity of 6000 M.T. of panjeeri at a cost of Rs. 1.21 crore. The panjeeri produced was supplied to various Anganwadis owned and controlled by Mahila and Bal Vikas Department of State Government.

The table below indicates the quantity of panjeeri produced, sold and capacity utilisation for the last five years up to 31 March 2002:

(Capacity 6000 M.T.)

Year	Quantity produced (M.T.)	Quantity sold (M.T.)	Capacity utilisation (*per cent*)
1997-98	4000.175	3856.95	66.67
1998-99	4525.425	4704.42	75.42
1999-2000	4362.125	4253.57	72.70
2000-01	4439.75	4585.37	74.00
2001-02	4708.89	4708.77	78.48

It was noticed that the lower capacity utilisation was due to controllable factors which resulted in less realisation of potential profit of Rs.0.56 crore as shown in the table given below:

Low utilisation of capacity due to controllable factors resulted in loss of potential profit of Rs.0.56 crore.

Stoppage of production for want of	Shifts lost	Production lost (M.T.)	Less realisation of profit (Rs. in lakh)
Raw material	354	1888	21.81
Labour	28	149	1.72
Inadequate maintenance	347	1851	21.38
Power	172	917	10.59
Sub Total	**901**	**4805**	**55.50**
Other reasons	298	1589	18.35
Total	**1199**	**6394**	**73.85**

Audit scrutiny also revealed that the Company had not kept required raw material despite fixing the re-order level, had a generator set of insufficient capacity and had not followed the preventive maintenance programme. Compnay's failure to produce additional 4805 M.T. of panjeeri resulted in forgoing profit of Rs. 0.56 crore.

Management admitted (March 2002) that the generator set installed with 63 KVA rating was low in capacity as it would not run the pulverisor to meet flour roasting requirement for producing panjeeri. The reply was indicative of the unpreparedness of the Company to make best possible use of the available opportunities to maximise its profits.

2.6C(ii) Avoidable payment of electricity charges

The Company entered (April 1994) into an agreement with Madhya Pradesh Electricity Board (Board) for supply of energy with a contract demand of 250 KVA to RTE, Bari without assessing the energy requirements with reference to the connected load of plant and machinery installed. The terms and conditions of agreement stipulated, inter alia, that the unit could seek reduction in contracted demand on satisfying the Board about the reduced connected load, and the unit

should maintain an average power factor (PF) above 90 *per cent* failing which penalty was payable at prescribed rates.

Failure to reduce contracted demand resulted in avoidable expenditure of Rs.13.66 lakh.

Audit scrutiny revealed that though the maximum monthly demand availed by the unit since inception to 2002 ranged between 32 and 108 KVA, the unit paid monthly demand charge for minimum 188 KVA (75 *per cent* of contract demand of 250 KVA) as per the agreement. This resulted in avoidable expenditure of Rs.9.83 lakh. As against the PF of 90 *per cent*, the actual PF during the period ranged between only 22 and 89 *per cent* for which penal charges of Rs.3.83 lakh also had to be paid.

Thus, the failure to get the contract demand reduced to the extent of need and to maintain power factor at 90 *per cent* resulted in an avoidable expenditure of Rs.13.66 lakh.

The unit replied that its request (December 2001) to reduce the contracted demand from 250 KVA to 150 KVA was not accepted by the Board, not being satisfied about reduction in connected load. The facts remained that despite Company's efforts, it continued to pay the electricity charges for 188 KVA.

2.6C(iii) Non-recovery of sales tax

The Company did not have any formal agreement with Head of Mahila and Bal Vikas (MBV) Department of State Government and it has been selling panjeeri at the rate of Rs. 12500 per M.T.through its branches which had entered into agreements with the Collectors at the district level. Such agreement did not include provision for recovery/reimbursement of taxes/levies. The Company increased the price of panjeeri from Rs.12500 to Rs. 13650 per M.T. in April 2000 due to introduction of 8 *per cent* sales tax and raised bills which included Rs.1.05 crore towards sales tax (up to March 2002). The MBV Department, however, rejected the claims for tax stating that a proposal for exemption from sales tax was submitted to Government and further there was no provision in the agreements for payment of taxes.

Failure to include the clause in agreement for collection of sales tax resulted in non-recovery of Rs.1.05 crore.

Thus, the Company's failure to include suitable provision in agreements for recovery of taxes levied resulted in non-recovery of Rs. 1.05 crore (up to March 2002) paid as sales taxes.

The Company stated (April 2002) that MBV Department was taking action for reimbursement of tax paid. The reply was not tenable as the Government had refused to grant exemption to the Company from payment of sales tax. The Company could not so far obtain reimbursement of the tax paid in the past.

2.6D Ready-to-eat factory, Raigarh

The Company was supplying *panjeeri* to MBV Department through its production unit at Raigarh at Re.0.50 per packet of 60 grams (Rs.8333 per M.T.).

It decided in March 1994 to request for revision of price which was accepted (April 1995) by a committee, headed by the Secretary of the MBV department.

Failure to obtain Government orders in support of price increase resulted in loss of Rs.0.93 crore.

The Company, without ensuring the issue of formal orders by Government to this effect, preferred claims at the revised rates of Rs.12167 per MT for supplies made from February 1994. The Department did not accept the Company's claims at enhanced rates in the absence of Government orders to this effect. The Company's failure to take follow-up action for issue of formal orders thus resulted in non-recovery of Rs. 0.93 crore.

Management stated (May 2002) that efforts were being made to recover the amount. The reply was not tenable as the Company was not able to recover the amount and had written off the amount.

2.6E Pesticides formulation plant, Bina

The Company was having a pesticides formulation Plant at Bina to produce and distribute quality wettable dusting powder and liquid to farmers at reasonable prices. The table below indicates the details of quantity produced, sold and capacity utilised for the five years up to 2001-2002:

Product	1997-98	1998-99	1999-2000	2000-01	2001-2002
I. Wettable dusting powder					
(a) Installed capacity (MT)	2640	2640	1500	1500	1500
Production					
(b) Thyram 75% (MT)	74.755	2.305	13.891	28.370	30.76
(c) Capacity utilisation (*per cent*)	2.83	0.09	0.93	1.89	2.05
(d) Sales (MT)	50.47	2.80	19.582	22.925	3.60
II. Liquid					
(a) Installed capacity (in Kls)	500	500	500	500	500
(b) Production Butachlore 50% (Kl)	2.625	Nil	3.829	Nil	0.93
(c) Capacity utilisation (in %)	0.53	Nil	0.77	Nil	0.19
Sales in Kl.	0.89	0.39	1.25	1.64	2.50

It would be seen from the above that the capacity utilisation was negligible (less than three *per cent*). The Company's production performance relating to liquid form was also negligible (less than one *per cent*).

Audit scrutiny revealed that main reason for the low production was constraints in sales. Though the plant has been in operation for two decades, the Company has not evolved any long term strategy for marketing its products.

It was also noticed that the Company had been selling pesticides manufactured by other private companies in addition to its own. The sale by the Company of its own pesticides, compared to total sale of pesticides ranged between 9.4 to 21.1 *per cent*, as indicated below:

Year	Total value of sale of pesticides	Value of sale of Company's own pesticides	Percentage of (3) to (2)
1	2	3	4
	Rs. in lakh		
1996-97	176.92	20.74	11.7
1997-98	199.58	42.16	21.1
1998-99	235.90	22.28	9.4
1999-2000	179.44	27.38	15.3

COPU has recommended that deficiencies in marketing management leading to low sales, despite the existence of large demand, be analysed and efforts made to increase the sales according to market situation, quantity and price of pesticides. However, the Company, while selling more quantity of pesticides of private companies than its own, failed to identify the farmers' preference, market trends and accordingly frame suitable strategy. The Company's failure resulted in the unit incurring a loss of Rs.8.07 lakh during the four years up to 1999-2000 besides defeating the purpose of setting up the plant for production and distribution of quality pesticides to farmers.

The Company stated (May 2002) that though efforts were made to increase the business, these were not successful. Further, steps taken to sell the plant also could not materialise as there was no offer. Thus, the plant was being run with minimum expenditure.

The reply was not convincing as use of pesticides was an integral part of farming activity and therefore, the Company should have taken effective steps to improve the marketing so that the plant could be made viable and objective of its formation could also be realised.

2.6F Organic manure plants

The Company decided in October 1993 to set up two organic manure plants in technical collaboration with Excel Industries Limited, Bombay, which agreed to take 50 *per cent* of production.

The project report envisaged that before setting up the plant on commercial basis, (a) market was to be developed around production units to reduce outward carriage, (b) as regular usage of organic manure would improve soil fertility, its application should be promoted through government agencies, and (c) since its effect was slow as compared to chemical fertilizers, aggressive motivation was required to promote the product.

The Company, without promoting the application and developing market for the product, set up the two plants, one each at Bhopal (December 1993) and Gwalior (September 1995), each with an installed capacity of 4000 MT at a total cost of Rs.1.94 crore.

The table in ***Annexure 13*** summarises the details of organic manure produced, sold and capacity utilisation of these two units for the last five years up to March 2002.

It may be seen from Annexure 13 that the capacity utilisation in both the plants was less than 50 *per cent* and the units were not able to fully dispose of even the limited quantity of manure produced. The percentage of sales to total stock decreased from 74.1 in 1997-98 to 47.00 in 2001-02 in respect of Bhopal unit and from 78.47 in 1998-99 to a measly 8.5 in 2000-01 in Gwalior unit, indicating lack of adequate marketing efforts.

Due to low capacity utilisation and low turnover the plants suffered a loss of Rs.35.98 lakh.

Due to low capacity utilisation, low turnover and high inventory, the units incurred losses of Rs.35.98 lakh during the last five years up to 31 March 2001 and consequently the unit at Gwalior was closed in July 2000.

Audit scrutiny revealed the following:

(i) Except in 1997-98, the collaborators did not lift 50 *per cent* of production. The Company's failure to ensure delivery of stock to collaborators resulted in its forgoing sale of 4453.51 MT (value Rs.0.56 crore);

(ii) COPU had desired that steps should be taken to propagate the use of organic manure and to strengthen marketing so that its sale and use could be made possible during the shelf life period. However, due to long period of storage beyond shelf life (six months), the Company had to reprocess the manure and incur additional expenditure of Rs.15.49 lakh.

Thus, the Company's failure to promote the product and develop market resulted in the units incurring losses and closure of one unit. Besides, the socio-economic benefits expected from the project were also not fully achieved.

While admitting (April 2002) the facts, the Company stated that farmers were not coming forward to use the organic manure. The reply was only indicative of Company's inadequate promotional and marketing efforts to develop and encourage the use of the product.

2.7 Trading activities

2.7A The table below indicates the sales performance of the Company for the last five years up to March 2001.

(Rupees in crore)

The Company continues to depend on subsidised items for its sales.

Year	Total sales	Sale of subsidised items	Percentage of Col.3 to Col.2	Sale of own products	Percentage of Col.5 to Col.2
1	2	3	4	5	6
1996-97	150.30	137.13	91.2	9.75	6.5
1997-98	238.72	224.23	93.9	12.20	5.1
1998-99	192.45	177.09	92.0	14.74	7.7
1999-2000	195.76	183.31	93.6	13.84	7.1
2000-01	166.69	147.90	88.7	9.77	5.9

The Company attributed the falling sales to low rainfall, competition from private firms and withdrawal of subsidy on fertilisers during 2000-01 by Government of India. However, the Company was heavily dependent on subsidised items for its

turnover and had not evolved suitable and effective marketing strategy to improve the sale of other items and also sale of its own products, despite being in existence for more than three decades.

2.7B Supply of Daliya and Khichadi without specific orders

Daliya (wheat granules) and *Khichadi* (a mixture of rice and moong dal) are uncooked food and hence are not 'ready to eat' items. State Government issued orders (May 1999) that MBV Department should purchase only those items which are produced in the Company's plants. Further, the Company was to obtain prior approval from State Government for the supply of *Daliya* and *Kichadi* to MBV Department. The Company, without obtaining specific orders from State Government supplied (May 1999) 102.75 MT of *Khichadi* valuing Rs.12.84 lakh and 50 MT of *Daliya* valuing Rs.6.25 lakhs to MBV Department in Sehore district. The Company's bills for these supplies had not been accepted by the Department so far (June 2002) as there was no order to supply *Daliya* and *Khichadi*. The Company had not taken any steps either to obtain order from Government subsequently or to realise the value of *Daliya* and *Khichadi* from the Department. Thus, supply of these items without specific order and failure to take follow-up action resulted in non-recovery of Rs.19.09 lakh.

2.8 Service activities

Custom hiring and well boring activity

The Company suffered loss of Rs.2.63 crore in custom hiring and well boring activities due to high operational expenses.

As a part of promoting agricultural activities in the State, the Company took up activities like custom hiring and well-boring. This envisaged hiring out equipments such as dozers, boring machines and air compressors along with technical staff for drilling tubewells at farmers' sites and assisting in the construction of dams. The rates of hire charges were fixed by a joint committee.

Audit scrutiny revealed that the Company earned an income of only Rs.4.98 crore by way of custom hiring and well-boring against the expenditure of Rs.7.61 crore resulting in a loss of Rs.2.63 crore due to the following factors:

(i) Though the hire charges were increased periodically from Rs.30 per foot in November 1996 to Rs.33 per foot in September 1998 and Rs.37 per foot in November 1999, cost estimates were not prepared before revising the rates. Thus, failure of the Company to link the service charges with the cost of operation before the revision of rates and to reduce the cost of operation resulted in loss of Rs.2.63 crore.

(ii) Despite increase in rates, the income from such activities had decreased from Rs.1.18 crore in 1996-97 to Rs.1.04 crore in 1999-2000. This was indicative of the Company's failure even to maintain the current level of operation of this activity.

2.9 Investment

Lack of monitoring and delay in disinvestment resulting in loss of interest

During the period under review the Company assisted the setting up of two agro-based industries. In the case of Rashel Agro Tech. Pvt. Limited, Indore (Promoters) the Company decided (December 1995) to invest Rs.50 lakh as equity in their proposed project for cultivation and processing of button mushrooms at a cost of Rs.15.67 crore at Mhow (Indore district). As per the share subscription agreement entered into (July 1996) by the Company, promoters were to repurchase all the equity shares held by the Company under the following circumstances, whichever being earlier:

(i) after completion of five years from the date of sanction (16 January 1996), or

(ii) three years from the date of commercial production, or

(iii) immediately on completion of lock-in period as stipulated in prospectus, or

(iv) 30 days of the close of public issue if at least 90 *per cent* of the shares offered through public are not taken up, or

(v) on giving one month's notice.

The shares were to be repurchased at the highest value of shares quoted or face value of the share plus compound interest at the rate of 19.5 *per cent* per annum from the date of investment minus the dividends received or book value as per latest audited balance sheet, whichever was the highest. As per the terms of agreement, the Company was also entitled to appoint one Director on Promoters' Board of Directors.

Delay in disinvestment resulted in a loss of Rs.0.69 crore.

The Company released (July 1996) the equity of Rs.50 lakh and was allotted (October 1996) 500,000 shares of Rs.10 each, fully paid. Due to poor financial position, Promoters did not set up the unit, which was later on abandoned. Even though the Company had its nominee on Promoters' Board, it became aware of (July 1999) abandonment of the project from Madhya Pradesh Financial Corporation only, which had got back its own investments. Thereafter, the Company approached (December 1999) the Promoters for buy-back of shares. It allowed extensions of time to Promoters for payment of equity, without insisting on interest. It finally received Rs.50 lakh during December 1999 to January 2002 but without any interest. The Company's failure to monitor progress of the project, delay in disinvestment and failure to insist on interest on investment though provided for in the agreement, resulted in loss of interest of Rs.0.69 crore.

It was replied (May 2002) that claim for interest was under consideration of the management.

2.10 Diversion of subsidy

(a) The Company received through State Government subsidies of Rs.16.65 lakh in 1997 and Rs. 20 lakh in March-April 1999 as Central Government assistance for setting up laboratories for testing soil, water, seed and strengthening bio-fertiliser plants, respectively. The amount was required to be utilised fully for the purposes for which it was provided for and unutilised amount, if any, was to be refunded to the Central Government.

It was noticed (March 2002) in audit that the Company had diverted Rs.36.10 lakh towards meeting its working capital requirements, thereby defeating the very objective of the grant of subsidy.

The Company stated (May 2002) that laboratories would be set up after locating trained persons. The reply was not convincing as the Company had still not utilised the subsidy for the purpose for which it was received 3 to 5 years back.

(b) The Company received a subsidy of Rs.29.46 lakh during 1995-97 from Government of India through State Agriculture Department (Department) to be utilised for development of sugarcane. The beneficiaries under the scheme were identified by the Agriculture Department and the subsidy was released to the Company for adjustment of cost of bullock-drawn and tractor-drawn implements supplied to them. The amount was to be utilised in the same financial year and the unspent amount was to be refunded to the Agriculture Department.

The Company utilised only Rs.7.00 lakh for the purpose of sugarcane development and diverted Rs.22.46 lakh to meet its working capital requirements. Diversion of Rs.22.46 lakh defeated the very purpose of subsidy.

Management stated (March 2002) that the Company had not received the list of beneficiaries from the Department. The reply was not tenable as the Company, having received the amount, should have either obtained the list of beneficiaries or refunded the balance to the Department which was not done.

2.11 National Project on Biogas Development

The State Government nominated (October 1985) the Company as nodal agency for implementation of National Project on Biogas Development, a Centrally sponsored scheme of Ministry of Non-conventional Energy Sources (MNES), Government of India. The Company was to install the biogas plants and distribute the subsidy to beneficiaries identified by the State Agriculture Department. As per the directives of MNES, the Central subsidy was to be disbursed only after complete construction of biogas plants and subsidy claims were to be prepared only in respect of commissioned plants.

The following table indicates the targets vis-a-vis plants actually constructed, subsidy received, plants for which completion certificates were not issued during 1996-2001:

Years	Targets	Number of plants constructed	Subsidy received (Rs. in lakh)		Number of plants for which completion certificates were not issued	Subsidy @ Rs.1800/plant (Rs. in lakh)
			Central	**State**		
1996-97	17500	16506	365.64	108.20	1138	20.48
1997-98	17000	12559	290.81	Nil	1004	18.07
1998-99	11500	12034	255.76	Nil	931	16.76
1999-2000	13000	12084	270.72	Nil	1615	29.07
2000-01	13000	12317	278.95	Nil	3805	68.49
					8493	**152.87**

Subsidy of Rs.1.53 crore was disbursed in violation of Government directives.

It may be seen from the above that in respect of 8493 plants for which Central subsidy was received by the Company, the completion certificate were not obtained which was not in conformity with the directives of the Government of India. The company was therefore liable to refund the subsidy of Rs.1.53 crore involved in these cases, which was not done.

The Company admitted the delay in obtaining completion certificates.

2.12 Financial management

The Company was not preparing bank reconciliation statements regularly. Test-check in audit revealed that these statements had not been prepared by ten branches as well as the Head Office in respect of some banks. Consequently, as on 31 March 2000, the Company was having unreconciled balance of Rs.0.55 crore (cr.) since 1983-84. In the absence of periodical bank reconciliation statements, the possibilities of misappropriation of fund could not be ruled out.

The Company was also not preparing cash/fund flow statements to assess its funds position and utilise the surplus funds, if any, more fruitfully as an effective tool of financial management.

Non-preparation of these statements resulted in ineffective monitoring of funds transferred/credited which resulted in non-identification of delayed credits. Test-check revealed the following:

2.12(a) Loss due to delay in credit of demand drafts by Central Co-operative Bank

The Ujjain branch of the Company was having a current account with Central Co-operative Bank (CCB). The sale proceeds of fertilisers from registered co-operative societies were accepted by means of demand drafts (DDs) drawn on various branches of the CC banks and were deposited in the CCB, Ujjain, for credit to the Company's account.

Audit scrutiny of DDs deposited and credited revealed that CCB was affording credit to the Company after delays of 3 to 129 days. The delays on the Company's deposits of Rs.20.32 crore during May 1997 to January 2001 resulted in an interest loss of Rs.20 lakh. Thus, the Company's failure to monitor the crediting of DDs to its account led to loss of interest.

Failure to monitor crediting of funds resulted in delay and loss of interest of Rs.20 lakh.

It was replied (May 2002) that as all the transactions of the co-operatives societies are routed through Central Co-operative Bank, the Company is compelled to operate the account with CCB and it was getting credit within 35 days. Further, it could not force CCB to make payment immediately. The reply was not tenable as the Company had never impressed upon the CCB for timely credit of DDs and the delay exceeded even 35 days in several cases which could have been avoided/reduced by effective monitoring.

2.12(b) Loss due to delay in crediting of telegraphic transfers/deposits

Loss of interest of Rs.9.35 lakh due to delayed transfer of funds.

Branches of the Company also remitted funds through telegraphic transfers for onward transmission to Company's account in Head office. Test-check in audit of eight branches of the Company revealed that the time taken by banks to credit the amounts in Company's account ranged between 4 months to 204 months in respect of cases listed in the ***Annexure 14.*** The Company's failure to effectively monitor the transfers resulted in loss of interest of Rs.9.35 lakh, in addition to loss of deposits of Rs.2.91 lakh which were not credited to its account at all (July 2002).

The Company, while admitting the facts, stated (May 2002) that action was being taken to recover the interest.

2.13 Non-implementation of voluntary retirement scheme

With a view to reducing its staff strength, the Company invited applications in April 2000 from employees who wished to opt for retirement under a voluntary retirement scheme (VRS), indicating the last date as 8 May 2000. It received 47 applications of which 35 were identified for acceptance and the compensation payable was assessed as Rs 1.38 crore. However, it requested (April 2001) the State Government for financial assistance of Rs. three crore for implementing the scheme.

Non implementation of VRS resulted in a net avoidable expenditure of Rs.27.68 lakh.

As the amount was not received from State Government, the VRS was not implemented. Scrutiny of the funds position of the Company revealed (June 2002) that it had Rs.10 crore in the form of investments in fixed deposits at interest rates varying from 10.25 to 12.50 per cent during 2000-01 and 2001-02. Had it utilised these funds for implementation of VRS, it could have avoided expenditure of Rs.0.54 crore on pay and allowances in respect of the 35 employees (from October 2000 to March 2002) i.e. against a loss of interest of Rs.25.87 lakh, it could have saved Rs.27.68 lakh.

2.14 Inventory Management

As at 31 March 2000, the Company had a stock valuing Rs.16.37 crore, equivalent to one month's sales. Scrutiny in audit revealed that the Company had not fixed minimum/maximum/re-order levels for stores and stock-holding. Further, the stock-holding of bullock-drawn (BD) implements had always been high working out to as much as 9.8, 8.73, 6.9 and 7.1 months' turnover in 1996-97, 1997-98, 1998-99 and 1999-2000, respectively.

Further audit scrutiny revealed the following:

Unplanned production of agricultural implements resulted in accumulation of stock valuing Rs.1.81 crore

(a) Excess holding of BD implements was due to arbitrary/unplanned production of implements without taking into account the stock-in-hand which resulted in locking up of Rs.1.81 crore, as detailed in ***Annexure 15.***

(b) Obsolete, scrapped and non-moving stock lying from 1984-85 onwards (value:Rs.0.82 crore) remained to be disposed of (March 2002) resulting in blocking of funds

(c) Unusable stock of spares for tractors (value:Rs.24.75 lakh) imported during 1970-71 also remained to be disposed of (March 2002).

2.15 Internal audit

Since 1999-2000, the internal audit of the Company was being conducted departmentally. Audit scrutiny revealed that important activities like trading in fertilizers, transfer of funds, engineering, HRD, marketing, secretariat, recovery of dues were not covered by internal audit. The internal audit reports were also not submitted to the Board. In spite of inadequacy of internal audit being continuously commented upon by statutory auditors, efforts to streamline/strengthen it were not taken (June 2002).

Conclusion

The main objective of the Company is to promote and establish agro-based industry and provide financial and management assistance for setting up of such units. However, the Company during the last five years ended March 2002 had assisted only two units of which one unit had not come up. Further, four out of six production units of the Company were incurring losses due to gross under-utilisation of capacity and lack of effective marketing efforts. The Company had not set up any agro-based industry of its own and on the contrary closed two of its units during the last five years.

Concerted efforts are required to improve and strengthen the marketing capabilities of the Company to make the production units viable and achieve the very objective of the Company of promoting and developing agro-based industries or else the company should be considered for closure.

The above matters were reported to the Company / Government in July 2002; their replies had not been received (September 2002).