Chapter II

Reviews relating to Government companies

2A Punjab Small Industries and Export Corporation Limited

Highlights

Punjab Small Industries and Export Corporation Limited was incorporated in March 1962 with the main objective of aiding, promoting and protecting the interest of small industries in the State by providing infrastructural, financial, technical, managerial and marketing facilities.

(Paragraphs 2A.1 and 2A.2)

The book profit (profit before tax) was not true indicator of the performance of the Company because it sustained operating loss consistently during 1996-01. The profit was generated by the Company only from other income.

(Paragraph 2A.6(i))

Grant of loan to a joint sector company (Punjab Wireless Systems Limited) without obtaining tangible security resulted in non-recovery of Rs. 11.46 crore including interest.

(Paragraph 2A.7.1)

Due to defective demand survey and selection of wrong sites, Company's funds amounting to Rs. 28.97 crore spent on the acquisition of land and its development during 1995-2001 were lying blocked in five Industrial Focal Points.

(Paragraph 2A.8.1.1)

In the absence of any system of reconciliation, huge funds of the Company remained locked up with the Collector, Land Acquisition thereby resulting in loss of interest of Rs. 6.43 crore.

(Paragraphs 2A.8.1.2(i) and 2A.8.1.2 (ii))

Release of enhanced land compensation on the basis of calculation made by the land owners without verifying its correctness from Collector, Land Acquisition resulted in excess payment of Rs. 1.94 crore.

(Paragraph 2A.8.1.3)

Failure of the Company to obtain requisite affidavits from already existing 21 units at Industrial Focal Point, Chanalon to pay development charges, as fixed by the Company, resulted in non recovery of development charges of Rs. 0.85 crore from such units.

(Paragraph 2A.8.1.4 (iii))

The Company continued to incur heavy expenditure on the maintenance of those Industrial Focal Points, which were to be maintained by the local bodies after five years of their establishment. During last five years up to 2000-01, expenditure incurred by the Company on this account amounted to Rs.12.68 crore.

(Paragraph 2A.8.1.6)

Due to failure of the Company to bind the units to export 33 *per cent* of their production, as envisaged in the scheme, the purpose of setting up of Export Promotion Industrial Park at an expenditure of Rs. 25.76 crore for promotion of export was largely defeated as out of 264 plots allotted, only two units were making export.

(Paragraph 2A.8.6.2)

Expenditure of Rs. 0.98 crore on training of 1509 women of weaker section of society for their upliftment proved to be wasteful as the Company failed to provide post training facilities, as envisaged under the scheme.

(Paragraph 2A.8.7.1)

2A.1 Introduction

Punjab State Small Industries Corporation Limited (Company) was incorporated on 17 March 1962 with a view to render assistance to the small industries in the State. The Company was renamed as Punjab Small Industries and Export Corporation Limited in October 1982 so as to indicate the export activity also.

2A.2 Objectives

The main objectives of the Company are to:

- aid, counsel, assist, finance, protect and promote the interests of small industries in the State, to enable them to develop and improve their methods of manufacture, management and marketing;
- enter into contracts for fabrication, manufacture, assembly and supply of goods, materials, articles and equipment and to arrange for the performance of such contracts by sub contracting them to small industries;
- effect co-ordination between large industries with a view to procuring orders for small industries and to enable them to manufacture such parts, accessories, ancillaries and components and other articles, as may be required by large industries;
- manufacture, buy, sell, import, export, install, work and generally deal with any plant, machinery, tools, materials, etc.; and
- carry on the business of dealing in hardware and tools of all kinds, engineering articles, ferrous and non-ferrous metalware, etc.

In pursuance of the above objectives, the Company had undertaken mainly the activity of providing infrastructure facilities to small scale industrial (SSI) units by developing Industrial Focal Points (IFPs).

In addition, the Company had also undertaken the following other activities**:**

- procurement and distribution of raw material;

- handling and storage agency work;

- marketing assistance to SSI units;

- running of emporia;

- export promotion; and

- development of handicrafts.

Besides, a trade centre at Ludhiana and a leather complex at Jalandhar (run by another Government company) were transferred to the Company in 1980 and 1992 respectively by State Government**.**

2A.3 Organisational set up

The management of the Company is vested in the Board of Directors. As on 31 March 2002, there were 11 directors appointed by State Government including non-official Chairman and a Managing Director. Of the remaining nine directors, five were official and four were non-official directors. The Managing Director is the Chief Executive of the Company and is assisted by a Joint Managing Director, six Chief General Managers / General Managers incharge of various activities and a Chief Engineer**.** During the period from

September 1996 to March 2002, seven Managing Directors were appointed by the State Government and their tenure remained between three and 16 months.

2A.4 Scope of Audit

The working of the Company was last reviewed in the Report of the Comptroller and Auditor General of India for the year ended 31 March 1993 (Commercial), Government of Punjab. Committee on Public Undertakings (COPU) discussed the review in parts in October 1995, May 2001 and August 2001. The recommendations of COPU were awaited (March 2002).

The present review, conducted during the period from July to Decmber 2001, covers the performance of the Company during the five years up to 2000-01 from the records of Head Office, three each out of seven each raw material depots* and emporia**.

2A.5 Funding

2A.5.1 Capital structure

The Company had authorised capital of Rs. 30 crore divided into 30 lakh equity shares of Rs. 100 each. The paid-up capital of the Company as on 31 March 2002 was Rs. 10.01 crore subscribed by State Government (Rs. 9.86 crore) and Central Government (Rs. 15 lakh). In addition, grant-in-aid of Rs. 28 crore (Rs. 10 crore from State Government and Rs. 18 crore from Central Government) received during 1990-96 for setting up of growth centres at Bathinda and Pathankot was shown as share application money pending allotment, despite Central/State Governments' refusal (July 1994/September 1997) to accept the Company's proposal to convert the grant-in-aid into share capital.

2A.5.2 Borrowings

The Company had borrowed unsecured loans from State Government and Small Industries Development Bank of India (SIDBI). As on 31 March 2002, total loans outstanding from SIDBI amounted to Rs. 13.25 crore.

2A.6 Financial position and working results

The Company had finalised its accounts up to 1999-2000 and accounts for 2000-01 and 2001-02 were in arrears. Financial position and working results of the Company at the end of five years up to 2000-2001 are given in

---

*Ludhiana, Suranassi and Amritsar.

** Chandigarh, Delhi and Ludhiana.

Annexure 9. The details of total income, expenditure and profit for the above period were as under:

(Rupees in lakh)

	1996-97	1997-98	1998-99	1999-2000	2000-01 (Provisional)
Sales	6,932.60	10,842.84	10,867.63	15,648.85	13,057.48
Handling income	419.42	225.31	355.41	319.97	341.89
Total operating income	7,352.02	11,068.15	11,223.04	15,968.82	13,399.37
Total expenses (excluding depreciation & financial expenses)	7,827.36	11,447.71	11,749.71	16,564.35	14,054.52
Operating loss	**475.34**	**379.56**	**526.67**	**595.53**	**655.15**
Percentage of expenditure to operating income	106.47	103.43	104.69	103.73	104.89
Depreciation and financial expenses	300.62	229.64	175.29	71.03	137.47
Other income	1,209.11	1,210.84	1,263.58	1,009.11	954.13
Profit before tax	**433.15**	**601.64**	**561.62**	**342.55**	**161.51**

It could be seen from the above table that:

(i) The book profit (profit before tax) was not true indicator of the performance of the Company because it sustained operating loss consistently during 1996-01. The profit was generated by the Company only from other income.

(ii) Profit before tax which was Rs.4.33 crore in 1996-97 increased to Rs.6.02 crore in 1997-98 and thereafter gradually decreased to Rs.1.62 crore in 2000-01 (provisional) mainly due to reduction in other income from Rs.12.09 crore in 1996-97 to Rs.9.54 crore in 2000-01 (provisional).

2A.7 Fund management

2A.7.1 Injudicious investment

On the advice of State Government, Department of Finance (28 April/1 May 1997) to invest in Punjab Wireless Systems Limited (PUNWIRE)- a joint sector company, the Company sanctioned and released two short term loans amounting to Rs.6.25 crore (Rs.3.75 crore in April 1997 and Rs.2.50 crore in May 1997) for three months each at an interest rate of 17.5 *per cent* per annum**.** These loans were released without obtaining any tangible security to safeguard its financial interest and only postdated cheques for the loan amount were obtained.

The Company received interest on the loan up to November 1998 but did not receive repayment of loans**.** The Company, on the request of PUNWIRE, extended repayment of loan seven times up to January 1999.

The postdated cheques when presented to the bank in January 1999 were dishonoured for want of funds. The Company, instead of initiating legal action for recovery of loan, rescheduled (June 1999) the repayment of principal and interest during August to November 1999. The Company received four postdated cheques for Rs. 7.28 crore for principal and interest in August 1999. On presentation, first cheque of Rs. one crore was dishonoured in September 1999. The Company filed (October 1999) a case under the Negotiable Instruments Act which was pending (December 2001) in the court at Chandigarh. In the meantime, PUNWIRE went into liquidation (July 2000). The Company filed its claim for Rs 8.47 crore with the liquidator in August 2000. Further developments were awaited (July 2002).

Rs. 11.46 crore could not be recovered because investment was made without any security.

Thus, failure of the Company to safeguard its financial interest had resulted in non-recovery of Rs. 11.46 crore including interest of Rs. 5.21 crore up to March 2002.

2A.8 Appraisal of activities

2A.8.1 Providing infrastructural facilities for SSI units

2A.8.1.1 Acquisition and development of land

To accelerate the industrial growth of the State, the Company had been developing Industrial Focal Points (IFPs) by acquiring land, providing requisite facilities and allotting the plots to SSI units. The State Government had not laid down any criteria for establishing an IFP at a particular place.

However, on receipt of proposal from the State Government to develop an IFP, the Company carried demand survey by inviting applications alongwith a nominal earnest money of Rs. two per square yard. The proposal to establish IFP was sent to the Government for approval on the basis of number of applications received through the demand survey. The Company did not prescribe yardstick to measure the adequacy of applications. After approval of the Government, the Company acquired land through Collector, Land Acquisition (CLA) of the State Government for setting up of IFPs.

After acquisition of land, a detailed estimate was drawn for development of plots for providing physical infrastructure, i.e., roads, water supply, underground sewerage, disposal and treatment system, adequate drainage facilities, street lights, etc. The Company, however, had not chalked out any time frame for development of IFPs starting from acquisition of land to ultimate sale/allotment of plots.

The Company had developed 36 IFPs up to March 2002 and had acquired land for IFP at Mansa, which had not been developed (June 2002). Scrutiny in audit further revealed that the Company had acquired land measuring 741.10 acres valued at Rs. 26.75 crore for development of IFPs at Malout, Abohar, Muktsar, Mohali Phase VIII-B, Mansa and Raikot during the last five years up to March 2001.

Investment of Rs. 28.97 crore for development of IFPs yielded no fruitful results .

It was observed that during 1995-2001, out of six IFPs (developed: three, under development: two and undeveloped: one), the sale of plots at Abohar, Muktsar and Raikot was very poor. At Malout and Mansa, no application had been received up to December 2001 for allotment. Main reasons for poor sale in above quoted five sites were defective demand survey and selection of sites at unpopular places. Resultantly, investment of Rs. 28.97 crore, in these five IFPs as detailed below, had not yielded any fruitful results for development of industries in the State:

Sl. No	Place	Land acquired (acres)		Cost of land	Development cost	Plots carved out	Plots sold
		Area	Period	(Rs. in lakh)		(Numbers)	
1.	Abohar	102.32	1996	390.37	429.15	237	9
2.	Muktsar	59.90	1997	Nil	346.83	166	4
3.	Raikot*	70.13	2000	240.00	236.77	281	27
4.	Malout*	103.50	2000	569.67	374.43	415	Nil
5.	Mansa	52.00	2000	309.79	Not developed	241	Nil
	Total	**387.85**		**1,509.83**	**1,387.18**	**1,340**	**40**
*** Development in progress**							

2A.8.1.2 Release of funds to CLA

The Company had been releasing funds to CLA for making payment of land compensation on receipt of demand from his office. However, the Company had not evolved any system for carrying out periodical reconciliation with CLA to ensure that funds, if any, remaining surplus with CLA on account of non payment of compensation/excess payment made were refunded without any loss of time. The Company had also not maintained proper records of payments made to CLA and adjustments made thereagainst. Thus, Company's huge funds remained blocked with CLA resulting in loss of interest of Rs.6.43 crore, as discussed below:

Absence of system to monitor refund of surplus funds from CLA resulted in interest loss of Rs. 5.61 crore.

(i) The Company placed an amount of Rs. 20.19 crore at the disposal of the CLA during March 1994 (Rs. 3.06 crore) and November 1994 (Rs. 17.13 crore) to acquire land for setting up Export Promotion Industrial Park (Ludhiana). As the CLA could not acquire the land, the funds were required to be refunded by CLA immediately. It was, however, observed that Rs.19.59 crore were refunded/adjusted during March 1995 to April 1999. The balance amount of Rs. 0.60 crore had not been refunded by CLA (March 2002). Thus, due to non-evolving of any system for monitoring refund of surplus funds, the Company suffered loss of interest of Rs. 5.61 crore up to March 2002 on account of delay/non receipt of refund calculated at the rate of 17 *per cent* per annum up to March 1998 and 16 *per cent* thereafter at which the Company had obtained loans from the State Government during the period for this purpose.

(ii) The Company alongwith Punjab State Industrial Development Corporation Limited (PSIDC) and Punjab State Electronics Development and Production Corporation Limited (ELTOP) acquired (1983-84) 160 acres of land at Mohali (Company: 55 acres, PSIDC: 80 acres and ELTOP: 25 acres) and deposited Rs. 0.53 crore with CLA for its share of 55 acres of land. In 1990, PSIDC transferred 15 acres of land to the Company against which 15 acres of land was allotted to PSIDC's client in another area at Mohali. It was observed in audit that after adjusting Rs. 2.10 lakh paid less initially, the Company made excess payment of Rs.1.19 crore to CLA in the acquisition of land as detailed below:

(a) During 1992-97, the Company deposited Rs. 2.48 crore with the CLA towards its share of (55 acres land) enhanced land compensation as against the actual due of Rs. 2.10 crore thereby resulting in excess payment of Rs.38 lakh.

(b) PSIDC also demanded (April 1997) enhanced compensation of Rs. 1.42 crore for 15 acres of land transferred to it instead of Rs. 0.57 crore, due to wrong calculations. The Company, without verifying the correctness of demand, deposited (September 1997) Rs. 1.29 crore with CLA after adjusting Rs. 12.78 lakh paid by PSIDC thereby resulting in excess payment of Rs. 0.72 crore.

(c) CLA conveyed (September 2000) revised amount of compensation according to which Company had paid excess compensation of Rs.10.97 lakh.

Excess payment of Rs. 1.19 crore was made to CLA.

Thus, making payment without verifying its correctness coupled with failure to take up the matter for refund with CLA, resulted in locking up of Rs. 1.19 crore and interest on the blocked funds worked out to Rs. 0.82 crore up to March 2002. Management stated (July 2002) that an officer of the Company had been chargesheeted for making excess payment and reconciliation with CLA was being made to get refund.

2A.8.1.3 Excess payment of land compensation

The Company acquired (May 1997) 187.37 acres of land at a rate of Rs. 1.67 lakh per acre at Alipur Arian (Patiala) for setting up of an IFP and paid Rs. 4.97 crore on account of land compensation and other charges to CLA. On a petition filed by 39 unsatisfied landowners, the Additional District Judge, Patiala enhanced (September 1998) compensation for 165.03 acres of land from Rs. 1.67 lakh to Rs.2.45 lakh per acre alongwith other charges. The Company did not get the amount of enhancement calculated from the CLA for payment to land owners.

Excess land compensation of Rs. 1.94 crore was made to 39 land owners.

However, the Company, on the basis of calculation made by land owners, released (between August and December 1999) the payments of Rs. 5.29 crore as per orders received from the court of Additional District Judge, Patiala. On receipt of calculations from CLA office in July 2000, the Company found that enhanced compensation payable amounted to Rs. 3.35 crore resulting in excess payment of Rs. 1.94 crore. The Company filed suit (September 2000) in 13 cases only for refund of Rs. 0.82 crore while no action was taken (March 2002) in remaining 26 cases involving Rs. 1.12 crore. The Company had not taken action against the persons responsible for excess payment.

2A.8.1.4 Allottment of plots

(i) As per the terms of allotment of plots, allottees were required to commence production within three years of allotment, which was extendable up to 5th year on payment of extension fee. In case, the allottee failed to bring the unit into production within 5 years from the date of allotment, the plot was to be cancelled and resumed without notice. The details of individual IFP are given in ***Annexure* 10.** The table below indicates the number of plots developed and their allotment up to March 2002 in respect of 36 focal points:

(Plots in number)

Developed	Allotted			Unallotted	Value of unallotted plots (Rs. in crore)
	8,737				
10,580	Units under production	Units under construction	Plots lying vacant	1,843	65.58
	3,874	1,793	3,070		

Out of 8,737 allotted plots, 4,863 plots were under construction/lying vacant.

Out of 4,863 plots lying vacant/under construction, 3,779 plots had been allotted up to 1996-97 and as such entrepreneurs should have commenced production as per condition of allotment. Instead of taking any action to cancel/resume the plots of defaulting entrepreneurs, the Company had granted six extensions for the period ranging between seven and twenty four months to all the defaulting allottees between May 1994 and June 2001 without considering the individual cases on merit. The Company did not obtain extension fee at the requisite rate for the first three extensions. Failure of the Company to cancel/resume plots of those allottees who were not serious in setting up the projects had resulted in slow pace of industrialisation of the State.

(ii) Goindwal Industrial and Investment Corporation of Punjab Limited (GIICO) had acquired 909.84 acres of land at Goindwal for development of industrial complex. The State Government decided (November 1992) to merge GIICO with the Company. As the merger of GIICO with the Company was likely to take some time, the Board of Directors of GIICO decided (January 1993) to transfer the administrative control to the Managing Director of the Company. GIICO was finally merged with the Company in July 1998. Out of 448 industrial, 918 residential and 174 commercial developed plots of GIICO, 87 industrial[@], 63 residential and 76 commercial plots having reserve price of Rs. 8.55 crore were lying unallotted as of March 2002. In this regard, following points were noticed:

(a) During 1994, it came to the knowledge of the Company through a complaint that its 12 acres of land was under unauthorised cultivation by local

[@] Includes a plot measuring 234.90 acres (value: Rs. 4.03 crore) surrendered by an allottee not yet accepted by the Company.

farmers. The Chief Engineer of GIICO got deposited Rs. 9000 as lease rent from farmers and closed the case. The Company did not take preventive measures to avoid recurrence of such events in future. However, records produced to audit revealed that unauthorised cultivation of land/encroachments continued in 1998, 2001 and 2002. The area under unauthorised cultivation was 24 acres (value: Rs.21.95 lakh*) in 2001 and 69 acres (value: Rs. 0.66 crore*) in 2002, and figure for 1998 was not available on record. The year wise details of encroachments called for (May 2002) from the Company had not been made available. Evidently, failure of the Company to take steps for preventing encroachment facilitated continued misuse of Company's land. The Company had not investigated the matter (May 2002).

(b) Mutation of land (220.58 acres valued at Rs.2.29 crore) acquired **(**December 1989**)** at village Goindwal had not been got done (May 2002) in the name of the Company**.**

Development charges of Rs. 0.85 crore could not be recovered.

(iii) Before acquisition of land in 1992-93 for IFP Chanalon, it was decided (November 1991) by a Committee consisting of Director of Industries of State Government, Chief Engineer of the Company and CLA that 21 industrial units already existing at the acquisition site would not be uprooted and no land compensation paid to them. At the same time, the unit owners had given affidavits to the Committee that they would pay development charges, as fixed. The Company neither took the affidavits in its possession nor knew the whereabouts thereof. The Company issued (April 1998) notices to 21 units for recovery of development charges amounting to Rs. 0.85 crore. The unit owners declined (June 1999) to pay the charges on the ground that they had given in writing before the acquisition of land that they would not pay any development charges. The Company asked the CLA only in May 2001 to make available the affidavits given by unit owners but no reply was received (December 2001) from that end. Thus, failure of the Company to take possession of affidavits had resulted in a loss of Rs. 0.85 crore. The Company had not fixed any responsibility on the delinquent officials.

2A.8.1.5 Recovery from allottees

At the time of allotment of plots, the allottee was given the option to deposit full amount within 60 days of issue of allotment letter or to deposit the amount in six equated half yearly instalments with specified rate of interest. In the event of default by the allottee, the allotment could be cancelled and earnest money forfeited. The Company had not maintained allottee wise ledgers in the absence of which, calculation of interest on overdue amount was accounted for on provisional basis.

Year-wise break-up of amount overdue for recovery was not available.

As on 31 March 2001, amount overdue for recovery from allottees was Rs.42.76 crore (provisional). Of Rs. 42.76 crore, Rs. 25.63 crore was overdue from four big private firms viz. Godrej G.C Appliances (Rs.10.89 crore), Videocon International Limited (Rs. 5.50 crore), ICI India Limited (Rs. 4.66 crore) and Brahama Steyr Tractors Limited (Rs. 4.58 crore).

* Calculated on proportionate basis keeping in view the aggregate price of total land acquired.

Year-wise break-up of amount overdue for recovery was not available with the Company.

The following further points were noticed in audit:

Out of enhanced compensation of Rs. 17.86 crore paid to land owners by the Company, only Rs. 2.71 crore could be recoverd from the allottees.

(i) On 1 April 1996, an amount of Rs.9.82 crore was recoverable from allottees on account of enhanced compensation of land awarded to land owners by different courts. Further enhancements to the extent of Rs.8.04 crore awarded by courts were paid to the landowners during 1996-2001 making the total recoverable amount to Rs.17.86 crore from the allottees. The Company had recovered only Rs. 2.71 crore from the allottees up to December 2001. The slow pace of recovery of enhanced cost of land from allottees resulted in accumulation of dues on this account to the tune of Rs.15.15 crore thereby adversely affecting ways and means position of the Company. The Company did not take effective steps to recover the amount from defaulters.

(ii) The Company allotted (June 1995) a plot measuring 5,000 square yards for Rs. 14 lakh to Raghav Synthetics Limited at IFP, Amritsar. The allottee requested (July 1995) the Company to change the name of the allottee from Raghav Synthetics Limited to Raghav Spinfab Private Limited, as the Registrar of Companies had allotted them the new name. The allottee paid Rs. 7 lakh up to February 1996. The outstanding amount including interest increased to Rs.30.32 lakh till March 2002.

The allottee had been requesting the Company to change the name so that further payment be made from the accounts of the renamed unit. In spite of approval accorded (June 1996) for changing the name, by the Allotment Committee (constituted by the State Government), the Company did not change the name because the allottee had not paid full amount required to be paid by January 1996. The Company, however, issued (June 1999) a show cause notice to the allottee in its old name for cancellation of allotment as the allottee had not commenced production within a period of three years. The allottee challenged (August 1999) the show cause notice in a Court of Law. Further developments were awaited (December 2001). Thus, due to non-changing of name of allottee, in spite of approval accorded by the Allotment Committee, the Company not only failed to recover Rs.30.32 lakh but also involved itself in unnecessary litigation.

2A.8.1.6 Maintenance of focal points

Development charges of a focal point recovered from allottees included maintenance charges thereof for five years. Thereafter, the IFPs were required to be transferred to respective local bodies alongwith their maintenance staff. However, up to August 1999, out of 26 IFPs due for transfer, the Company could transfer only 5 IFPs to concerned local bodies. The IFPs could not be transferred to local bodies because of their reluctance to take over on account of various deficiencies in internal roads, water supply, sewerage system and electric fittings. In a meeting (27 September 1999) with Secretary, Local Self

Government, Punjab, it was decided that transfer of six more IFPs would be completed by October 1999. The process for transfer of remaining IFPs started from January 2000. It was also decided that Managing Director of the Company and concerned Municipal Commissioner would jointly assess deficiencies in the infrastructure provided in these IFPs and assess the estimated cost for bringing the services up to the level envisaged in the development schemes. The Company would deposit the amount against such estimates with local bodies at the time of transfer of maintenance work of IFPs. The Company could transfer only one IFP at Ludhiana (Dhandari Kalan) in December 2000 and paid Rs. 0.61 crore on account of deficiencies in maintenance of infrastructure facilities.

The Company spent Rs. 12.68 crore on the maintenance of IFPs even after the prescribed period of five years.

It was noticed in audit that the Company had been incurring expenditure on maintenance of IFPs even after the prescribed period of five years. During last five years up to 2000-01, the Company spent Rs.12.68 crore on the maintenance of 21 IFPs due for transfer to local bodies.

2A.8.2 Execution of works

2A.8.2.1 Blocking of funds in deposit work and loss of interest

Director of Technical Education, Punjab (DTE) awarded (March 1993) deposit work of construction of its office building to the Company under World Bank Project at an estimated cost of Rs 6.02 crore. The Company did not enter into an agreement with DTE and handed over the building (completed at a total cost of Rs.6.39 crore) to the DTE in March 1996. The Company received Rs. 6.03 crore from the DTE during 1993-97 and the balance amount of Rs.36.27 lakh had not been received. The DTE did not agree to pay Rs.24.46 lakh being the contingency and legislation charges not reimbursed by World Bank. Besides, the remaining amount of Rs.11.81 lakh had also not been released (March 2002) by DTE pending receipt from World Bank.

Thus, due to taking up deposit work without written agreement and inadequate advance payments from DTE, the Company's funds amounting to Rs.36.27 lakh had been blocked and the interest loss on the blocked funds worked out to Rs.27.57 lakh at the rate of 16 *per cent* (at which the Company availed loan from State Government) up to March 2002.

2A.8.3 Procurement and distribution of raw material

(i) The Company procures iron and steel from the manufacturers and distributes it to SSI units at the rates fixed by the manufacturers from time to time by allowing a margin to the Company to meet its handling and overhead expenses. The table below give details of quantities of iron and steel and pig iron allocated and lifted during the five years up to 2000-2001:

(Quantity in MTs)

Particulars	Year	Quantity allocated	Quantity lifted	Quantity short lifted	Percentage of quantity lifted to allocated
Iron and steel	1996-97	48,020	34,121	13,899	71
	1997-98	69,461	61,721	7,740	89
	1998-99	79,590	66,029	13,561	83
	1999-2000	1,08,730	60,828	47,902	56
	2000-01	96,510	58,342	38,168	60
Pig iron	1996-97	21,000	1,177	19,823	6
	1997-98	21,000	290	20,710	1
	1998-99	10,000	-	10,000	-
	1999-2000	10,000	2,031	7,969	20
	2000-01	40,000	5,439	34,561	14

It would be seen from the table above that the Company had not lifted the allocated quantity of material during all the five years up to 2000-2001 due to lesser requirement. In case of iron and steel, percentage of quantity lifted to allocated decreased from 71 in 1996-97 to 60 in 2000-01. In case of pig iron, the percentage of quantity lifted to quantity allocated was very poor and varied between 0 and 20 *per cent* during these years. The lesser requirement was attributable mainly to severe competition and non-passing of turnover discount (TOD) of Rs. 0.80 crore (earned by the Company during 1996-2001) to the customers in spite of decision (November 1994) of the Board of Directors to pass it on to buyers for increasing business. It was further noticed that role of the Company in distribution of raw material to SSI units was very insignificant as evident from the table given below:

Company's role in rendering assistance in distribution of raw material to SSI units was very insignificant.

Sl. No.	Year	No. of SSI units in operation in the State as intimated by industries department	No. of SSI units assisted	Percentage of units assisted to total units in the State
1	1996-97	1,93,332	140	0.07
2	1997-98	1,95,383	156	0.08
3	1998-99	1,97,344	189	0.09
4	1999-2000	1,99,035	208	0.10
5	2000-01	2,00,603	262	0.13

Loss of five raw material depots during five years up to 2000-01 was Rs. 0.80 crore.

(ii) The Company had been operating seven* raw material depots at various places in the State as on 31 March 2002 after closing of two depots at Hoshiarpur and Moga. Audit scrutiny revealed that only two depots (Ludhiana and Suranassi) earned profits and the remaining five depots incurred loss of Rs. 0.80 crore during five years up to 2000-01. The losses were attributable mainly to low turnover due to severe competition and heavy expenditure on salaries, etc. Expenditure on salaries and other staff benefits during the above period was Rs. 0.82 crore as against the total income of Rs. 28.49 lakh of these five depots.

* Ludhiana, Suranassi, Goraya, Amritsar, Batala, Mohali and Chandigarh.

2A.8.4 Marketing assistance to SSI units

The Company had established (August 1975) a Marketing Division to provide assistance to SSI units in the State. The main function envisaged was to procure orders from Director General Supplies & Disposals (DGS&D), Railways, Controller of Stores, Punjab and various other public/private organisations and pass on the same to SSI units for supply. Other functions envisaged were export promotion of the products of SSI units and provide necessary guidance, counselling and advice to SSI units for improvement in manufacturing, standardisation, quality control, cost control and market acceptance of their products. There was steep fall in the performance of the Marketing Division as indicated below:

(Rupees in lakh)

Year	Sales	Commission earned	Expenditure	Profit(+)/ loss(-)
1996-97	319.00	15.95	7.04	(+)8.91
1997-98	81.00	4.05	9.95	(-)5.90
1998-99	81.74	4.00	9.31	(-)5.31
1999-2000	112.99	6.11	8.70	(-)2.59
2000-01	41.62	2.23	7.62	(-)5.39

The object of providing marketing assistance remained unfulfilled as only 43 units, out of 2,00,603, had availed Company's services.

It would be seen from above table that the Company did not play an effective role in marketing products of SSI units as sale of products of SSI units through the Company had drastically decreased from Rs. 3.19 crore in 1996-97 to Rs. 41.62 lakh in 2000-01. It was seen in audit that the number of units registered with Company for availing marketing assistance as on 31 March 2001 was 43**,** which was 0.02 *per cent* of total 2,00,603 units in the State. Out of these 43 units, only 23 units were situated in the State and remaining 20 were located outside the State. The Management stated (July 2002) that the business of the Marketing Division had decreased due to financial stringency in State Government/quasi Government organisations**.** However, fact remained that the Company did not take any step to contact Railways/ DGS &D, Controller of Stores, Punjab or any other major business house for the purpose of procuring orders for the SSI units. Thus, the object of providing marketing assistance to SSI units of the State virtually remained unfulfilled.

2A.8.5 Working of emporia

2A.8.5.1 With the object of rendering marketing assistance to artisans and craftsmen engaged in the manufacture of handicrafts, handloom and other cottage and small scale industries, seven emporia* were being run by the Company as on 31 March 2002.

The Company's sales at its emporia consisted of direct sales, consignment sales and contract sales. Table below indicates the actual sales, cost of goods

* New Delhi, Chandigarh, Amritsar, Ludhiana, Patiala, Kolkata and Jalandhar.

sold and percentage of cost of goods sold to sales during the last five years ending March 2001: **(Rupees in lakh)**

Particulars	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**
Sales	547.11	551.88	418.50	654.90	679.43
Other Income	3.08	0.87	0.32	0.95	5.10
Total Income	**550.19**	**552.75**	**418.82**	**655.85**	**684.53**
Cost of goods sold	484.84	490.50	361.84	588.17	592.30
Other cost	87.51	93.00	115.72	132.09	132.18
Total cost	**572.35**	**583.50**	**477.56**	**720.26**	**724.48**
Profit (+)/ loss (-)	**(-)22.16**	**(-)30.75**	**(-)58.74**	**(-) 64.41**	**(-)39.95**
Percentage of cost of goods sold to sales	**88.62**	**88.88**	**86.46**	**89.81**	**87.18**

Loss suffered by emporia during five years up to 2000-01 was Rs. 2.16 crore.

Out of seven, six emporia (Patiala, Ludhiana, Jalandhar, Amritsar, New Delhi and Kolkata) suffered loss of Rs.1.71 crore during five years, *ibid*, (except nominal profit of Rs. 0.09 lakh at Patiala in 1996-97 and Rs. 1.10 lakh at New Delhi in 2000-01). The total loss in these emporia during this period was without taking into account head office expenses of Rs. 0.65 crore, as the same had not been apportioned emporia-wise. Only emporium at Chandigarh earned profit of Rs.19.56 lakh during five years up to 2000-01.

Thus, the Company suffered a loss of Rs.2.16 crore during 1996-2001 on the operation of emporia.

The main reasons for continued losses at emporia were:

(i) Cost of goods sold as compared to sales was higher and ranged between 86.46 and 89.81 *per cent* of sales.

(ii) Emporia wing had been purchasing goods without inviting quotations and tenders. The purchases amounting to Rs. 10.91 crore were made without inviting competitive rates during 1996-2001. Thus, purchasing at higher rates could not be ruled out.

The direct sales of the emporia remained low and ranged between 14.71 and 22 *per cent* of total sales.

The low percentage of direct sales was also indicative of the Company's poor performance towards rendering marketing assistance to the artisans and craftsmen of the State.

2A.8.5.2 At Ludhiana and Amritsar emporia, expenditure on employees' remuneration exceeded direct sales during the last four and three years respectively up to 2000-01. The excess of remuneration over direct sales in these emporia worked out to Rs. 10.13 lakh and Rs. 6.59 lakh respectively during the said period.

2A.8.5.3 Due to continuous losses and failure to popularise Punjab products, the Company decided (September 1992) to close the emporium at Kolkata. However, the emporium was reopened in July 1998 on the plea that with the development of markets in the adjoining areas, the sales could be brought at the level of rupees one crore per annum with expected profit of rupees one lakh. It was, however, observed in audit that the actual sales of the emporium during 1998-99, 1999-2000 and 2000-01 were to the extent of Rs. 21.35 lakh, Rs. 63.74 lakh and Rs. 44.85 lakh respectively. During all these years, the emporium suffered loss aggregating Rs. 38.72 lakh. The losses were attributable to high incidence of salaries, selling and distribution expenses when compared with projection made at the time of reopening the emporium. Thus, the Company instead of closing down other loss making emporia, reopened a closed emporium and incurred further losses.

2A.8.6 Export promotion

2A.8.6.1 The Company was appointed (1996) nodal agency for promotion of exports from the State. Besides, the Company also provided counselling to the exporters regarding export procedures, documentation and identification of new marketing opportunities by arranging participation of exporters in international/national trade fairs /exhibitions. The Company had been making direct export up to 1998-99 and thereafter no exports were made by the Company.

The Company did not achieve the targets of export during any of three years up to 1998-99 and contribution of the Company when compared with total export from State was negligible.

2A.8.6.2 Export Promotion Industrial Park (EPIP)

In September 1994, the Company was entrusted with the work of setting up of Export Promotion Industrial Park at Ludhiana under a centrally sponsored scheme at an approved cost of Rs. 25.69 crore. The Company had incurred expenditure of Rs.25.76 crore in the Project up to September 2001. Under the scheme, only those units, which gave legal undertaking to export not less than 33 *per cent* of their production in value, were to be established in the Park.

The Company allotted (1996) 264 plots and simultaneously offered their possession at EPIP but legal undertakings to export not less than 33 *per cent* of production, as required in the scheme, were not obtained. As per terms of allotment, the production was to be started by the units within one year of allotment/offer of possession. Out of 264 plots allotted, 27 units were in production, 94 under construction and remaining 143 units had not started construction. Only two, out of 27 production units, were making export as on 30 September 2001. Thus, the purpose of the scheme was largely defeated.

2A.8.7 Development of handicrafts

2A.8.7.1 Carpet weaving training centre

For the up-liftment of women from the weaker section in rural areas, the Company had been imparting training in carpet weaving through carpet weaving training centres under the scheme of the Norwegian Agency for International Development. After training, the trained women were to be provided looms, yarn and design for weaving carpets at their own premises. The finished products were to be taken back by the Company for export/internal marketing. The Company received an amount of Rs. 1.12 crore from Central Government (Rs. 49.63 lakh in 1996-97, Rs. 31.32 lakh in 1997-98 and Rs. 31.32 lakh in 1998-99) for the purpose and incurred an expenditure of Rs. 0.98 crore for training 1,509 women in last five years. It was noticed in audit that the Company did not provide looms, raw material and design to trained women as per the scheme. The Company had not evolved any system to monitor the employment of trained women. Thus, the Company failed in achieving the objective of the scheme because it did not provide post training facilities and expenditure of Rs. 0.98 crore spent on training proved wasteful.

2A.8.8 infructuous expenditure on Punjab Trade Centre, Ludhiana

The Punjab Trade Centre at Ludhiana was transferred (1980) to the Company by the Industries Department of State Government. All the recurring and non-recurring expenses were to be reimbursed by the Government. The Centre was to be run for use of exhibition and display hall for exhibition of industrial goods; collection of information relating to SSI units; providing information regarding trade and marketing; maintaining library of technical and trade journals; organising seminars /conferences, etc.

From the year 1993-94, the Government stopped the reimbursement of expenditure on the ground that the Centre was not functioning satisfactorily as it was running at a loss, staff recruited was in excess of sanctioned posts and exhibition hall remained vacant. The Company did not close the Centre and the staff deployed in the Centre remained idle as there was no activity at the Centre during 1996-2001. The Company incurred an expenditure of Rs.47.36 lakh on salary and other benefits of employees of the Centre during1996-2001, which proved to be infructuous. The Company had not made any proposal to utilise the Centre/manpower.

2A.8.9 Leather Complex, Jalandhar

Leather complex, Jalandhar**,** housing a number of leather units developed by Punjab State Leather Development Corporation Limited (PSLDC) for the promotion of leather industry was transferred to the Company with effect from 1 October 1992.

As per clause 15 of the allotment letter, allottees were to take water from PSLDC for tanning process and to install primary treatment system duly approved by PSLDC for separating floating solids before releasing the fluids to Common Effluent Treatment Plant (Plant) set up in 1992 by PSLDC in the complex. After transfer of complex to the Company, the Plant was commissioned by the Company in September 1994 without verifying the compliance of clause 15 of allotment letter, *ibid*. The allottees installed their own tubewells but did not install the primary treatment plants leading to excessive release of fluids with unseparated solids. Resultantly, the Plant was damaged and remained unoperative from 22 September 2000. Punjab Pollution Control Board, which had given consent (February 1998) to operate the Plant for 15 years, also withdrew the permission in November 2000. The Plant was got repaired at a cost of Rs. 39.51 lakh and made operational from August 2001 but without getting any positive response from allottees for compliance of clause 15 of the allotment letter, *ibid*. The Plant had not been operated even after incurring expenditure on repair. Had the Company got the contents of clause 15 implemented before commissioning the Plant, expenditure of Rs.39.51 lakh could have been avoided.

2A.9 Manpower

(i) As on 31 March 2002, the men in position in the Company were 780 against the sanctioned strength of 905**.** The Management did not review its cadre strength despite Finance Department's (FD) instructions of September 1999. Despite FD's instructions (November 2000) to abolish all posts lying vacant for more than two years as on 31 October 2000, the Company did not take steps to abolish these vacant posts.

(ii) With the decontrol of iron and steel in 1992-93, the work at raw material depots of the Company had reduced considerably. The Company neither reviewed the staff position at depots nor reduced the staff.

2A.10 Internal audit

Mention was made in paragraph 2A.9 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1993 (Commercial) regarding non-preparation of any internal audit manual laying down functions, scope and periodicity of audit. There was no system of reporting the results of internal audit periodically to the Board of Directors. The COPU while discussing the Report of the Comptroller and Auditor General of India for the year ended 31 March 1974 (Commercial)- Government of Punjab had recommended in its 36th Report (March 1987) that internal audit cell should prepare time-schedule in order to test-check each activity of the Company and submit separate reports to the Board of Directors. Action on these recommendations had not been taken by the Company so far (March 2002) and internal audit reports were not being submitted to the Board of Directors. The Company had still not prepared internal audit manual, even after being in existence for over 40 years.

Conclusion

The Company was established with the objective of aiding and protecting the interest of small industries in the State by providing infrastructure facilities, arranging raw material and assisting the small scale industrial units in marketing their products. The Company failed to achieve the objective of providing infrastructure facilities as it had developed industrial focal points at unpopular sites thereby resulting in majority of plots remaining either unsold or vacant/under construction after sale. The Company continued to incur heavy expenditure on the maintenance of those industrial focal points, which were to be maintained by the local bodies after five years of their establishment.

The Company also failed to assist the small scale industrial units in marketing their products and development of handicrafts as number of small scale industrial units registered with the Company and obtaining assistance was negligible as compared to total number of small scale industrial units. The emporia were continuously running at loss. The Company's contribution in export as well as promotion of export was also minimal.

The Company should select the sites of Industrial Focal Points after thorough study of potential for sale of plots. The Company should also explore the possibility of marketing products of small scale industrial units and improve the working of emporia.

As the Company has been incurring operating losses during all the five years under review, the Government may either improve the performance of the Company or consider its closure.

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

2B Punjab State Industrial Development Corporation Limited

Delay in taking over of units in case of default by loanees

Highlights

The Punjab State Industrial Development Corporation Limited (Company) was incorporated on 31 January 1966 with the main objective to promote, aid, assist and finance industries in the State.

(Paragraph 2B.1)

Although the Company obtained powers (May 1988), under Section 29 of State Financial Corporations Act, 1951 to take over the assets of a unit in case of default in repayment and realise its dues by sale of such assets, it took six years to initiate action under the Section, *ibid.*

(Paragraph 2B.5.1)

Though the amount in default increased from Rs. 95.42 crore in 1996-97 (133 units) to Rs. 379.89 crore in 2000-01(255 units), the Company had taken over the assets of only 22 units (amount due: Rs. 52.52 crore); sold assets of 3 units and realised Rs. 1.61 crore against recoverable amount of Rs.3.24 crore from them up to March 2001.

(Paragraphs 2B.4, 2B.5.3 and 2B.5.4)

Initial offers for purchase of assets of two units were not accepted in July 1997 and March 1998 without any justified reasons thereby resulting in increase in short recovery by Rs. 0.67 crore on their subsequent sale in January 2000.

(Paragraphs 2B.5.4(b) and 2B.5.4(c))

Failure of the Company to keep track of personal properties of promoters/ guarantors and inaction to invoke personal guarantees resulted in non-recovery of Rs. 10.44 crore from seven units.

(Paragraph 2B.5.5)

Against recoverable amount of Rs. 44.64 crore from 14 units as on 31 March 2001, assessed value of assets taken over and awaiting disposal was Rs.26.10 crore.

(Paragraph 2B.5.8)

Notices issued to 13 units during July 1993 to December 1999 for taking over assets were not pursued further and the amount in default increased from Rs.21.08 crore as on the dates of notices to Rs.35.91 crore as on 31 March 2001.

(Paragraph 2B.5.9)

2B.1 Introduction

The Company was incorporated on 31 January 1966 with the main objective to promote, aid, assist and finance industries for balanced regional industrial development in the State.

The Company had been financing the industrial units for setting up new projects as well as expansion, diversification and modernisation of existing units. Recovery of loan instalments and interest are to be pursued at half yearly intervals. In case of default by the loanee units, the remedy available with the Company was to approach the district courts for an order for sale of property mortgaged with the Company.

For strengthening its recovery apparatus, the Company got the notification issued (May 1988) from the Government of India for application of provisions of Section 29 of the State Financial Corporations Act, 1951 (SFC Act) to the Company as well. The provisions of Section 29, *ibid,* empower the Company to take over the possession of assets of the defaulting loanee units and realise its dues by sale of the assets pledged, mortgaged or hypothecated to the Company.

2B.2 Organisational set up

The management of the Company is vested in a Board of Directors (Board). The Managing Director is responsible for the day-to-day functioning of the Company. The Executive Director (Investment and Finance) is the functional head for disbursement and recovery of loans and is assisted by two General Managers.

2B.3 Scope of Audit

The topics 'Recovery performance of loans sanctioned' and 'Investments and disinvestments' in respect of the Company were reviewed during September 1994 to March 1995 and February to May 1998 respectively and included in the Report(s) of the Comptroller and Auditor General of India- Government of Punjab (Commercial) for the year(s) ending 31 March 1995 and 31 March 1998, respectively. The recommendations of the Committee on Public Undertakings (COPU) in respect of the former review, discussed in July 1998, were awaited and the latter review had not been discussed by the COPU so far (July 2002).

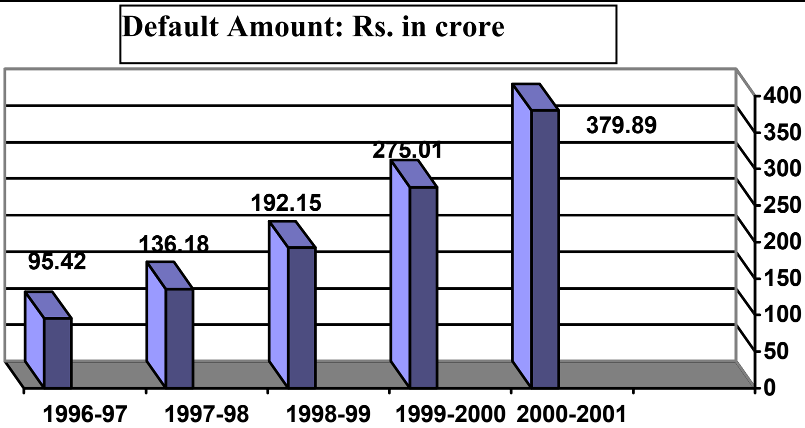
The present review conducted during August to December 2001 covers the performance of the Company to take action under Section 29 of the SFC Act for recovery of dues during 1996-2001. For evaluating the performance of the Company, audit conducted (i) detailed analysis of 36 *per cent* of loan cases of units taken over up to 31 March 2001 and (ii) general review of remaining loan cases where notices under Section 29 of SFC Act were issued up to 31 March 2001.

2B.4 Recovery performance

The following table indicates the year-wise position of amount outstanding from the loanee units, amount due for recovery during the year, amount in default, assets taken over, etc., during 1996-2001:

Sl. No.	Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
		(Rs. in crore)				
1	Amount outstanding					
	Principal	282.23	300.93	326.88	352.68	334.37
	Interest	54.51	86.86	123.27	188.23	264.33
	Total	**336.74**	**387.79**	**450.15**	**540.91**	**598.70**
	Units	301	315	308	320	310
2	Amount recoverable for the year (net of reschedulement)					
	a) Against old dues	Not available	95.42	124.80	163.67	264.89
	b) Fell due during the year	Not available	132.32	144.73	164.56	167.41
	Total	Not available	**227.74**	**269.53**	**328.23**	**432.30**
3	Amount in default at the end of the year					
	a) Out of old dues	Not available	89.87	107.96	154.27	253.79
	b) Out of current dues	Not available	46.31	84.19	120.74	126.10
	Total (Units)	**95.42** (133)	**136.18** (179)	**192.15** (196)	**275.01** (244)	**379.89** (255)
4	Percentage of					
	a) Default amount to outstanding	28	35	43	51	63
	b) Default out of old dues to recoverable against old dues	-	94	87	94	96
	c) Default out of current dues to recoverable against current dues	-	35	58	73	75
	d) Default amount to recoverable	-	60	71	84	88
5	Units taken over u/s 29 during the year					
	a) Amount recoverable (Rs. in crore)	2.35	0.92	4.62	13.75	21.63
	b) Number of units	3	1	2	5	9

Sl. No.	Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
6	Percentage of					
	a) Units taken over to units in default	2	1	1	2	4
	b) Amount recoverable from units taken over to amount in default	2	1	2	5	6



Default amount increased from Rs. 95.42 crore in 1996-97 to Rs. 379.89 crore in 2000-01.

A perusal of the above table would reveal that whereas the total number of loanee units ranged between 301 and 320 during 1996-2001, the number of units in default increased from 133 in 1996-97 to 255 in 2000-01. Not only the total amount in default increased from Rs.95.42 crore in 1996-97 to Rs.379.89 crore in 2000-01 but the percentage of default amount to amount due for recovery also increased from 60 in 1997-98 to 88 in 2000-01. Further, it was noticed that the amount in default out of old dues also increased from Rs. 89.87 crore in 1997-98 to Rs. 253.79 crore in 2000-01.

2B.5 Utilisation/invoking of Section 29 of SFC Act, 1951

2B.5.1 Delay in application of provisions of Section 29 of SFC Act

After being approached by the Company, through State Government, Government of India issued (May 1988) the Gazette notification for application of Section 29 of SFC Act to the Company. However, the management, after expiry of six years' period, proposed (July 1994) to Board of Directors to authorise the Managing Director/Additional Managing Director for taking action under the Section, *ibid*. The Board approved (July 1994) the proposal and the first unit was taken over in October 1994. During this period, the overdue term loans and interest thereon in respect of defaulting units increased from Rs.5.89 crore in 1989-90 to Rs.37.34 crore in 1993-94. The management stated (November 2001) that the Company had been requesting Punjab Financial Corporation (PFC) to invoke provisions of Section 29 on its behalf. The plea of the management was not acceptable as the Company had the power to invoke the provisions of Section 29 and there was no need to approach the PFC for invoking the provisions of Section 29.

2B.5.2 System deficiencies

Loan agreements with the loanee units, *inter alia*, envisaged that (i) the borrower was to submit progress reports showing production figures in relation to installed capacity, sales figures, unit cost of production, list of senior technical, financial and executive staff together with favourable or unfavourable factors likely to have substantial effect on the borrower's profits or business to the Company, in triplicate, within fifteen days of the end of each quarter/half year until the loan was repaid in full; (ii) the Company had a right to free access to any part of borrower’s factory and its records; and (iii) the Company had a right to nominate its representative(s) on the Board of Unit(s). However, it was observed in audit that:

(a) Requisite progress reports submitted, if any, by the loanee units were not available in the case files test checked in audit. The Company had not maintained any consolidated records to watch the receipt of such reports.

(b) The Company neither prescribed the periodicity of the inspections nor defined the technical and financial matters to be covered in inspections. The Company had also not drawn any programme to inspect all the loanee units within a fixed period, say once in a year.

(c) As on 31 March 2001, the Company had its nominee directors in 44 units only as against 310 units against which loans were outstanding. The Company had not maintained consolidated records to show the number of meetings attended by the nominee directors, the role played by the directors, number of nominee directors from whom the reports were not received and action taken on the reports.

(d) The Company had also not evolved any system of regular feed back about the financial health of the loanee units indicating units earning profit and not in default, units facing short term problems but not in default, projects under implementation and in default, units facing long term problems and rehabilitation package under consideration/ implementation, long term viability suspect and recall of loan under consideration and recall cases for taking appropriate action by the management.

In addition to the aforesaid system deficiencies, the Company had neither maintained consolidated records indicating (i) cheques dishonoured and action taken against promoter/director of loanee units; and (ii) non-insurance of assets mortgaged/ hypothecated to the Company.

In the absence of (i) any system to watch receipt of requisite progress reports, (ii) scope of periodical inspections, etc., the Company was not in a position to assess correctly when a defaulting unit was fit to be taken over. The Company had also not fixed any criterion to decide the take over of assets of units in default or restoration of units already taken over under the Section, *ibid*. The Company had not maintained any consolidated records of the notices issued for take over of the units to watch their implementation.

2B.5.2.1 Even after 35 years of its existence, the Company had not prepared its Operational Manual prescribing the policies, procedures and guidelines, etc., to be followed in different functional areas of the Company. However, it may be added that the sister financial corporation (viz. Punjab Financial Corporation) had a comprehensive Operational Manual in use since October 1991.

The management stated (October 2001) that schemes implemented by the Company were approved by the Board and became operational guidelines for officers and a separate Operational Manual had not been prepared. Reply of the management was not tenable as policy decisions regarding take over of units by the Board of Directors were not a substitute to the Operational Manual as it did not cover operational guidelines regarding procedure for take over of the assets of the unit, restoration of the unit taken over, safe custody of stocks pledged to the banks, procedure for maintaining keys of the units taken over, etc.

2B.5.3 Acquisition of units under Section 29 of SFC Act

Time taken in acquiring 22 units ranged between 8 and 102 months after commencement of default.

It was observed in audit that out of total default amount of Rs. 379.89 crore against 255 units, an amount of Rs. 185.95 crore pertained to 82 units (104 loan cases) which were continuously in default for more than five years as on 31 March 2001. Despite such alarming position, the Company had taken over the assets of 22 units (amount due: Rs.52.52 crore) only and PFC had taken over the assets of 18 jointly financed units (amount due: Rs. 62.94 crore). It was also observed that the time taken in acquiring assets of these 22 units ranged between 8 and 102 months after commencement of default in repayment.

2B.5.4 Sale of units acquired under Section 29 of SFC Act

After taking over the assets of the units in default, these are sold through invitation of bids and subsequent negotiation or through public auction and sale proceeds are adjusted against the outstanding dues of the concerned defaulting loanee. In case full amount could not be recovered by selling the assets, the balance is to be recovered from guarantor from his personal security/guarantee as may be available with the Company.

The position of units in possession, sold and lying unsold during 1996-2001 was as under:

Particulars	1996-97	1997-98	1998-99	1999-2000	2000-01
	(Number of units)				
Units in possession at the beginning of the year	2	5	5	7	10
Units taken over during the year	3	1	2	5	9
Units sold	-	1	-	2	-
Units in possession at the end of the year	5	5	7	10	19
	(Rs. in crore)				
Amount involved as on 31 March 2001	-	-	-	-	50.89
Amount realised (Company's share) from sale of units	-	0.62	-	0.99	-
Amount recoverable from the units sold	-	1.11	-	2.13	-
Balance recoverable from guarantors	-	0.49	-	1.14	

During October 1994 to March 2001, the Company sold only 3 out of 22 units taken over during the same period thereby not utilising the full potential of the empowerment under Section 29 of the Act, *ibid*.

Sale of assets of three units realised Rs.1.61 crore as against recoverable amount of Rs.3.24 crore.

After the sale of assets of one unit (March 1998) and two units (January 2000), the Company realised Rs. 1.61 crore as against the recoverable amount of Rs. 3.24 crore leaving recoverable amount at Rs. 1.63 crore as discussed below:

(a) Mention was made in Paragraph 4A.2.1 of the Report of the Comptroller and Auditor General of India (Commercial) –Government of Punjab for the year ending 31 March 1999 that the failure of the Company to sell the assets of Cosmos Spinning Limited due to non-obtaining of approval of the Board resulted in loss of Rs. 48.90 lakh as the Company's share out of sold unit worked out to Rs.0.62 crore against recoverable amount of Rs.1.11 crore.

(b) The fixed assets of Finorg Chemicals (P) Limited were taken over (January 1997) and their valuation was got done (May 1997) at Rs.1.86 crore. The unit was advertised (March 1997) for sale but the sale could not materialise as the only offer of Rs.31 lakh was considered very low. The unit was again advertised (July 1997) for sale and the highest bid (Rs. 1.30 crore) of Cadchem Laboratories Ltd. was accepted (August 1997) subject to approval by the Board. The bidder deposited Rs.32.50 lakh representing 25 *per cent* of the bid amount as down payment up to 3 December 1997 as against due date of 10 October 1997.

In the absence of any policy of the Company for sale of taken over assets, the Board decided (January 1998) that the Company should follow the policy laid down by PFC in sale of assets of the unit. As per policy of PFC, assets taken over under Section 29 of the SFC Act could be disposed of at a price up to 60 *per cent* of assessed value of assets, if the assets taken over were more than one year old and had also been advertised at least thrice for sale.

As one of the conditions for sale of assets up to 60 *per cent* of assessed value was satisfied, the matter was again brought (February 1998) to the Board for consideration but the Board decided that the bidder may be asked to improve the offer so as to realise 75 *per cent* of the assessed value. The decision of the Board was not prudent because it was neither covered under any policy nor backed by any reasoning. Moreover, the machinery constituted more than 60 *per cent* of assessed value and in case of backing out of the bidder, the chances of getting better price subsequently after taking into account increase in interest on the outstanding loan were remote because non-functional machinery was liable to lose its value rapidly with the passage of time.

The unit was re-advertised for sale in December 1999 and the auction was held on 7 January 2000 where Toubro Industries Limited, the only bidder, gave a bid for Rs.1.31 crore, which was accepted.

After adjusting the expenses incurred, the share of the Company and PFC worked out to Rs.48.69 lakh and Rs. 70.14 lakh against the recoverable amount of Rs. 75.11 lakh and Rs.151.37 lakh, respectively, thereby resulting in short recovery of Rs.26.42 lakh to the Company and Rs. 81.23 lakh to PFC. Had the offer been accepted in February 1998, the Company and PFC would have recovered Rs. 50.72 lakh and Rs. 73.09 lakh respectively as against recoverable amount of Rs. 52.29 lakh and Rs. 98.01 lakh. Thus, decision (February 1998) of the Board asking the bidder to improve the offer without going into its pros and cons lacked justification and thereby resulted in increase in the amount of short recovery by Rs. 24.85 lakh to the Company and Rs. 56.31 lakh to PFC.

(c) The fixed assets of Punjab Potentiometers Private Limited, Mohali were taken over (August 1997) and advertised (November 1997) for sale, but no decision could be taken during negotiations with the various parties and it was decided to sell the assets through open auction at site. In the open auction (March 1998), bid (Rs. 0.68 crore) of Inde Dutch Systems Limited, Chandigarh was accepted, against assessed value of Rs. 0.67 crore, subject to approval by the Board. However, the Board did not approve the rate without assigning any reason and decided (May 1998) to get the assets revalued. Revaluation of fixed assets of the unit was got done from two independent valuers at Rs. 0.96 crore and Rs. 0.81 crore. As there was no buyer at the reserve price of Rs. 0.96 crore in the auctions held in September and October 1998, the Company decided (July 1999) to advertise the sale of assets without specifying the reserve price. The sale of assets was finalised (January 2000) for Rs. 0.73 crore with the same party, *viz.* Inde Dutch Systems Limited.

Non-acceptance of offer in March 1998 resulted in increase in short recovery by Rs. 42.00 lakh.

After adjusting expenses incurred, the share of the Company and PFC worked out to Rs. 0.50 crore and Rs.15.52 lakh, as against the recoverable amount of Rs. 1.38 crore and Rs.40.78 lakh, respectively thereby resulting in short recovery of Rs. 0.88 crore to the Company and Rs. 25.26 lakh to the PFC. Had the offer been accepted in March 1998, the Company and PFC would have recovered Rs. 0.51 crore and Rs. 15.76 lakh respectively as against recoverable amount of Rs. 0.97 crore and Rs. 28.20 lakh thereby resulting increase in the amount of short recovery by Rs. 42.00 lakh to the Company and Rs. 12.82 lakh to PFC .

2B.5.5 Failure to invoke personal guarantees/ non taking over of collateral securities

Even after realisation of its share from the sale proceeds of assets of seven units (including four sold by PFC being jointly financed), the Company was yet to recover Rs.10.44 crore from them. As per conditions of loan agreements, term loans were also personally guaranteed by promoters/directors for repayment of dues. However, the Company did not initiate action to invoke personal guarantees of the promoters/directors of five units (amount recoverable: Rs. 9.08 crore). Action initiated in case of two units was also not fruitful as detailed below:

(a) After sale of assets of Cosmos Spinning Limited (March 1998), the Company requested (July 2001) Canara Bank, Chandigarh (banker of the unit) to intimate the address and list of assets of promoters, as the notices issued to invoke personal guarantees of the promoters were received back.

(b) Assets of Punjab Potentiometers Private Limited were sold (January 2000) but the Company could not locate (January 2000) the two plots, deeds of which were deposited with the Company as collateral security.

The management stated (April 2002) that the Board had approved (December 2001) a proposal for appointing recovery agents who would assist the Company in tracing out the present addresses of the promoter directors/guarantors as well as their fixed assets and properties which would help in recovery of dues of the Company.

2B.5.6 Loss due to allowing imprudent restoration of a unit

Term loan of Rs.25.50 lakh sanctioned (February 1993) to Single Cycles Private Limited under the Equipment Refinance Scheme of IDBI was released in November 1993. The loan was repayable in nine half yearly instalments commencing from April 1994. Default in payment of interest and principal commenced in January and April 1994, respectively. The unit had remitted rupees one lakh only in March 1996 towards interest and issued (March 1996) a cheque for rupees one lakh, which was dishonoured. PFC took over (4 June 1997) the assets of the unit under Section 29 of the SFC Act, but later on in consultation with the Company, decided (11 June 1997) to allow restoration of the unit without recording any justification when the unit furnished (11 June 1997) four postdated cheques of rupees one lakh each to the Company (amount in default: Rs. 40.12 lakh). The cheques were also dishonoured. No legal action under Negotiable Instruments Act, 1881, except issue of notices, was taken for dishonour of cheques.

First advertisement for sale of the unit was issued after 17 months.

Notice under Section 29 of the SFC Act was again issued (December 1997) and the Company in lead alongwith PFC took over (July 1998) the assets of the unit when the amount recoverable from the unit was Rs. 62.10 lakh. The Company issued first advertisement for sale of the unit in December 1999. Regarding delay of 17 months in the issue of advertisement, the management stated (October 2001) that one of the tenants residing in the building had moved Hon'ble High Court for which first hearing was fixed on 25 January 2001. However, the Company did not intimate how the action of the tenant restrained the Company from issuing advertisement for sale of assets of the unit. Against the amount recoverable by the Company (Rs. 126.78 lakh) and PFC (Rs. 14.84 lakh) as of July 2001, the assets were sold by PFC for Rs.116.40 lakh in September 2001. The bidder paid 25 *per cent* amount and balance was to be paid in eight quarterly instalments.

Delay of 17 months in issue of first advertisement for sale of assets of unit resulted in short recovery of Rs. 23.51 lakh .

Thus, imprudent action to allow restoration of unit (June 1997) to the promoter with doubtful credibility and 17 months' delay in issue of first advertisement for sale of assets of the unit resulted in short recovery of loan dues amounting to Rs.23.51 lakh to the Company and Rs. 1.71 lakh to PFC which could have been avoided.

2B.5.7 Delay in sale of assets due to non-availability of relevant documents

The Company took over (December 1996) the assets of Punjab Tanneries Limited, a State Government company against which loan amount of Rs.26.12 lakh and interest thereon (Rs. 0.61 crore) was recoverable as of September 1996.

The Company could not sell the unit as it failed to satisfy the Board about its charge on the assets of the unit.

The Company held (March 1998) a public auction for sale of assets of the unit and accepted the bid of Rs.7.40 crore of Sakay Estates subject to approval by the Board. Though the Company had a charge on the assets of the unit, the Board was misinformed that it did not hold any charge. Consequently, the Board observed (August 1998) that action taken by the Company in auctioning the assets was inappropriate, incorrect and misplaced. Auction made by the Company was treated as null and void. Accordingly, it was decided (August 1998) that the matter would be attended to by PFC which was also having charge on the assets. The assets of the unit were finally sold (February 2001) by PFC for Rs.8.10 crore. The Company requested (June 2001) PFC to remit Rs. 1.61 crore (including interest) alongwith expenses (Rs.9.03 lakh) incurred by it. However, the Company did not receive any amount in view of an appeal filed by a third party in the High Court, against which it was ordered that the sale proceeds would be deposited in a Bank. Accordingly, amount received was deposited in the Bank in the shape of FDRs.

Thus, failure of the Company to bring to the notice of the Board correct position regarding availability of charge on the assets of the unit not only resulted in avoidable delay of three years in the sale of assets with consequential delay in realisation of dues but the unit also remained unproductive. Besides, Punjab Tanneries Limited was also put to heavy loss because increase in sale price of Rs.0.70 crore (3.17 *per cent* per annum) was far less than the interest of 31 *per cent* per annum payable to a Bank in pursuance of orders dated 21 July 1997 of Debt Recovery Tribunal. The Company had not fixed any responsibility for this casual handling of case.

2B.5.8 Units acquired but not sold

(a) The table below indicates the age-wise break up of units lying unsold with the Company, amount recoverable and their latest assessed value as on 31 March 2001:

Particulars	Assessed value more than amount recoverable			Assessed value less than amount recoverable		
	Number of units	Amount recoverable	Assessed value	Number of units	Amount recoverable	Assessed value
		(Rs. in crore)			(Rs. in crore)	
Less than one year	1	0.75	1.30	8	20.88	15.18
One year and above but less than three years	2	1.55	3.36	5	22.19	10.33
Three years and above	2	3.95	13.08	1	1.57	0.59
Total	**5**	**6.25**	**17.74**	**14**	**44.64**	**26.10**

The above table would reveal that in case of 14 units, assessed value of assets

Assessed value of 14 units awaiting sale was Rs. 26.10 crore as against recoverable amount of Rs. 44.64 crore.

taken over (Rs.26.10 crore) was far less than the recoverable amount of Rs. 44.64 crore from them. Consequently, even if the assets were to be sold at assessed value, the recovery by the Company would be short by Rs. 18.54 crore and the chances of recovery thereof were remote.

The Management stated (March 2002) that delay in disposal of assets taken over was due to recession in the industry. However, it was observed in audit that there was no system of regular feed back to the management about the units taken over, disposed of and remaining unsold with the Company. The Company was also not doing age analysis of units pending to take effective steps for sale of their assets.

The Company had not fixed any time schedule for valuation of assets, issue of advertisements for sale and disposal of assets. It was observed that time taken in issue of first advertisement for disposal of assets taken over ranged between 2 and 25 months. In six cases, there was delay of more than six months in issue of first advertisement. Reasons for such delays were not on record.

Assessed value of assets taken over decreased with the passage of time.

(b) The Company had incurred Rs. 0.65 crore (up to March 2001) in acquisition and upkeep of the assets of these 19 units. Non-disposal of these assets not only resulted in locking up of funds but the amount to be realised would also decrease to the extent of expenditure so incurred. Further, with the passage of time, the assets taken over would depreciate substantially as the motors, mild steel vessels, pipes, etc., get rusted due to weather conditions resulting in further loss.

Insurance cover was not obtained by the unit.

(c) The Company sanctioned (October 1996) a term loan of Rs.2.50 crore to Royal Cement Limited under the IDBI's refinance scheme and a bridge loan of Rs.30 lakh against State Government subsidy for setting up a project for the manufacture of cement. The unit was to satisfy the Company regarding availability of working capital finance before availing of loan. Though the unit failed to arrange the working capital finance, yet the first instalment of loan of Rs.1.25 crore was released in November 1996 by relaxing the above condition. Further, three instalments (Rs.1.10 crore) and bridge loan of Rs. 24 lakh were also released (February to May 1997) by relaxing the above condition without assigning any reason. Besides, the borrower was also to insure the assets charged to the lender in the joint names of the borrower and the Company. Though the unit commenced commercial production in December 1996, it did not get the insurance cover of its assets, which was tantamount to default as per loan agreement. However, no action was taken against the borrower. The unit defaulted (July 1997) in payment of interest (Rs.20.35 lakh) and intimated in August 1997 that it had not been sanctioned working capital by the bank thereby creating liquidity crunch.

Machinery and miscellaneous fixed assets had been removed.

Inspection of the unit conducted in October 1997 revealed that most of the items of plant and machinery had been installed and the unit was producing only 70 tonnes cement per day in the absence of requisite working capital. However, on subsequent inspections by the officers of the Company in January and February 1998, it was found that all the main machinery and miscellaneous fixed assets had been removed. The available assets hypothecated/mortgaged to the Company were taken over (June 1998) and an FIR was lodged with the police in June 1999.

Further developments on FIR were awaited (March 2002). First advertisement for sale of assets of the unit was issued in August 2000, i.e., after 25 months of the take over of the assets of the unit but no bid was received. Meanwhile, the assessed value of available assets had decreased from Rs. 0.61 crore in July 1998 to Rs. 44.52 lakh in September 2001. The assessed value of collateral securities in the shape of two residential houses taken over in September 2001 had decreased from Rs. 1.26 crore in October 1996 to Rs. 49.65 lakh in November 2001.

Assessed value of prime and collateral securities was Rs. 0.94 crore as against recoverable amount of Rs. 7.73 crore.

Apparently, even after making disbursement without complying with loan stipulations, the Company was very casual in taking action under Section 29. These factors resulted in non recovery of Rs.7.73 crore on account of loan and interest thereon (January 2002) against which assessed value of primary and collateral securities amounted to Rs. 0.94 crore only.

(d) The Company sanctioned (February 1995) a term loan of Rs.1.50 crore under IDBI's Refinance Scheme and bridge loan of Rs. 0.50 crore against State Government subsidy to Pahwa Processors Limited for setting up a process house for dyeing, printing and finishing of synthetic and blended fabrics at Amritsar and disbursed Rs.2.00 crore in instalments during March 1995 to March 1997 without fulfilling the conditions for sanction of loan. Though the unit had defaulted in repayment, further loan of Rs. 0.70 crore was sanctioned (May 1997) to meet the cost overrun after rescheduling the earlier loan. Out of additional term loan sanctioned, Rs. 0.56 crore was disbursed in September 1997.

Assets of a closed unit were not taken over immediately.

The unit commenced its commercial production in November 1997. On inspection of the unit in June 1998, it was noticed that the unit was lying closed since March 1998. Consequently, notice under Section 29 of the SFC Act was issued in June 1998 when the recoverable amount was Rs. 2.85 crore but the unit was not taken over immediately. In June 1999, the Company noticed that the unit was preparing to go to the BIFR or sell its assets. Consequently, the unit was taken over in October 1999. The value of the assets was assessed (July 2000) at Rs.2.41 crore and advertisement for their sale was issued in the same month. However, the unit approached (August 2000) BIFR and its first hearing was held in May 2001 in which the Company was appointed the operating agency by BIFR for the affairs of the unit. Further developments were awaited (March 2002).

Thus, failure of the Company to acquire this closed unit immediately in June 1998 resulted in locking up of its substantial funds. Since the recoverable amount had accumulated to Rs. 5.33 crore (July 2001) as against the assessed value of Rs.2.41 crore, the chances of recovery of its dues in full are quite remote.

2B.5.9 Non-pursuance of notices issued under Section 29

In the absence of any consolidated records regarding number of notices issued under Section 29 of the SFC Act, the extent of number of notices so issued but not pursued further and reasons therefor could not be ascertained in audit. Test

Amount recoverable had increased from Rs. 21.08 crore as on the dates of issue of notices to Rs. 35.91 crore as on 31 March 2001.

check of records, however, revealed that though the Company had served notices on 13 units to take over their assets during July 1993 to December 1999, these were not pursued further. The amount recoverable in these cases increased from Rs. 21.08 crore as on the dates of issue of notices to Rs. 35.91 crore as on 31 March 2001. Some interesting cases are discussed below:

(a) The Company sanctioned (March 1996) a term loan of Rs.2.48 crore under IDBI's refinance scheme to a newly formed unit viz. Herman Dairy Development Limited for setting up ten milk collecting/chilling centres at different locations in Punjab for collection of milk and its further supply to Herman Milk Food Limited, a sister concern. Before the release of loan, the Director, Dairy Development Department, Punjab intimated (March 1996) the Company that the unit was setting up its chilling centres at places where the adjoining area had already been allocated under Milk and Milk Product Order (MMPO) to other milk plants operating under State Co-operative and in private sector and stated that the promoters of the unit would be violating the provisions of MMPO, if the Company granted them loan and signed any MoU.

Loan was disbursed in violation of the MMPO.

Consequently, the unit changed the site of two chilling centres and got valid MMPO for them. Though the unit did not have valid MMPO for the remaining centres, the Company released Rs.2.23 crore between September 1996 and February 1997. Repayment of loan was to be made in 13 half yearly instalments commencing from 30 April 1998 and payment of interest was to commence in January 1997. The unit commenced default in July 1997 in payment of interest. Inspection carried out by the Company in October 1998 revealed that only five centres of the unit were fully operational. Due to continued default from July 1997, the Company issued (December 1999) notice under Section 29 of the SFC Act to take over the unit when the recoverable amount was Rs. 3.74 crore but the unit was not taken over. In April 2001, the unit requested for one time settlement of its dues of principal amount to be paid in a period of two years and also stated that it was not in a position to pay any interest. The unit was asked (May 2001) to improve its proposal alongwith down payment of Rs.20 lakh to prove its bonafide, but no response was received. Notice under Section 29 of SFC Act was again issued in September 2001. Further developments were awaited (February 2002). The amount recoverable from the unit including principal (Rs.2.23 crore) had accumulated to Rs.5.80 crore (July 2001).

Amount recoverable increased from Rs. 3.74 crore to Rs. 5.80 crore.

Thus, not only the decision of the Company to grant loan to the unit in violation of the MMPO was imprudent but the inaction of the Company to take over the assets of the unit in December 1999 had also resulted in non-recovery of loan dues.

(b) The Company sanctioned (August 1995) a term loan of Rs.5.00 crore to Thapar Ispat Limited under Equipment Refinance Scheme of the IDBI and disbursed Rs.5.00 crore between January 1996 and March 1997. The unit commenced default in repayment of principal (October 1996) as well as interest (January 1997). The Company issued two notices (July 1997 and February 1998) under Section 29 of the SFC Act. Though the unit had not cleared the default amount, yet the assets of the unit were not acquired.

Though the unit was not operational and bankers had not given required working capital limit, no action was taken.

Up to May 1998, four instalments of principal (Rs.2.48 crore) and three instalments of interest (Rs.1.45 crore) had become due from the unit when an officer of the Company visited (May 1998) the unit and reported that the unit financed by the Company was not operational and the bankers had not given the required working capital limits. Consequently, the Additional Managing Director (AMD) of the Company observed (May 1998) that immediate steps to take over the assets of the unit under Section 29 of SFC Act should be taken. However, no action was taken.

Proposals submitted by the promoters for clearance of default were not reasonable/ workable

In September 2000, the Secretary to Government of Punjab, Industries Department ordered the Company to ensure recovery of long outstanding dues and take action under Section 29 of SFC Act, if required. As the promoters of the unit proposed (September 2000) to pay Rs.8-10 lakh per month, which did not cover even current interest, the proposal was not considered reasonable and the promoters were asked to come forward for one time settlement but no such proposal was submitted. The promoters were again asked (April 2001) to submit a suitable proposal for clearance of default. The proposal submitted by the unit was considered (June 2001) not workable and the Company felt that the unit was buying time to go to BIFR. Accordingly, it was decided to take over the unit before 30 June 2001 but no action was taken by the Company and the amount recoverable from the unit had accumulated to Rs. 11.12 crore (July 2001). Finally, the unit had gone to BIFR (August 2001). The Company raised (April 2002) objection against the reference filed by the unit.

Thus, soft pedalling by the Company to take over the unit resulted in increase of recoverable amount from Rs. 5.86 crore in July 1997 to Rs. 11.12 crore in July 2001. Chances of recovery of dues were quite remote.

Conclusion

The Company had been financing the industrial units. In order to strengthen its recovery apparatus, the Government of India, on the request of the Company, made applicable the provisions of Section 29 of State Financial Corporations Act, 1951 to it thereby empowering the Company to take over the assets of loanee units in default, realise the dues by the sale of such assets and recycle the funds for assistance of new units. Absence of any criterion to decide the take over of assets of units in default and restoration of the assets taken over coupled with lack of proper monitoring and follow up action, delay in disposal of assets of the unit(s) taken over and failure to invoke personal guarantees, not only resulted in locking up of huge funds of the Company entailing avoidable expenditure on watch and ward of the assets taken over but also deterioration in their value due to efflux of time. There is imminent need

to develop a comprehensive system to ensure timely action for recovery of dues at various stages and eliminate the element of discretion so that the losses could be avoided/minimised.

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