CHAPTER VII

GOVERNMENT COMMERCIAL AND TRADING ACTIVITIES

7.1 Introduction

This chapter deals with the results of Government companies. Paragraphs 7.2 to 7.8 deal with general view of Government companies and investment in Public Sector Undertakings. Paragraph 7.9 deals with "Abandoning of distillery and performance of arrack blending and bottling unit" in Pondicherry Distilleries Limited.

7.2 Overview of Government companies

As on 31 March 2001 there were 11 Government companies including one Subsidiary company (all working companies) as against the same number of Government companies as on 31 March 2000 under the control of the Government of Pondicherry. The accounts of the Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors who are appointed by the Comptroller and Auditor General of India (CAG) as per provision of Section 619 (2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619 of the Companies Act, 1956.

7.3 Working Public Sector Undertakings (PSUs)

7.3.1 Investment in working PSUs

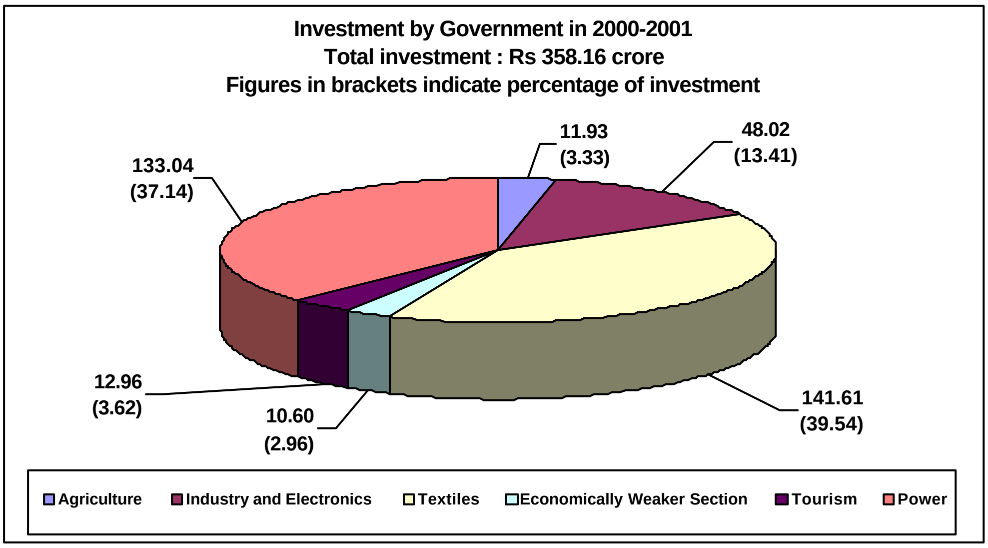
As on 31 March 2001, the total investment in 11 Government companies was Rs 358.16 crore (equity: Rs 351.24 crore; long term loans[14]: Rs 6.92 crore) as against total investment of Rs 331.97 crore (equity: Rs 322.31 crore; long term loans: Rs 6.33 crore, share application money Rs 3.33 crore) as on 31 March 2000. The main reason for increase in capital was induction of substantial equity in textile sector.

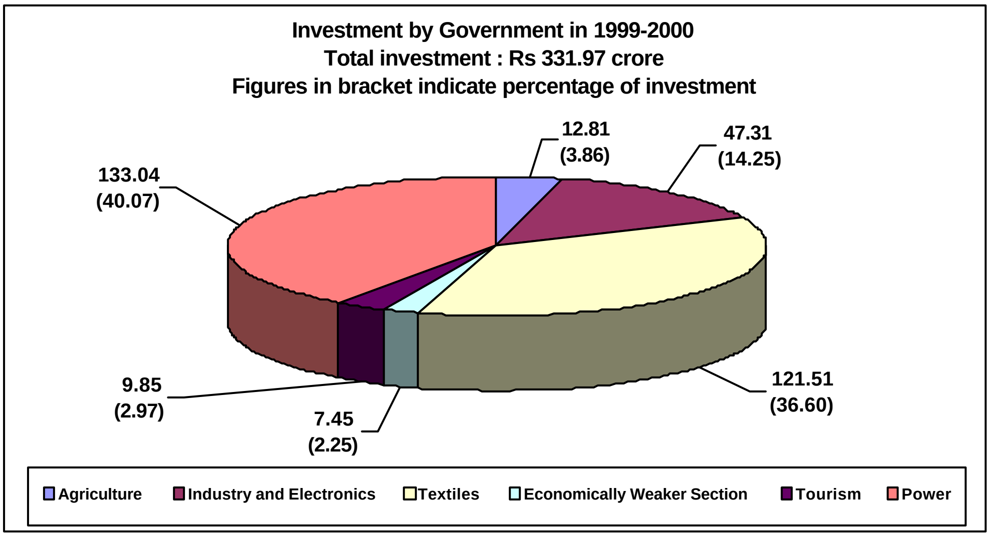
The summarised statement of Government investment in working Government companies in the form of equity and loans is detailed in Appendix 21.

[14] **Long term loans mentioned in Paragraph 7.3.1 are excluding interest accrued and due on such loans.**

As on 31 March 2001, the total investment in working Government companies comprised 98.07 *per cent* of equity capital and 1.93 *per cent* of loans as compared to 98.09 *per cent* and 1.91 *per cent*, respectively as on 31 March 2000.

The investment (equity and long term loans) in various sectors and percentage thereof at the end of 31 March 2001 and 31 March 2000 are indicated below in the pie charts.





The debt equity ratio of 0.02:1 remained the same during 1999-2000 and 2000-2001.

7.3.2 Budgetary outgo, grants/subsidies, guarantees, waiver of dues and conversion of loans into equity

The details regarding budgetary outgo, grant/subsidies, guarantees issued, waiver of dues and conversion of loans into equity by Government to working Government companies are given in Appendix 21 and 23.

The budgetary outgo (in the form of equity capital and loans) and grants/subsidies from the Government to working Government companies for the three years up to 2000-2001 are given below:

(Rupees in crore)

Particulars	1998-99		1999-2000		2000-2001	
	Companies		Companies		Companies	
	Number	Amount	Number	Amount	Number	Amount
Equity capital outgo from budget	6	49.30	8	44.97	7	26.10
Loans given from budget	---	---	1	1.00	--	--
Grants	---	---	2	6.01	5	2.09
Subsidy towards						
(i)Projects/Programmes/Schemes	3	0.46	1	0.20	1	0.20
(ii) Other subsidy	--	---	---	---	---	---
(iii) Total subsidy	3	0.46	1	0.20	1	0.20
Total outgo	**6**[15]	**49.76**	**8**[15]	**52.18**	**7**[15]	**28.39**

15 **These are the actual number of companies which have received budgetary support in the form of equity, loans, grants and subsidy from the Government during the respective year.**

During the year 2000-2001, the Government did not give any guarantee for loans. There was no conversion of Government loan into equity.

7.3.3 Finalisation of accounts by working PSUs

The accounts of the companies for every financial year are required to be finalised within six months from the end of relevant financial year under Section 166, 210, 230, 619 and 619-B of the Companies Act, 1956 read with Section 19 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. They are also to be laid before the Legislature within nine months from the end of financial year.

However, as could be noticed from Appendix 22, out of 11 working Government companies, only one company finalised its accounts for the year 2000-2001 within the stipulated period. During the period from October 2000 to September 2001, eight working Government companies finalised nine accounts for previous years.

The accounts of 10 working Government companies were in arrears for periods ranging from one year to four years as on 30 September 2001 as detailed below:

Serial number	Year from which accounts are in arrears	Number of years for which accounts are in arrears	Number of working companies	Reference to serial number of Appendix 22
1.	1997-98	4	1	10
2.	1999-2000	2	2	2, 7
3.	2000-2001	1	7	1, 3, 4, 5, 6, 8, 9,

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the PSUs within prescribed period. Though the administrative departments concerned and officials of the Government were appraised quarterly by the Audit regarding arrears in finalisation of accounts, no effective measures have been taken by the Government and as a result, the investment made in these PSUs could not be assessed in audit.

7.3.4 Financial position and working results of working PSUs

The summarised financial results of working PSUs as per latest finalised accounts are given in Appendix 22.

According to latest finalised accounts of 11 working Government companies, five companies had incurred an aggregate loss of Rs 24.07 crore and five companies earned an aggregate profit of Rs 12.54 crore. One company (serial number 9 of Appendix 22) had prepared the Income and Expenditure statement as it was in the first year of operation.

(i) Profit earning working companies and dividend

The only working Government Company which finalised its accounts for 2000-2001 by September 2001 earned an aggregate profit of Rs 7.01 crore and it did not declare any dividend during the year. The Government had not formulated any dividend policy for payment of minimum dividend.

Similarly, out of eight working Government companies, which finalised their accounts for previous years by September 2001, four companies earned an aggregate profit of Rs 5.53 crore and only two companies earned profit for two or more successive years.

(ii) Loss incurring working Government companies

Of the five loss incurring working Government companies, two companies (serial numbers 6 and 10 of Appendix 22) had accumulated losses aggregating Rs 129.54 crore which exceeded their paid-up capital of Rs 126.66 crore.

Despite poor performance and complete erosion of paid-up capital, the Government continued to provide financial support to these companies in the form of contribution towards equity. According to available information, the total financial support so provided by the Government by way of equity during 2000-2001 to both the companies amounted to Rs 23.71 crore.

7.3.5 Return on capital employed

As per the latest finalised accounts (up to September 2001), the capital employed[16] worked out to Rs 299.82 crore in 11 working companies and total return[17] thereon amounted to Rs (–)107.06 crore, as compared to total return of Rs (-)8.64 crore in the previous year (accounts finalised up to September 2000). The details of capital employed and total return on capital employed in case of working Government companies are given in Appendix 22.

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[16] **Capital employed represents net fixed assets (including capital works-in-progress) PLUS working capital except in finance companies and corporations where it represents a mean of aggregate of opening and closing balances of paid-up capital, free reserves, bonds, deposits and borrowings (including refinance).**

[17] **For calculating total return on capital employed, interest on borrowed funds is added to net profit/subtracted from the loss as disclosed in the profit and loss account.**

7.4 Non-working PSUs

There was no non-working PSU in the State.

7.5 Disinvestment, privatisation and restructuring of PSUs

During 2000-2001, there was no case of disinvestment, privatisation and restructuring of PSUs.

7.6 Results of Audit by CAG

During the period from October 2000 to September 2001, the audit of accounts of six Government companies (all working) were selected for review and "Nil Comments" were issued to all the companies selected for review.

7.7 Response to Inspection Reports, Draft Paragraphs and Reviews

Observations noticed during audit and not settled on the spot are communicated to the head of PSUs and departments concerned of Government through Inspection Reports. The heads of PSUs are required to furnish replies to the Inspection Reports through respective Heads of Departments within a period of six weeks. Inspection Reports issued up to March 2001 pertaining to 11 PSUs disclosed that 202 paragraphs relating to 32 Inspection Reports remained outstanding at the end of September 2001. Of these four Inspection Reports containing 29 paragraphs had not been replied for more than one year. Department-wise break-up of Inspection Reports and Audit Observations outstanding as on 30 September 2001 is given in Appendix 24.

Similarly, the reviews on the working of PSUs are forwarded to the Principal Secretary/Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that two draft reviews forwarded to the various departments during July 2000 to June 2001 as detailed in Appendix 25 had not been replied to so far.

It is recommended that (a) the Government should ensure that procedure exists for action against the officials who failed to send replies to Inspection Reports/draft paragraphs/reviews as per the prescribed time schedule, (b) action to recover loss/outstanding advances/overpayment in a time bound schedule and (c) revamping the system of responding to the audit observations.

7.8 619-B Companies

There was no 619-B Company in the State.

7.9 Miscellaneous topics of interest

Abandoning of distillery and performance of arrack blending and bottling unit (Pondicherry Distilleries Limited)

Expansion of distillery capacity without clearance from Central Pollution Control Board resulted in avoidable loss of Rs 2.22 crore. Further, due to non-lifting of minimum guaranteed quota of arrack by licencees resulted in cash loss of Rs 2.59 crore to the Company and revenue loss of Rs 8.39 crore to the Government.

A. Pondicherry Distilleries Limited was formed in December 1971 to take over a distillery run by the erstwhile French/Indian Government since 1916 for production of arrack. The distillation plant of the Company was producing rectified spirit from molasses and also arrack by blending rectified spirit with soft water. The Board of Directors of the Company decided (June 1993) to expand the capacity of the plant from 12000 to 20000 liters per day (LPD). The expansion work was got executed at a total cost of Rs 1.40 crore (August 1995). Along with expansion, the Company also installed an Effluent Treatment Plant (ETP) at a total cost of Rs 1.72 crore. It was observed in audit that the expansion work of distillery was undertaken without getting the prior approval of the Central Pollution Control Board (CPCB) and in contravention of Coastal Zone Restriction (CZR) of the Central Government which categorically prohibited expansion of existing capacity of any industry situated within 500 meters from the seashore. Even though the Pollution Control Board categorically rejected the Company's proposal for expansion of the distillery capacity (September 1994), just after the contract for expansion was awarded (August 1994), the Company did not take any action to abandon the work. After the expanded distillery commenced commercial production, a Public Interest Litigation (PIL) petition was filed (December 1995) in the Supreme Court alleging that there was emission of foul smell, black smoke and soot from the distillery. Based on this PIL, Supreme Court directed CPCB to inspect the distillery. The report submitted by CPCB categorically stated that no expansion of plant capacity should be allowed as the distillery was under CZR. Based on this report, Supreme Court ordered (September 1996) that the distillery should not operate from the existing premises beyond 30 April 1997 and accordingly, all distillery operations were stopped from 1 May 1997.

Expansion of distillery capacity without clearance from CPCB resulted in avoidable loss of Rs 2.22 crore.

The Company's efforts to relocate the distillery failed and the Board finally decided to abandon the same (September 1997). The expanded distillery and the ETP were disposed of (February 2000) for Rs 90 lakh. Thus, the Company's failure to get CPCB's clearance for expansion of distillery capacity resulted in an avoidable loss of Rs 2.22 crore (expenditure: Rs 3.12 crore less sale proceeds: Rs 0.90 crore).

B. Arrack Blending and Bottling Unit

After abandoning the distillery, the Company established (July 1998) an Arrack Blending and Bottling Unit (ABBU) in a new location at a cost of Rs 4.34 crore for producing arrack from rectified spirit purchased from outside.

The capacity of ABBU was 50000 LPD in bottles. However, it was observed in audit that the capacity utilisation ranged from 37 to 51 *per cent* only during the three years ended with 2000-2001. The low capacity utilization was due to creation of excess capacity as could be seen from the fact that though the Company planned to sell only 30000 LPD, it created a capacity for production of 50000 LPD.

Non-lifting of minimum guaranteed quota of arrack by licencees resulted in cash loss of Rs 2.59 crore to the Company and revenue loss of Rs 8.39 crore to the Government.

Despite the Company enjoying a monopoly status in production and sale of arrack in the Union Territory of Pondicherry, it could achieve a maximum of 84 *per cent* only of its turnover (102.05 lakh litres) in 1992-93, the year before the expansion proposal was mooted. The low sales volume was mainly due to not enforcing the licencees by the State Government to lift at least 50 *per cent* of guaranteed off-take. An audit analysis for the two years period 1998-99 and 1999-2000 revealed that the failure of licensees to lift at least 50 *per cent* of the guaranteed off-take resulted in less sale of 123.55 lakh litres of arrack and cash loss of Rs 2.59 crore to the Company and a corresponding revenue loss of Rs 8.39 crore to the Government (by way of State Excise and Sales Tax).

The matter was reported to the Company and the Government in June 2001; their replies had not been received (December 2001).

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The Tamil Nadu and Pondicherry.

Countersigned

New Delhi**,** **(V.K. SHUNGLU)**

The Comptroller and Auditor General of India.