Chapter II

Reviews relating to Government companies

2.1 Rajasthan State Ganganagar Sugar Mills Limited

Highlights

Rajasthan State Ganganagar Sugar Mills Limited (Company) came into existence in January 1957 with the main activities of production and sale of sugar, spirit and liquor.

(Paragraph 2.1.1 and 2.1.2)

The Company incurred losses in sugar activity and earned profit in liquor activity for which State Government reimbursed the entire cost while fixing the sale price of liquor.

(Paragraph 2.1.7)

Due to 12 *per cent* extra payment for early variety of cane and 10 *per cent* transportation charges, the Company paid Rs.24.28 crore as compared to statutory minimum price and Rs.7.22 crore, Rs.5.12 crore and Rs.2.63 crore extra in procurement of sugarcanez as compared to rates of other mills of Rajasthan, Punjab and Haryana, respectively.

(Paragraph 2.1.9)

During last five years upto 2001-02, the Company purchased early variety sugarcane ranging from 83 to 96 *per cent* of its total purchases against the prescribed percentage of 60 at higher cost of Rs.1.63 crore but did not obtain desired sugar recovery.

(Paragraph 2.1.10)

As a result of crushing of unmatured, overstand and stale sugarcane, the Company suffered loss of 11,614 quintal sugar valuing Rs.1.47 crore during 1997-2000.

(Paragraph 2.1.11)

The Company has not prescribed norms for loss in recovery of sugar from sugarcane. Based on the All India accepted norm of 2.5 *per cent*, the loss of production of sugar worked out to 13,705 quintals valuing Rs.1.74 crore during 1997-2002.

(Paragraph 2.1.12)

During five years upto 2001-02, the cost of production of sugar ranged between Rs.14,740 and Rs.25,778 per MT as against the sales realisation of Rs.11,055 to Rs.14,089 per MT only which resulted in loss of Rs.35.65 crore in sale of sugar.

(Paragraph 2.1.15)

On account of low recovery of rectified spirit from molasses, leakage from fermentation tank, procurement of molasses of low sugar contents and unsatisfactory storage of molasses, the Company sustained a loss of Rs.1.60 crore during 1997-2002.

(Paragraph 2.1.19)

Due to leakage of rectified cell, preheater and condenser tubes, the Company produced spirit of 61.3 to 65.3 over proof (OP) strength against the spirit of 66 OP strength purchased by the Company and suffered loss of production of rectified spirit valuing Rs.88 lakh during 1997-2002.

(Paragraph 2.1.20)

2.1.1 Introduction

Rajasthan State Ganganagar Sugar Mills Limited (Company) came into existence in January 1957, after the State Government purchased majority of shares of the erstwhile Bikaner Industrial Corporation Limited.

The main objectives of the Company are:

- to carry on business as brewers, distillers, manufacturers and merchants and dealers in beer, stout wines, spirits;
- to manufacture, produce, refine, prepare , purchase, sell and generally deal in sugar, sugar beet, sugarcane, molasses, syrups and alcohol and all products thereof; and
- to plant, cultivate, produce and raise sugarcane, maize, sugar beet.

2.1.2 Activities

The Company is presently engaged in:

- production and sale of sugar in its factory at Sriganganagar, having a cane crushing capacity of 1000 MT per day;
- production of rectified spirit in its distillery at Sriganganagar, having a capacity of 17250 bulk litres (BL) per day; and
- manufacture and sale of country liquor through 22 reduction-cum-filling centres and 28 storage warehouses.

The Company has a 5.60 hectares farm adjoining the sugar mill which was used for cultivation of sugarcane up to 1995-96. Thereafter it is being used for disposal of waste water.

2.1.3 Organisational set up

The Company is managed by a Board of Directors consisting of not less than six and not more than fifteen members. As on 31 March 2003, the Board consisted of eight members including a non-official member, all appointed by the State Government. There are no full-time/functional directors with technical/financial expertise. The Board is assisted by an Executive Committee comprising three members i.e. Director-in-charge, Excise Commissioner and Special Secretary, Industries Department. The Special Secretary, Finance (Revenue) to the Government of Rajasthan acts as Director-in-charge, in addition to his own duties and is assisted by a Financial Advisor and two General Managers each at the Head Office and at the sugar factory, Sriganganagar respectively. The seven* unit offices of liquor activities are headed by Managers.

During April 1997 to September 2002, the Director-in-charge changed five times, two Directors-in-charge remained only for about three and six months.

2.1.4 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 1996-97 (Commercial). The Committee on Public Undertakings (COPU) had discussed (May 2000) the review and given (November 2001) its recommendations as under:

- to fix and follow the norms for wastage during manufacture of sugar;
- to replace/renew the machinery of sugar mill under a time bound plan;
- to take necessary steps to increase quantity and quality of cane production to increase sugar contents and to crush the sugar cane in time; and
- to take necessary steps to increase sugar contents in molasses for better recovery of rectified spirit.

The recommendations of the COPU have not been complied with by the Company as commented in the relevant paragraphs.

The present review conducted during October 2002 to March 2003 covers the working of the Company for the last five years ending March 2003. The audit findings, as a result of test check of records, were reported to Government/Company in April 2003 with specific request for attending the

* Ajmer, Bharatpur, Jaipur, Jodhpur, Kota, Sriganganagar, Udaipur.

meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that view point of Government/management was taken into account before finalizing the review. The meeting of ARCPSE was held on 25 April 2003 where Government was represented by Special Secretary to the Government of Rajasthan, Finance Department (Revenue) who is also Director-in-charge of the Company.

2.1.5 Capital structure and borrowings

As on 31 March 2002, the authorised share capital of the Company was Rs. 5 crore divided into six lakh equity shares and four lakh preference shares of Rs.50 each, against which the paid-up capital was Rs.3.65 crore (equity; Rs.2.75 crore, preference shares Rs.90 lakh) subscribed by the State Government (Rs.3.61 crore) and private shareholders (Rs.4.40 lakh).

For meeting its working capital requirements, the Company availed of cash credit facility from Bank of Rajasthan (BOR) up to 31 August 2000 and Bank of Baroda (BOB) thereafter. Against cash credit limit of Rs.9 crore, Rs.7.97 crore was outstanding as on 31 March 2002. The Company also obtained a term loan of Rs.1 crore in March 1995 from State Government at an interest rate of 10.5 *per cent* per annum. The outstanding amount against the loan as on 31 March 2002 was Rs.44.20 lakh of which principal and interest of Rs.14.20 lakh due for payment on 31 March 2002 was paid on 17 May 2002.

2.1.6 Avoidable payment of interest on cash credit account

The Company has been availing of cash credit (CC) facility from BOR since 1969 at the interest rate fixed by BOR from time to time. The Company renewed agreement from time to time, last in December 1997 for three years without ascertaining rate of interest of other commercial banks.

In April 1999, at the time of renewal of CC limit for 1999–2000, the Company enquired the interest rates of CC account from three other commercial banks and found that the rate (15.30 *per cent*) of Central Bank of India was lower. Consequently, BOR also reduced the interest rate to 15.30 *per cent* per annum with effect from 1 April 1999.

In March 2000, the Company invited quotations of interest rate on CC facility from four commercial banks and found that the rate of Bank of Baroda (BOB) at 1.25 *per cent* above prime lending rate (12 *per cent*) was the lowest. Accordingly, the CC facility was shifted from BOR to BOB in October 2000.

It was observed that during December 1997 to March 2000 the interest rates of BOB were lower (15.75 to 12.5) than the rates of BOR (17.45 to 15.30). The Company's failure to enquire about interest rates of other banks while executing fresh agreement in December 1997 with BOR for another three years, resulted in avoidable payment of interest of Rs.26.63 lakh on CC during 1998-2000 including Rs.9.72 lakh incurred after limited enquiry in April 1999.

Government stated (July 2003) that steps were taken to encash benefit of soft interest regime, which started only in the year 1999-2000, when the bankers were allowed by Reserve Bank of India to decide their own lending rates. Reply is not tenable in view of the fact that the interest rates of BOB were lower than the interest rate of BOR since December 1997, and the Government action in 1999-2000 was belated.

2.1.7 Financial position and working results

The financial position and working results of the Company for the period of five years up to 2001-02 are given in Annexe -10 and 11 respectively.

The summarised position of the working results of the Company for the five years up to 2001-02 is tabulated below:

(Rupees in lakh)

S. No.	Particulars	1997-98	1998-99	1999-2000	2000-01	2001-02
A	Total income	12,297.74	15,730.96	18,382.47	14,591.67	11,910.57
B	Total expenditure	12,282.34	15,707.83	18,255.04	14,568.43	11,903.10
C	Profit for the year	15.40	23.13	127.43	23.24	7.47
D	Prior period adjustments	(+)3.55	(-)14.55	(-)101.65	(+)4.96	(+)32.19
E	Provision for tax	12.00	5.50	12.00	12.00	13.02
F	Profit after tax	6.95	3.08	13.78	16.20	26.64

Activity-wise profit earned/ loss incurred during five years upto 2001-2002 was as under:-

Activities	1997-98	1998-99	1999-2000	2000-2001	2001-2002
			(Rupees in lakh)		
Sugar	(-) 233.92	(-) 739.20	(-) 1036.84	(-) 699.01	(-)595.00
Distillery	(+) 456.56	(+) 955.16	(+)1389.24	(+) 956.66	(+)814.75
Hi-tech glass*	(-) 79.53	(-) 7.41	(-) 11.38	(-) 2.43	(-) 4.25
Head office**	(-) 127.71	(-) 185.42	(-) 213.59	(-) 231.98	(-)208.03

* Closed in August 1994.

** It represents the administrative expenses included to match profit figures with the previous table.

The following observations are made:

Company earned profits only in liquor activity which were wiped out by continuous losses in sugar activity.

The Company earned profits only in production of liquor, which were almost wiped out by continuous losses incurred in all the years in production and sale of sugar. The profits earned in the activity of production of liquor is not the true indicator of financial performance of the Company because entire cost on this activity was reimbursed by the State Government while fixing annual sale price of liquor.

The Company incurred continuous losses in manufacture of sugar. The reasons for loss as analysed in audit were:

- procurement of sugarcane at the rate higher than the rates of neighboring states (para 2.1.9);

- low recovery of sugar (para 2.1.12);

non-modernisation of plant and machinery of sugar factory (para 2.1.14); and

- non-recovery of even the net variable cost* from production and sale of sugar (para 2.1.15).

The percentage of employees' cost to turnover (annexe 11) increased from 13.23 in 1999-2000 to 20.08 in 2001-02. Similarly percentage of administrative expenses to turnover increased from 1.61 in 1998-99 to 2.14 in 2001-02.

Sugar factory

2.1.8 Procurement of sugarcane

In exercise of powers conferred under clause 6 of Sugarcane (Control) Order 1966, the State Government vide notification (20 October 1983) reserved the area covering Sriganganagar and Hanumangarh districts for sugarcane cultivation. According to the notification the cultivators in the area were required to supply 75 *per cent* of their sugarcane production to the factory. State Government also reserved 50 cusec additional water for sowing of sugarcane in about 10,000 bigha.

The Board decided (June 1994) to adopt a bond system between the Company and the cane cultivators with the following conditions:

- Eighty *per cent* of the total cane of a cultivator would be bonded;

- A cultivator who bonds his cane would be paid a penalty of Re. 1 per quintal, in case the factory refused to accept his cane. On the other hand the

* Net variable cost represents total cost of production reduced by fixed cost and realisable value of by-products i.e. molasses, pressmud and bagasse.

cultivators would pay Re.1 per quintal, in case he failed to supply cane in accordance with the crushing schedule.

However, the Company, instead of adopting bonding system, which involved execution of agreement with cultivators, obtained an undertaking from cane growers to supply 80 *per cent* sugarcane to the mill and forwarded their applications to Irrigation Department for sanction of additional water for cultivation of sugarcane. The Company did not take steps to ensure receipt of sugarcane to meet its requirement. Consequently, there was a reduction in seasonal working days from 176 days in 1998-99 to 155 days in 1999-2000, 73 days in 2000-01 and 67 days in 2001-02 because of lesser receipt of sugarcane year after year.

Government stated (July 2003) that bonding of cane started from 1999 only. The reply was not tenable as the Company was only obtaining an undertaking instead of entering into a bond system with cultivators.

2.1.9 Fixation of procurement price of sugarcane

The Government of India fixes statutory minimum price (SMP) for sugarcane linked to basic recovery of 8.5 *per cent* and such SMP is binding on every sugar factory. However, the Company declares cane procurement price every year, under a price fixing formula approved by the Board in 1989-90 which was based on State Advised Price (SAP) declared by Punjab and Haryana giving weightage to Punjab. Under the formula, price of early variety was kept higher by 12 *per cent* than the mid late variety with a view to increase the area of cultivation of the early variety, which matures early and gives high recovery of sugar, and facilitates closure of cane season by March.

Excess payment of Rs.24.28 crore was made due to 12 *per cent* higher price for sugarcane and 10 *per cent* transportation charges.

In addition, the Company started (1996) making payment of transportation charges at 10 *per cent* of early variety rate to cane growers of out centre (i.e. beyond 32 km from mill) after deducting Rs.3.50 per quintal as administrative charges. Due to payment of 12 *per cent* higher price for early variety, including the mid-late variety cane under early variety and the payment of transportation charges to out centre cane growers, the price paid by the Company was higher as compared to SMP fixed by Government of India and that paid by other mills of Rajasthan, Punjab and Haryana. This resulted in excess payment of Rs.24.28 crore as compared to SMP during 1997-2002, Rs.7.22 crore as compared to other mills of Rajasthan during 1997-2000, Rs.5.12 crore and Rs.2.63 crore as compared to Punjab and Haryana respectively during 1997-2002.

Though the Company referred (March 1998) the matter to State Government for payment of cane price at par with Punjab and Haryana for the block years 1998-2002, the Government instructed (December 1998) that price according to the existing formula be paid. The Company again decided (March 2002) to do away with payment of 12 *per cent* higher rate for early variety cane and transportation charges for outcentre by extending gate area up to 100 km from the year 2002-03. However, the Government instructed (March 2003) again that the existing rates be continued for 2002-2003.

2.1.10 Procurement of early variety of sugarcane with lesser recovery of sugar

For cultivation and procurement of different varieties of sugar cane, the Board fixed (June 1994) ratio of early and mid/late varieties of sugarcane at 60:40 respectively. Accordingly, the Company conducted (March 1996) tests to ascertain sugar recovery as procurement prices of different varieties of sugarcane were based on sugar recovery from each variety. As per these tests, early, mid-late and late varieties of sugarcane were required to give sugar recovery to the extent of 9.52, 7.44 and 7.04 *per cent* respectively. The Company did not adhere to the ratio so fixed as indicated in the table given below:

(In *per cent*)

S.No.	Crop variety	Ratio fixed by the Company	Actual ratio of cane procurement				
			1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
1.	Early	60	83	90	91	91	96
2.	Mid late/ late	40	17	10	9	9	4
3.	Sugar recovery (*per cent*)	--	9.32	7.60	7.40	8.76	9.45

As the Company had purchased major quantity of early variety of sugarcane during last five years up to 2001-02, it was required to have sugar recovery of about 9.50 *per cent* as obtained in test conducted in March 1996.

The procurement of early variety cane with lesser recovery resulted in extra expenditure of Rs.1.63 crore with sugar recovery ranging from 7.40 to 9.45 *per cent*.

While accepting the observation the Government stated (July 2003) that efforts were being made to reduce the cultivation of early variety and increasing mid late/late varieties.

2.1.11 Unscientific harvesting schedule

Due to crushing of unmatured, over stand and stale sugarcane, the Company suffered a loss of Rs.1.47 crore.

Considering the maximum availability of early variety of sugarcane, the harvesting schedule for this sugar factory should be from December to March. It was observed that harvesting and milling of sugarcane was done on the basis of total availability of cane, vis-à-vis crushing capacity of the factory. No scientific method of harvesting was adopted by the Company considering variety-wise maturity of sugarcane. This led to crushing of unmatured, over stand and stale cane and under recovery of sugar during concerned months as depicted in the table given below:

Cane season	Month	Cane crushed (qtl.)	Average recovery of the month (*per cent*)	Average recovery of the season (*per cent*)	Short recovery (*per cent*)	Loss of sugar (qtl.)	Average net sale price Rs. per qtl.	Amount (Rs. in lakh)
1997-98	December	1,93,900	8.13	9.32	1.19	2,307	1,250.48	28.85
	April	56,992	8.43	9.32	0.89	507	1,267.12	6.42
1998-99	April	1,86,250	6.32	7.60	1.28	2,384	1,266.52	30.19
	May	97,580	5.25	7.60	2.35	2,293	1,266.52	29.04
1999-2000	November	2,28,968	5.72	7.40	1.68	3,847	1,266.52	48.72
	April	26,020	6.34	7.40	1.06	276	1,341.03	3.70
Total						**11,614**		**146.92**

The Government stated (July 2003) that generally three maturity surveys were carried out in cane fields from time to time to analyse and ascertain the brix* /sucrose contents in the Company's laboratory and the crushing season of 1998-99 was prolonged upto May 1999 as per instructions of State Government and crushing season 1999-2000 was started early in October 1999 in view of availability of sugarcane. The reply given was not tenable as, if such tests were conducted the harvesting should have been planned accordingly to obtain optimum yield. This was not found done and average recovery in beginning and/or end of the season was very low as indicated in the table above.

2.1.12 Production performance of sugar factory

The table below indicates the sugar recovery from sugarcane during last five years (cane season) up to 2001-2002.

Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
1. Seasons days	120	176	155	73	67
2.Sugarcane to be crushed as per installed capacity of 10000 quintals per day (in quintals)	12,00,000	17,60,000	15,50,000	7,30,000	6,70,000

* Brix: Total soluble solids including sugar in sugarcane.

3. Sugarcane crushed (in quintals)	10,94,092	14,39,580	12,82,120	6,64,685	5,44,492
4. Capacity utilisation (in percentage)	91.17	81.79	82.72	91.05	81.27
5. Sugar produced (in quintals)	1,01,928	1,09,470	94,836	58,224	51,458
6. Expected sugar contents in sugarcane as per assessment made by the Company (in percentage).	11.78	10.58	10.26	11.39	12.04
7. Actual sugar recovery (in percentage 5 ÷ 3x100)	9.31	7.56	7.39	8.75	9.44
8. Loss of sugar (in percentage 6-7)	2.47	3.02	2.87	2.64	2.60

Excess loss of sugar in process resulted in loss of 13,704.69 quintals of sugar valuing Rs.1.74 crore.

The Company had not fixed norms for loss in recovery of sugar from sugarcane. However, as per the All India accepted norms of 2.5 *per cent* loss of sugar in sugarcane for carbonation factories, the excess loss of production of sugar worked out to 13,704.69 quintals (1998-99: 7,485.81 quintals, 1999-2000: 4,743.84 quintals, 2000-01: 930.55 quintals and 2001-02: 544.49 quintals) valuing at Rs.1.74 crore (calculated at the average sale price of sugar in respective years).

The National Sugar Institute, Kanpur (NSI) engaged by the Company in 1998-99, observed (April 1999) that lower sugar recovery from sugarcane was attributable to inappropriate cane variety combination, lack of seed renovation, poor quality of sugarcane, unsatisfactory mill performance, high sugar loss in filter cake and deficiencies in pan boiling. However, the management had not taken significant action on the report furnished by the NSI which resulted in excess process loss in subsequent years.

While discussing the production performance of sugar factory, COPU recommended (November 2001) that in order to avoid losses, the norms of process losses in manufacture of sugar should be fixed and followed. Management decided (June 2002) to fix the norm of 2.65 *per cent* loss of sugar in process and submitted it to the Board in July 2002 for approval. The Board asked for examination of norms by technical expert which is yet to be done (June 2003).

2.1.13 Operational efficiency

The table below indicates the position of working hours available, hours lost and the percentage of hours lost to hours available during the five seasons ending upto 2001-02:

Particulars	1997-98	1998-99	1999-2000	2000-01	2001-02
(a) Hours available	2,860.00	4,207.30	3,709.30	1,749.20	1,603.15
(b) Hours of actual crushing	2,495.45	3,600.30	3,033.25	1,566.40	1,340.30
(c) Hours lost	364.15	607.00	676.05	182.40	262.45
(d) Percentage of hours lost to hours available	12.74	14.43	18.23	10.44	16.39
(e) Hours lost due to					
(i) cane shortage	14.00 (0.49)	0	103.25 (2.79)	0	4.35 (0.29)
(ii) mechanical reasons	172.30 (6.03)	297.50 (7.08)	341.40 (9.21)	111.40 (6.38)	185.45 (11.59)
(iii) miscellaneous reasons	177.45 (6.22)	309.10 (7.35)	231.00 (6.23)	71.00 (4.06)	72.25 (4.51)

Note: Figures in brackets indicate the percentage with reference to hours available.

It would be seen from above that the percentage of hours lost in all the five years except 2000-2001 was on higher side ranging between 12.74 and 18.23 *per cent* as compared to All India norms of 12.5 *per cent*. The excess loss of production hours worked out to 363 hours.

Further, hours lost on account of machinery breakdown ranged between 6.03 and 11.59 *per cent* during last five years up to 2001-02 against the All India accepted norms of 4.5 *per cent*. However, the management had neither analysed reasons for excessive loss of hours on these accounts nor taken any corrective action.

Government stated (July 2003) that National Sugar Institute had been requested to conduct a study for fixing norms of losses looking to the condition of existing plant.

2.1.14 Modernisation of sugar mill

Sugarcane crushing plant of the mill is over a hundred years old. To keep it in working condition, Board had been providing capital budget for renovation/replacement of various part of the plant in an adhoc manner. The amount of capital budget for sugar factory, amount sanctioned for plant and machinery and actual expenditure incurred there against during last five years up to 2001-02 are given below:

(Rs. in lakh)

Year	Total capital budget for sugar factory	Budget for plant and machinery	Actual expenditure
1997-98	131.40	104.40	12.90
1998-99	178.00	161.00	61.03
1999-00	820.70	704.90	4.58
2000-01	408.73	330.00	13.84
2001-02	784.53	680.50	52.16

Effective steps were not taken for modernisation of plant during last five years.

It was observed that the Company made provisions in annual budgets but neither got conducted any feasibility study nor identified sources of funds for modernisation of the plant. As such no sincere efforts were initiated for modernisation/renovation of the plant.

Government stated (July 2003) that modernisation of plant was shelved on account of non-availability of increased quantity of sugarcane, paucity of funds and recommendation of Nirwan Committee to close down the sugar operations. The reply was not tenable, as the Company had at no time prepared modernisation plan supported by technical and financial parameters and Nirwan Committee submitted its report in September 2001.

2.1.15 Stock and sale of sugar

Sugar being a controlled commodity, its sale is regulated under the Sugar (Control) Order 1966. The ratio of free to levy sugar fixed (1985-86) as 55:45 by Government of India was revised to 90:10 in February 2002. The sugar under free sale was sold to licensed wholesale dealers through open auctions according to sugar quota released by Government of India. The table below indicates sales and stock of sugar of the Company for the last five years up to 2001-2002:

	Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
	Opening stock (MT)	7,203.3	10,194.2	8,425.1	7,973.9	7,565.2
	Total produced (MT)	10,605.0	10,439.0	10,927.6	6,151.8	5,191.0
	Total quantity available (MT)	17,808.3	20,633.2	19,352.7	14,125.7	12,756.2
	Total quantity sold (MT)	7,614.1	12,208.1	11,378.8	6,560.5	4,973.7

	Closing balance (MT)	10,194.2	8,425.1	7,973.9	7,565.2	7,782.5
	Closing stock in terms of months' sale	16.07	8.28	8.41	13.84	18.78
	Cost per MT (Rs.)	14,739.90	19,862.60	22,814.40	24,535.80	25,778.30
	Net variable cost per MT	10,986.50	14,813.10	17,359.40	15,138.50	14,973.40
	Sales realisation per MT (Rs.)					
	(A) Levy sugar	11,115.00	11,055.60	11,405.60	11,490.10	12,108.00
	(B) Free sugar	13,319.60	13,894.10	13,752.80	14,088.90	13,202.00
	Loss per MT (Rs.)					
	(A) Levy sugar	3,624.90	8,807.00	11,408.80	13,045.70	13,670.30
	(B) Free sugar	1,420.30	5,968.50	9,061.60	10,446.90	12,576.30
	Total loss (Rs. in lakh)	170.18	877.93	1,154.86	729.89	631.70

It would be seen from the above table that the average sales realisation per MT for both levy as well as free sale sugar was substantially less than the cost of production in all the five years upto 2001-02. During the last four years ending 2001-02, even the net variable cost* was not recovered from sales realisation of sugar resulting in cash losses to the Company. Based on the weighted average sales realisation per quintal, the loss suffered by the Company worked out to Rs.35.65 crore. It was further observed that during 2000-02, the release of sugar for levy and free sale decreased corresponding to availability of sugar. The Company had not taken any measure for release of additional quota from Government of India.

Audit noticed that the cost of production of the Company does not compare favourably with the cost of production of such mills in co-operative sector situated in neighbouring state of Punjab which ranged from Rs.12529.70 to Rs.16208.80 per MT compared to Company's average of Rs.24376.20 per MT. The Government stated (July 2003) that Government of India regulates selling rates for levy and free sale sugar and management had no control over price of sugar. The reply was not tenable, as by reducing cost of production, the losses could have been reduced substantially.

Further the closing stock in terms of average monthly sale was high and increased from 8.28 months' sale in 1998-99 to 18.78 months' sale in 2001-2002. The Company needs to take effective steps to reduce the stock of sugar.

* Net variable cost represents total cost of production reduced by fixed cost and realisable value of by-products i.e. molasses, press mud and bagasse.

2.1.16 Sale of wet sugar

Loss of Rs.31.88 lakh due to sale of wet sugar.

It was noticed that a substantial quantity of sugar was sold at a lower rate in comparison to normal auction rate, because of excess moisture in sugar. During last five years up to 2001-02, the Company sold 24,534 quintal wet sugar at a loss of Rs.31.88 lakh, as compared to sale value of good quality sugar.

Management attributed (February 2003) the moisture in sugar to absence of cold air system in existing hopper and inadequate storage capacity and facilities. It was observed that though the Board had approved construction of godown with cold air system in March 1999 and again in March 2000, no action was taken.

The Government stated (July 2003) that sugar bags were moistened due to the hygroscopic nature* of sugar as well as on account of high temperature. The reply is not tenable as the Company had not taken remedial action by improving the production and storage system of sugar.

2.1.17 Distillery

In manufacture of sugar, a by-product 'molasses' is produced which is used to manufacture rectified spirit in the distillery. The Company established (1945) a distillery at Sriganganagar for production of rectified spirit which was renovated in 1992-93 with a capacity of 17,250 bulk litres (BL) per day. Apart from the molasses received from its sugar mill, the Company purchased molasses from co-operative sugar mills of neighbouring states also, to run the distillery at its full capacity. During the last five years up to 2001-02, the Company processed 8,60,101 quintals of molasses in its distillery, of which, 28.75 *per cent* molasses was from its own factory and balance 71.25 *per cent* was procured from other sugar mills. The rectified spirit manufactured in the distillery is transferred to liquor division for manufacture of country liquor.

2.1.18 Production performance

The table below indicates the installed capacity, actual production and shortfall in production of rectified spirit during the last five years upto 2001-02:

S.NO.	Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
1.	Required production (BL) (300 working days)	54,00,000	54,00,000	54,00,000	54,00,000	54,00,000
2.	Actual production (BL)	49,50,550	40,02,051	34,76,299	34,21,821	12,88,467
3.	Shortfall in production (BL)	4,49,450	13,97,949	19,23,701	19,78,179	41,11,533

* Hygroscopic nature: Characteristic of attracting moisture from atmosphere.

4.	Percentage of shortfall	8.32	25.89	35.62	36.63	76.14
5.	Total hours available	8,747	8,766	8,773	8,701	8,723
6.	Hours worked	6,596	5,685	5,414	5,326	1,826
7.	Percentage of idle hours	24.59	35.15	38.29	38.79	79.07
8.	Hours lost due to:					
	-Shortage of molasses	855	1,028	1,068	384	5,245
	-Shortage of fuel	270	956	1,393	110	58
	-Shortage of water and power	405	521	418	376	122
	-Mechanical reasons	421	316	323	2,262	102
	-Other reasons	200	260	157	243	1,370

From the above, it would be seen that the shortfall in production increased from 8.32 *per cent* in 1997-98 to 76.14 *per cent* in 2001-02. The percentage of idle hours to total hours available increased from 24.59 in 1997-98 to 79.07 in 2001-02. The main reasons were shortage of molasses, fuel and frequent breakdown of plant.

It was observed that out of 1370 hours lost due to other reasons during 2001-02, 1252 hours were lost due to non-availability of storage capacity on account of storage being used for excess quantity of rectified spirit purchased. Thus, due to lack of co-ordination between distillery and purchase department, distillery remained idle for 1,252 hours.

Despite steady increase in idle hours, management did not take effective steps to mitigate shortage of molasses, fuel, water, power etc. As a result thereof the Company had to purchase the rectified spirit from other distilleries at a price higher than the variable cost of the distillery.

2.1.19 Under recovery of rectified spirit

The recovery of rectified spirit is dependent upon fermentable sugar contents in molasses. The Company had not fixed norms but considered that the recovery of rectified spirit from molasses should range between 46 and 49 *per cent* (average 47.5 *per cent*) of total sugar contents in molasses.

The table below indicates actual production of rectified spirit as against the expected production and shortfall in production during the period of five years upto 2001-02:

S.No.	Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
1.	Molasses consumption (in quintals)	2,42,040	1,98,635	1,77,220	1,76,817	65,389
2.	Total sugar in molasses (*per cent*)	44.63	43.73	43.24	43.33	44.70

3.	Expected recovery at 47.5 *per cent* BL per quintal	21.20	20.77	20.54	20.58	21.23
4.	Expected production (BL)	51,31,248	41,25,649	36,40,099	36,38,894	13,88,208
5.	Actual production (BL)	49,50,550	40,02,051	34,76,299	34,21,821	12,88,467
6.	Shortfall (BL)	1,80,698	1,23,598	1,63,800	2,17,073	99,741
7.	Shortfall (LPL)[#]	2,99,959	2,05,173	2,71,908	3,60,341	1,65,570
8.	Rate (Rs. per LPL)	11.22	14.39	13.09	11.32	12.21
9.	Loss (Rs. in lakh)	33.66	29.52	35.59	40.79	20.22

Lower recovery of rectified spirit resulted in loss of Rs.1.60 crore.

The under recovery of rectified spirit resulted in loss of production of Rs.1.60 crore during 1997-2002. Management attributed (June 2003) losses to leakage in fermentation tank and distillation plant. Management, however, did not take corrective steps.

2.1.20 Production of rectified spirit of less strength

While the Company was making purchases of rectified spirit of strength 66 over proof (OP[*]), the strength of its own production during five years upto 2001-02 varied between 61.3 and 65.3 OP. The table below indicates the actual production of rectified spirit in BL as well as in LPL, standard production in LPL and loss sustained during the above period:

S.No.	Particulars	1997-98	1998-99	1999-00	2000-01	2001-02
1.	Actual production in BL	49,50,550	40,02,051	34,76,299	34,21,821	12,88,467
2.	Strength (OP)	62	61.5	61.3	61.5	65.3
3.	Actual production in LPL[**]	80,19,476	64,62,655	56,08,622	55,25,727	21,29,586
4.	Standard production in LPL taking standard strength of 66 OP	82,17,913	66,43,405	57,70,656	56,80,223	21,38,855
5.	Loss of production (LPL)	1,98,437	1,80,750	1,62,034	1,54,496	9,269
6.	Rate (Rs. per LPL)	11.22	14.39	13.09	11.32	12.21
7.	Loss (Rs. in lakh)	22.26	26.01	21.21	17.49	1.13

As a result of production of rectified spirit of less strength, the Company suffered loss of Rs.88 lakh. Management attributed the shortfall to leakage of

[#] 1.66 London Proof Litre is equal to one BL of standard strength of 66 OP.

[*] Over proof: Proof of spirits are 48.24 *per cent* alcohol by weight or 57.06 *per cent* by volume. Other spirits are designated over or under proof with the percentage of variance noted.

[**] Formula of conversion of BL into LPL is BL x 100+strength / 100.

rectified cell, preheater and condenser tubes causing loss of vapour. It was observed that in December 1998 General Manager of Sriganganagar unit reported the leakage of rectified cell but only the part equipment was replaced in July 2000, the remaining defective equipment (analyser and rectification column) was not replaced (June 2003).

The Government stated (July 2003) that there was no loss to the Company due to production of spirit of low strength as in production of rectified spirit of 66 OP the retention time would increase leading to higher losses. However, the defective equipment was under repair and replacement work was in progress. The reply is not tenable as production of rectified spirit of low strength was due to defective equipment requiring replacement for which the Company has not taken timely action.

2.1.21 Loss due to delay in taking decision for transportation of molasses

For transportation of molasses from sugar factories of Punjab and Haryana, the Company awarded (November 2000) contract to a Rohtak firm on single tender basis for the period upto 31 March 2001, at the rate of Rs. 611 per MT from Faridkot (Punjab) to Sriganganagar.

The Company placed (January 2001) purchase order of 6,000 MT molasses at Rs.800 per MT, excluding excise duty of Rs.500 per MT and central sales tax of 4 *per cent*, on Punjab State Federation of Co-operative Sugar Mills Limited, Faridkot (Federation) *inter alia*, on the condition that the purchaser would start lifting of molasses within 10 days after finalisation of order in writing and in case lifting was not started the sale order was liable to be cancelled and security forfeited. The Company deposited the security of Rs.3.00 lakh on 20 February 2001.

Delay in award of transportation contract caused extra expenditure of Rs.21.71 lakh on purchase of molasses.

A firm of Karnal offered (January 2001) to transport the molasses from Faridkot to Sriganganagar at Rs. 350 per MT. The Company held negotiations with the firm of Rohtak in February 2001 to reduce the rate to Rs.350 per MT but the firm did not agree. The Company, thereafter, invited short-term tenders which could not be opened on due date i.e. 19 March 2001, due to stay order obtained by the firm of Rohtak. Although the stay order was got vacated on 9 April 2001, the tenders were not opened upto 20 April 2001, when another party obtained stay, which was vacated on 23 April 2001. In the mean time the Federation also offered (3 April 2001) to supply molasses f.o.r. Sriganganagar at agreed rate plus transportation charges of Rs. 350 per MT but the Company did not take any decision.

The tenders were finally opened on 3 May 2001 and work was awarded (19 June 2001) to a firm of Jaipur at Rs.295.45 per MT. When the transporter approached for lifting of molasses, the Federation refused (16 June 2001) to deliver the material. As a result the Company had to purchase molasses at a higher rate of Rs.1270 per MT (excluding excise duty) causing extra expenditure of Rs.21.71 lakh. Besides, the Company also suffered loss due to closure of the distillery for want of molasses from April to July 2001.

Government stated (July 2003) that a legal notice has been issued to the Federation and a civil suit would be filed in the court for the damages.

2.1.22 Blockade of funds in stock of IMFL

The State Government asked (21 March 1999) the Company to run purely on temporary basis wholesale and retail shops of Indian made foreign liquor (IMFL) from April 1999 till finalisation of contracts of licensees in the areas where the contracts of licensees were not finalised. Accordingly, the Company constituted (31 March 1999) a committee of General Manager, Financial Advisor, Dy. General Manager (A&T) and Dy. General Manager (Purchase) to finalise various brands and rates of IMFL to be procured for running these shops. The committee decided to purchase the liquor on cash payment basis instead of on consignment basis and operated wholesale shops at Jodhpur, Sriganganagar and Jhunjhunu and 136 to 160 retails shops during April 1999 to August 2000 till the contracts were finalised. As on 31 August 2000, stock of IMFL valuing Rs.50.90 lakh (purchase price: Rs.30.54 lakh and license & permit fee Rs.20.36 lakh) remained unsold in the shops.

The Company sold stock of the value of Rs.1.76 lakh in August 2002. In January 2003, the Company executed an agreement with Rajasthan Tourism Development Corporation (RTDC) to supply the IMFL on consignment basis with 20 *per cent* discount on quoted price and accordingly supplied (January 2003) liquor of the value of Rs.11.94 lakh. Liquor valuing Rs.37.20 lakh was still lying with the Company. This resulted in blocking of funds of Rs.50.90 lakh for more than two and half years on which the Company suffered loss of interest of Rs.15.27 lakh at the rate of 12 *per cent* per annum in addition to discount of Rs.2.39 lakh allowed on the sale of liquor.

Government stated (July 2003) that the shops were started at a very short notice and due to uncertainty with regard to periodicity of running the shops proper planning with regard to procurement could not be done. The fact, however, remain that in view of uncertainty the Company had not taken precautionary measures.

2.1.23 Physical verification/ inspection

In addition to annual physical verification of stock and stores, the Company is having a system of inspection of reduction centres and filled warehouses by unit-incharge once in three months. A vigilance cell is also functioning at the head office of the Company for surprise inspection of liquor centres. The amount of shortage/excess wastage noticed during physical verification/ inspection is debited to the concerned employees pending enquiry and recovery if any, is effected after finalisation of enquiry.

The Company has fixed a period of three months for finalisation of enquiry. As on 31 December 2002, enquiry against 23 employees involving Rs.24.88 lakh debited upto 31 March 2002 for shortage/excess wastage was pending since 1992-93 to March 2002.

Government stated (July 2003) that delay in finalisation of enquiry was due to offering full and fair opportunity to delinquent employees to defend their case in the interest of natural justice. The reply is not tenable, as the Company has fixed a period of three months for finalisation of enquiry after considering the above aspect.

2.1.24 Closure of hi-tech glass division, Dholpur

Company incurred avoidable expenditure of Rs.8.95 lakh on disposal of assets worth Rs.1.43 lakh.

Mention was made in paragraph 2A.10.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1997 (Commercial) regarding avoidable payment of Rs.2.31 crore to idle staff during July 1994 to March 1997 because of delay in issuing order for closure of the division by the State Government. The State Government while ordering closure of the division instructed (December 1997) the Company to accommodate the staff in other units or to allow them to retire under voluntary retirement scheme. Despite having started a Reduction Centre in February 2000 in the same premises at Dholpur, the Company kept four employees (including one officer) there to dispose of the assets which consisted mainly of broken glass. During 2000-02, the Company disposed of glass of the value of Rs.1.43 lakh (2000-01: Rs.0.86 lakh and 2001-02: Rs.0.57 lakh) while incurring an expenditure of Rs.8.95 lakh on the pay and allowances of the staff posted at hi-tech glass division, Dholpur. COPU also recommended (November 2001) early disposal of assets to avoid unnecessary expenditure on staff. However, assets worth Rs.6.32 lakh were still to be disposed of (October 2002) despite an avoidable expenditure of Rs.8.95 lakh having been incurred.

2.1.25 Short recovery of electricity charges

Due to non installation of meters at residential colony, the Company could not recover Rs.79 lakh from the employees.

The Company obtained (August 1999) a connection under domestic tariff for its residential colony at Sriganganagar. The electricity charges were recovered from the residents through sub-meters installed at flat rate. It was seen that during August 1999 to February 2003, the Company paid Rs.88.21 lakh for electricity bills of residential colony including street lights, labour welfare centre etc. while only Rs.9.21 lakh was recovered from the residents leaving Rs.79 lakh short recovered. No separate meter was installed to record consumption for street lights, labour welfare centre etc.

Government stated (July 2003) that efforts were being made to install meters of the electricity company in the individual houses. However, the Company has not taken timely remedial action for which Rs.79 lakh could not be recovered from the employees.

2.1.26 Internal audit and internal control system

The Company was not having its own internal audit wing. The work of internal audit of units and head office of the Company was done twice a year by engaging Chartered Accountants. The internal audit reports were submitted to General Manager at head office of the Company. These reports were neither submitted to Director Incharge nor to the Board. The compliance of the paras of these reports was also not being monitored.

The Internal control system, as observed by Statutory Auditors while certifying annual accounts of the Company, was not adequate in case of indenting system, consideration of availability of stock, maintenance of purchase control register and purchase from small scale and cottage industries. This required improvement.

2.1.27 Reorganisation of the Company

State Planning Board constituted (January 2000) a committee under the convenorship of Shri Raj Singh Nirwan, Member, State Planning Board for re-organisation, strengthening and disinvestments of state public sector undertakings. The committee recommended (September 2001), inter alia, that in view of continuous losses and huge funds required for modernisation of plant and machinery of sugar division for making it viable, the sugar factory should be closed down and disposed of. In respect of liquor activity, the committee recommended its privatisation. The Board resolved (December 2001) to refer the matter to State Government to take a final view considering the fact that the interest of the cane growers and employees were of vital importance in taking any decision by the Government in this regard. The matter was referred to State Government in February 2002. Final decision of the State Government was awaited (June 2003).

Conclusion

The Company was incorporated in January 1957 and its main activities are production and sale of sugar, spirit and liquor. Except in liquor activity in which Company is earning profit due to regulation of its price by Government, other activities are running at losses. The losses in sugar activity were mainly due to non-availability of sugarcane upto required quantity, procurement of sugarcane at rates higher than the neighbouring states, recovery of sugar not commensurate with procurement of early variety sugarcane and non-modernisation of plant and machinery of sugar factory. The poor operational performance of the distillery resulting in excessive percentage of idle hours upto 79 *per cent* with under recovery of rectified spirit and production of spirit of lesser strength contributed to losses.

Thus, there is urgent need to reduce the cost of production of sugar by adopting the bonding system with cane cultivators, fixing of procurement price of sugarcane keeping in view rates of neighbouring states and sale price of sugar, harvesting and milling of sugarcane at appropriate time and replacement of plant and machinery of sugar factory in a phased manner under time bound programme. The Company has to run the distillery to its full capacity with prescribed recovery of spirit and to rationalize manpower.