

**2C WEST BENGAL TEA DEVELOPMENT CORPORATION LIMITED**

***Highlights***

**West Bengal Tea Development Corporation Limited (Company) was incorporated in August 1976 with the main object of purchase/ takeover of economically viable tea estates for carrying on the business in plantation, manufacture and sale of tea. The Company took-over the ownership of four sick tea estates abandoned by the erstwhile private owners while it developed one tea estate in the district of Darjeeling and Jalpaiguri. However, the Company did not evolve any corporate plan for making these tea estates viable.**

*(Paragraphs 2C.1 & 2C.5)*

**The accounts of the Company for the year 1995-1996 and onwards were awaiting finalisation. The provisional accounts prepared up to 2000-2001 disclosed cash losses sustained by the Company and erosion of entire paid up capital resulting in negative net worth of Rs 27.05 crore as of 31 March 2001. This was mainly due to low productivity from old tea bushes, absence of re-plantation/ infilling of vacancies, high employees' cost and realisation of lower sales price in auction etc.**

*(Paragraph 2C.6)*

**Out of five tea estates, the Company carried out replantation work only in Hilla tea estate over 38 hectares during the five years up to March 2002. During the said period the Company spent only eight *per cent* of the total plan fund towards nursery/ plantation. Consequently, out of total 1907 hectares of land, only 57 *per cent* (1080 hectares) was under plantation of tea indicating management's inaction to increase plantation area.**

*(Paragraph 2C.7)*

**Actual yield of made tea per hectare in the Company's TEs was below the district/ adjacent garden average yield by 16 to 70 *per cent* resulting in shortfall of 32.72 lakh kg of tea during 1997-2002 valued at Rs 24.46 crore.**

*(Paragraph 2C.8)*

**Majority of the total tea area in Darjeeling (63 *per cent*) and Dooars region (52 *per cent*) was in the age group of more than 50 years with negligible replantation rate of 0.12 *per cent* and 0.77 *per cent per annum* during 1997-2002. This, coupled with high vacancies within plantation (24 *per cent* against the norm of 10 *per cent*), inadequate facilities for drainage/ irrigation, improper use of fertiliser, low plucking productivity and low yield from young tea bushes adversely affected yield per hectare. This resulted in loss of production of 84.30 lakh kg tea valued at Rs 51.65 crore during 1997-2002.**

*(Paragraphs 2C.8.1 to 2C.8.7)*

**Failure of the brokers to realise average sales price and absence of monitoring on the part of the Company over auction resulted in loss of potential revenue of Rs 6.07 crore to the Company during 1999-2001. Further, the Company did not explore the options of private sales.**

*(Paragraph 2C.10)*

**Deployment of 558 labourers in excess of district average in Rungmook-Cedars tea estates resulted in an extra expenditure of Rs 5.40 crore on account of salary and wages. Despite this, an amount of Rs 33.18 lakh was incurred towards retention of casual workers for 94792 mandays during the last five years up to March 2002.**

*(Paragraph 2C.12)*

## **2C.1 Introduction**

West Bengal Tea Development Corporation Limited (Company) was incorporated in August 1976 as a wholly owned Government company with the main object of purchase/ takeover of economically viable tea estates and development of the same for carrying on the business in plantation, manufacture and sale of tea. Between July 1977 and April 1981, the Company took over the ownership of four sick tea estates (TEs) abandoned by erstwhile private owners, viz. Rungmook-Cedars (719 hectares), Pandam (382 hectares), Rangaroon (120 hectares) in the district of Darjeeling and Hilla (709 hectares) in the Dooars region, Jalpaiguri district, while it developed Mahua tea estate (683 hectares) in Dooars region. Besides, the Supreme Court of India appointed the Company in October 1997 as Receiver of Sonali tea estate (425 hectares) in the district of Jalpaiguri.

At present, the Company produces 'Orthodox' and 'CTC' variety tea at Darjeeling and Dooars TEs respectively and sells tea in auction at Kolkata (Darjeeling tea) and Siliguri (CTC tea). The Company also runs factories at Pandam, Rungmook-Cedars and Hilla TEs for processing green leaves of these TEs into 'made tea'. However, green leaves of Rangaroon and Mahua TEs are sent to Pandam and Hilla factories for manufacturing into 'made tea'.

## **2C.2 Organisational set up**

The management of the Company is vested in a Board of directors headed by the Chairman. As on 31 March 2002, all the 10 directors were nominated by the State Government, of whom only two (including the Chairman) were from tea industry, six were civil servants and one each was a Member of Parliament and a scientist.

The Managing Director is the Chief Executive and is assisted by the General Manager (Tea), Manager (Finance) and Managers in-charge of six gardens.

**Whole-time Secretary  
was not appointed**

During the period under review, Government appointed four<sup>®</sup> Managing Directors for duration ranging between 2 and 32 months. Similarly, in Rungmook-Cedars and Pandam TEs, six Managers held the charge of gardens for a period ranging from 2 to 42 months. Further, the Company did not appoint any whole time Secretary in terms of Section 383A of the Companies Act, 1956, instead the Deputy Manager (Administration) looked after the work of the Secretary in violation of the provisions of the Companies Act, 1956.

### **2C.3 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 1991 – Government of West Bengal. The review was not discussed by the Committee on Public Undertakings (COPU).

The present review conducted between December 2001 and February 2002 covers the activities of the Company for the period of five years from 1997-98 to 2001-2002. The audit findings as a result of test check of records of five tea estates, three tea processing factories and Head Office, Kolkata are discussed in the succeeding paragraphs.

### **2C.4 Fund management**

The Company did not prepare annual budgets. During 1997-2002, the Company had sought plan fund of Rs 23.42 crore and non-plan fund of Rs 20.93 crore from the State Government for undertaking development work as well as for meeting the urgent requirement of the TEs. The Company received plan fund of Rs 17.10 crore (share capital - Rs 9.64 crore; loan - Rs 7.46 crore) and Rs 13.78 crore as non-plan loan which was 70 *per cent* of the total requirement. Audit analysis revealed that Rs 11.75 crore i.e. 69 *per cent* of the total plan fund were diverted to meet the operational expenses. Thus, diversion of plan fund by the Company coupled with inadequate release of fund by the State Government had adversely affected the development work of the TEs.

#### **2C.4.1 Capital structure**

Against the authorised share capital of Rs 25.00 crore, the paid up capital was Rs 21.14 crore as of March 2002 which was fully subscribed by the State Government.

#### **2C.4.2 Borrowings**

The Company neither re-paid the loan instalments nor paid interest during the last five years. Consequently, the outstanding principal amount of all loans

<sup>®</sup> Shri Dipak Kr. Roy (01-04-1997 to 16-07-1997), Shri K. Dasgupta (17-07-1997 to 31-03-2000), Shri P. K. Roy (01-04-2000 to 31-05-2000) and Shri A. K. Bera (31-05-2000 to till date)

shot up from Rs 31.95 crore in April 1997 to Rs 48.94 crore (including overdue of Rs 16.92 crore) in March 2002. Outstanding interest leaped from Rs 22.37 crore in 1997-98 to Rs 48.40 crore in 2001-2002. **In the absence of internal resource generation, the liability would become unsustainable in the years to come.**

### 2C.5 Absence of corporate plan

Release of funds without any corporate plan for making sick TEs viable

Even after passage of 21-25 years of takeover of TEs, the Company did not evolve any corporate plan for making these TEs economically viable. The Government also released funds without any revival package. **The outcome was that these TEs have further sunk into immense losses,** as discussed in the succeeding paragraphs.

### 2C.6 Financial position and working results

Laxity in drawing up arrear accounts

**2C.6.1** The Company never prepared any accounts manual laying down rules, procedure for accounting of transactions. Although it had a full-fledged Accounts Department there were considerable delays in preparation of accounts. The Company finalised its accounts up to 1994-95 and has prepared its provisional accounts up to 1996-97. The Company appointed only in July 2001 a firm of Chartered Accountants for preparation of accounts for the years 1997-98 to 2000-2001 without specifying the date of completion of each year's accounts. **This indicated management's apathy in clearing arrears of the accounts.**

**2C.6.2** The financial position and working results of the Company for the last four years up to 2000-2001 is given at Annexure-22. Some of the key financial indicators are shown in the following table :

Particulars	1997-98	1998-99	1999-2000	2000-2001
Production/ sale of tea (lakh kg)	5.51	6.40	5.15	5.30
Sales value and other income (Rupees in crore)	4.99	6.23	6.69	4.43
Operating expenses (Rupees in crore)	8.51	10.41	10.20	9.17
Cash loss (Rupees in crore)	3.52	4.18	3.51	4.74
Accumulated loss (Rupees in crore)	34.48	38.98	42.78	45.59

In this connection the following points were noticed in audit :

Cash losses were 71 to 108 per cent of sales

(i) The Company suffered cash losses ranging from Rs 3.52 crore to Rs 4.74 crore which as proportion of sales ranged from 71 to 108 per cent during all these years.

(ii) The accumulated losses of Rs 45.59 crore had completely eroded the paid up capital of Rs 18.54 crore leading to negative networth of Rs 27.05 crore as on 31 March 2001.

**2C.6.3** The details of estate-wise operating results are given in Annexure-23. The following table indicates the summarised operating results of TEs for the last five years up to 2001-2002 :

	Pandam	Rangaroon-	Rungmook Cedars	Hilla	Mahua
	( Rupees in crore )				
Sales value	2.43	1.64	7.89	9.09	2.44
Less : Expenditure	4.40	2.43	21.70	10.60	1.60
Total profit (+)/ loss (-)	(-1.97)	(-)0.79	(-)13.81	(-)1.51	(+)0.84

It would be observed from the table and Annexure-23 that :

**Three out of five TEs continuously incurred losses during 1997-2002**

(i) Three<sup>□</sup> out of five tea estates had incurred operational losses during all these years aggregating Rs 17.14 crore, of which losses of Rungmook-Cedars accounted for 81 *per cent* (Rs 13.81 crore); in case of Rungmook-Cedars TE, the operational losses during these years ranged from 126 to 296 *per cent* of sales.

(ii) One tea estate (Hilla TE) also reported operational losses during 1997-2002 except during 1999-2000 when it earned a meagre operational surplus of Rs 6.55 lakh. Mohua tea estate was the only one that earned operational surplus of Rs 0.85 crore up to 2000-2001. But here too the operational profit of Rs 26.81 lakh in 1997-98 turned into an operational loss of Rs 0.81 lakh in 2001-2002.

**2C.6.4** The management did not analyse the reasons for poor working results of tea estates and did not take corrective action for improving their performance. The poor working results, as analysed in audit, were **mainly attributable to low productivity of estates arising from old tea bushes, absence of replantation/ infilling, high employees' cost and realisation of lower sales price in auction**, as discussed in Paragraphs 2C.8, 2C.10 & 2C.11 *infra*.

### 2C.7 Low utilisation of land area for plantation

**Failure to utilise 43 per cent of available land for tea plantation**

Even after passage of 21-25 years of taking over the five TEs, the Company never prepared any action plan so far (September 2002) to increase area under tea plantation. Consequently, out of total 2613 hectares of gross available land, 706 hectares were encroached upon (Mahua : 583 hectares and other TEs : 123 hectares) by local inhabitants. However, the Company utilised only 57 *per cent* (1080 hectares) of the available land of 1907 hectares for tea plantation. Neither any concrete action was taken to retrieve the land under encroachment nor any assessment made to utilise the 827 hectares vacant land for plantation (September 2002).

<sup>□</sup> Pandam, Rangaroon, Rungmook-Cedars

**Negligible 8 per cent of total plan fund utilised for new plantation**

During 1997-2002, the Company spent only 8 per cent (Rs 0.57 crore) of total plan fund (Rs 7.46 crore) for new plantation. Only in Hilla TE, plantation area was increased marginally by 38 hectares during this period. As could be noticed from the estate-wise details of area under plantation *vis-à-vis* total area (Annexure-24) that the **percentage of area not under plantation was maximum in Mohua TE at 93 per cent and the same was also more than 50 per cent in Pandam and Hilla TEs.**

### 2C.8 Physical performance of tea estates - low yield

The Company did not fix any target for yield of “made tea” per hectare for assessing the economic viability of the tea estates. The table below indicates year-wise total production, the actual average yield per hectare of Darjeeling and Dooars gardens of the Company *vis-à-vis* yield for the respective districts and in adjacent gardens during 1997-2002 :

Particulars	Districts				
	Darjeeling			Dooars	
	Rungmook-Cedars TE	Pandam TE	Rangaroon TE	Hilla TE	Mohua TE
Total production of made tea (lakh kg) :					
1997-98	1.77	0.28	0.18	2.51	0.77
1998-99	2.01	0.37	0.25	3.16	0.61
1999-2000	1.36	0.31	0.20	3.03	0.25
2000-2001	1.71	0.39	0.29	2.91	-
2001-2002	1.64	0.42	0.27	3.40	0.78
Average production (lakh kg)	1.70	0.35	0.24	2.93	0.80
Area under tea plantation (hectares)	461	131	90	348	50
Average production (in KMTH)	369	267	266	841	1600
District average production (in KMTH)	540	540	540	1905	1905
Average production of adjacent gardens (in KMTH)	665	647	881	1864	NA
Percentage of shortfall in yield with reference to :					
District average	32	51	51	56	16
Adjacent gardens	45	59	70	55	NA

KMTH : KG of made tea per hectare

**Shortfall in yield as compared to average yield of district/ adjacent gardens resulted in loss of yield of 32.72 lakh kgs of tea valued at Rs 24.46 crore**

It would be seen from the table that none of the gardens had achieved the average yield of the district. The shortfall ranged from 16 to 56 *per cent* of the district average and was even higher at 45 to 70 *per cent* of average yield of adjacent gardens. Consequently, there was **loss of yield of 13.46 lakh (Darjeeling) and 19.26 lakh kgs (Dooars) of tea during 1997-2002 valued at Rs 12.52 crore and Rs 11.94 crore respectively due to low productivity of the Company's tea estates, as compared to that of the district/ adjacent gardens.**

However, the management had not taken any concrete action to improve the productivity of the Company's estates.

### ***2C.8.1 Very slow pace of replantation***

**63 and 52 *per cent* of tea bushes in Darjeeling and Dooars were more than 50 years old**

Optimum yield is expected from plants in the age group of 11 to 40 years after which yield starts declining. As per the norm of Tea Research Association (TRA), Jorhat, the area of tea bushes in the age group of 50 years and above should not exceed 25 *per cent* of the area under plantation and the ideal replantation rate should be 2 *per cent* per annum. **Against this norm, 63 *per cent* and 52 *per cent* of the total area under tea plantation was in the age group of more than 50 years in Darjeeling and Dooars region respectively (Annexure-24) as of December 2001. Further, in Pandam TE and Rangaroon TE (Darjeeling) as much as 98 and 75 *per cent* of tea bushes were over 50 years of age.**

**Average annual replantation rate only 0.12 and 0.77 *per cent* in Darjeeling and Dooars against the norm of 2 *per cent* per annum**

Scrutiny revealed that management had not chalked out any replantation programme with reference to norm except for Hilla TEs. Absence of such programme coupled with extremely slow pace of replanting programme resulted in high incidence of old bushes. During 1997-2002, the Company replanted only in 98 hectares in Darjeeling (21) and Dooars (77) with an average annual replantation rate of only 0.12 *per cent* and 0.77 *per cent* against the norm of 2 *per cent* per annum. At the current replanting rate, the management would take 31 years for replantation of overdue old bushes but in the meantime another 256 hectares of tea bushes would become due for replantation. Further, as production from young matured tea bushes was 30 to 117 *per cent* more than that of old bushes, loss of production due to unproductive bushes was 79.31 lakh kg tea valued at Rs 48.69 crore during the last five years up to March 2002.

**Loss of production of 79.31 lakh kg tea valued at Rs 48.69 crore due to unproductive bushes**

### ***2C.8.2 High incidence of vacancies within plantation***

Vacancies within plantation are formed due to poor drainage system, stem or root diseases, drought etc. and increase with the age of bushes in those blocks. Vacancies reduce the effective tea bearing area and cause pro-rata shortfall in production as well as wastage of fertiliser and loss of plucker's productivity.

As per TRA, the percentage of vacancy should not exceed 10 *per cent* of gross tea bearing area and sections having more than 25 *per cent* vacancies were required to be uprooted and replanted.

**Absence of infilling and replantation resulted in high incidence of vacancies with shortfall of production of 3.87 lakh kg tea valued at Rs 2.41 crore**

Scrutiny in audit revealed that 24 *per cent* (254 hectares) of gross area under tea plantation (1080 hectares) of five TEs fell under vacancies as of March 2002 against the industry average of 14 *per cent*; vacancies at Pandam and Mohua being 30 *per cent* of planted area. In addition, against 148 and 280 hectares required to be replanted in Rungmook-Cedars and Hilla, actual achievement during 1997-2002 was only 4 *per cent* (6 hectares) and 46 *per cent* (130 hectares) respectively indicating low priority to the replantation and infilling for maximising output. Consequently, **high incidence of vacancies resulted in shortfall of production of 3.87 lakh kg of tea with consequential loss of potential revenue of Rs 2.41 crore** during this period besides wastages of fertiliser, as discussed in paragraph 2C.8.4 *infra*.

### 2C.8.3 Drainage, irrigation and shade-coverage

**No action plan for providing drainage and irrigation facilities**

(a) For uneven distribution of rainfall through out the year, irrigation and drainage play an important role for increasing the yield of tea bushes by 15 to 20 *per cent*. Against the requirement of irrigation and drainage facilities for the entire tea bearing area, the management did not chalk out any concrete action plan in this regard and spent only Rs 10.24 lakh for developing irrigation facility during 1997-2002. The Company did not also assess the feasibility of adopting water conservation/ watershed management techniques to ensure better utilisation of available surplus water.

It was noticed that Pandam TE had no irrigation facility while at Rungmook-Cedars, Hilla and Rangaroon TEs only 3, 29 and 50 *per cent* area respectively was having irrigation and drainage facilities as of March 2002. In November 2001, the management of Hilla TE chalked out a plan for providing irrigation facilities to 165 hectares at a cost of Rs 15.92 lakh which was yet to be approved by the Board (September 2002).

(b) An analysis by TRA revealed that the yield in case of 30 *per cent* shade-density area was 25 *per cent* more as compared to no-shade coverage area in Dooars region. Scrutiny revealed that the no-shade coverage area was 226 hectares i.e. 57 *per cent* of total planted area of 398 hectares in the Company's tea estates at Dooars region, which had an adverse impact on the yield. **The management has not yet chalked out any action plan to minimise no shade coverage area.**

### 2C.8.4 Application of fertiliser

To maintain the health of tea bushes as well as to obtain high yield, uniformity in method and application of organic<sup>N</sup> and inorganic manures<sup>R</sup> is a prerequisite. In this connection the following points were noticed in audit :

(a) Against the minimum level of carbon of 4 *per cent* prescribed by Darjeeling Planters Association (DPA), the actual level of carbon in soil of the TEs of the Company varied between 0.4 and 1.5 *per cent*. As observed (December 2001) by DPA, the full benefit out of replanting could not be

<sup>N</sup> Cow-dung, oil-cakes etc. for carbon

<sup>R</sup> Urea for Nitrogen, Rock-Phosphate for Phosphorus and Muriate of Potash for Potassium



achieved until the carbon percentage was brought up to the desired level. However, the **management was yet to take any effective steps to apply more organic manure so as to achieve the desired minimum level of carbon.**

(b) Green leaf contains approximately 5 per cent Nitrogen (N), 1 per cent Phosphorus (P) and 2 per cent Potassium (K). As per the industry norm, additional input of N in soil to the extent of 150 kg per hectare ensures the increasing rate of return of production while application of P and K had a maintenance role.

**Lower application of fertilisers compared to TRA norm**

While formulating the fertiliser programme, the management did not consider the parameters like production of made tea, removal of nutrients by way of pruning litters, low nutrients retention capacity of soil etc. As per the norm of DTRC<sup>\*</sup> and TRA, N, P and K are to be applied in the ratio of 120 kg: 45 kg: 80 kg (Darjeeling) and 140 kg: 50 kg: 80 kg (Dooars) respectively per hectare. But the average application of N, P, K in Company's tea area was in the ratio 60 kg : 11 kg : 53 kg (Darjeeling) and 145 kg : 50 kg : 155 kg (Dooars) per hectare during 1997-2001.

Thus, in Dooars region there was excess application of Potassium fertilisers of Rs 3.23 lakh while improper assessment of requirements led to lower application of fertilisers in Darjeeling TEs. Since 24 per cent plantation area had vacancies the application of fertilisers on vacant area resulted in unfruitful expenditure of Rs 8.08 lakh. Further, delay in despatching insecticides by three months to tea estates by the Head Office during 1999-2000 resulted in crop loss of 20000 kg valued at Rs 10 lakh, besides deterioration in quality of tea.

### **2C.8.5 Plucking productivity**

Production of tea is directly linked with plucking of young vegetative shoots. Plucking operation starts from March and continues up to November in four phases – first<sup>1</sup>, second<sup>2</sup>, rain<sup>3</sup> and autumn<sup>4</sup> flush with 1 to 3 weeks of banji<sup>5</sup> period before start of the rain flush and autumn flush. In this connection the following points were noticed in audit.

(a) Against the TRA's norm of 45 to 50 (Darjeeling) and 30 to 33 (Dooars) plucking rounds per year, the actual plucking rounds varied between 19 and 35 (Darjeeling) and 22 and 33 (Dooars) during 1997-2002 due to unplanned deployment of pluckers and lack of training to them. Further, J. Thomas & Co., the Company's broker reported time and again to the management that **production of leaf grade in Darjeeling TEs was lower by 13 to 15 per cent than the achievable level of 50 per cent of total production mainly due to uneven plucking standard.** No action was,

**Low plucking productivity and uneven plucking standard resulted in lower production of leaf grade tea in Darjeeling**

<sup>\*</sup> Darjeeling Tea Research Centre

<sup>1</sup> March to April

<sup>2</sup> May

<sup>3</sup> June to September

<sup>4</sup> October to November

<sup>5</sup> No plucking period

however, taken to improve the plucking standard. This resulted in quality deterioration and lower price realisation.

(b) Against the TRA parameter of plucking task of 26 kg of green leaf per day per plucker (Dooars region), the actual plucking productivity ranged between 16 and 23 kg per day per plucker during 1997-2002. During 1997-2002, average plucking productivity ranged between 5 and 7 kg/ day per plucker in the three Darjeeling estates, as compared to highest plucking productivity at the Company's TEs of 14 – 16 kg/ day per plucker. The management did not analyse the reasons for low plucking productivity. Low productivity as analysed in audit was attributable to high percentage of vacancies in tea plantation, absence of training to pluckers and absenteeism of workers coupled with lackadaisical attitude of the management towards effecting improvement.

### ***2C.8.6 Pruning and skiffing<sup>1</sup>***

Combination of pruning and skiffing on tea bushes stimulates production of new set of economically productive vigorously growing leafy branches in replacement of old set. Pruning improves quality while skiffing improves productivity. There are different styles<sup>®</sup> and cycles of pruning and skiffing and a combination of such depends upon factors like elevation of the garden, condition of the bushes, previous productivity etc. Pruning and skiffing is done every year during December – January when the bushes remained dormant.

Test check revealed the following –

i) In case of Hilla TE, the actual yield in 2001-2002 from light pruning area done in 2000-2001 was lower than the expected yield by 18425 kg (shortfall being 22 *per cent*) valuing Rs 9.03 lakh.

ii) In case of Rungmook-Cedars TE, the percentage of light pruning area to total area decreased from 26 *per cent* in 1999-2000 to 21 *per cent* in 2001-2002 while the skiffing area increased by 6 *per cent*. As pruning improves quality and skiffing improves productivity, decrease in pruning area and increase in skiffing area resulted in sacrificing the quality for the sake of quantity.

### ***2C.8.7 Low yield from young tea bushes***

As per recommendation of TRA, both seeds and clones should be planted in the ratio of 50 : 50 to widen the genetic base. Moreover, to obtain a mixture of yield and quality at least 50 *per cent* of the clonal area should comprise of standard clones, 30 *per cent* of yield clones and 20 *per cent* quality clones in the tea estates.

Scrutiny revealed that Hilla TE maintained a uniform rate of planting in the form of new plantation, infilling and replantation from 1993 onwards. Till

<sup>1</sup> While pruning denotes close cut above the ground skiffing refers to lightly cut.

<sup>®</sup> Light pruning, medium pruning and rejuvenation pruning, light skiff, level of skiff and medium skiff.

March 2002, 196 hectares of land were under new plantation and replantation besides infilling, which were being done from clonal cuttings. In the absence of records on young tea plantations, Audit could not comment on survival rate.

**Production from young tea bushes fell short by 1.12 lakh kg valued at Rs 0.55 crore**

According to TRA, tea bushes mature after five years and have an achievable yield of 0.17 kg of made tea per bush per annum in Dooars area. Considering such norm, the **expected yield from young bushes, planted prior to 1996, was 2.01 lakh kg of made tea in 2001. The actual production was only 0.89 lakh kg resulting in loss of yield of 1.12 lakh kg valued at Rs 0.55 crore.**

### **2C.9 Tea manufacturing factories**

Manufacturing of tea involves withering, rolling, fermenting, drying and sorting. However, the process of manufacturing of Darjeeling tea differs from the Dooars produce. The details of the factory performance are given in Annexure-25.

In this connection the following points were noticed in audit:-

a) During 1997-2002 the average capacity utilisation of factories was 42 and 59 *per cent* in Rungmook-Cedars and Pandam due to non-availability of green leaf arising from old age of bushes, lack of plantation/ replantation/ infilling, as discussed in paragraph 2C.8 *supra*.

b) For achieving even wither, the withering<sup>⊗</sup> trough leading programme was required to be made after considering the factors like jat<sup>Ω</sup>, pruning status, leaf size etc. of the plucked leaves. Moreover, the spreading thickness in the withering trough should not be more than 1 kg per square feet and half kg per square feet for leaves plucked from unpruned and pruned section respectively in case of Darjeeling tea and 2 kg per square feet for Dooars produce. None of the gardens maintained records in regard to the category-wise withering of leaves obtained from pruned and unpruned sections.

**Excess loading in withering trough resulted in under-withering of leaves with adverse impact on quality**

Audit scrutiny revealed that the spreading thickness in case of Rungmook-Cedars TE (Darjeeling) varied between 1.45 kg and 2.41 kg per square feet and in case of Hilla TE (Dooars) the spreading thickness varied between 2 kg and 5.5 kg per square feet for 455 days during the last five years up to March 2002. Such excess loading in the withering trough resulted in under-withering of leaves with adverse impact on quality. However, the Company did not take any corrective action for increasing the trough capacity.

<sup>⊗</sup> The plucked leaves are spread out in large troughs where moisture content in leaves are evaporated by blowing hot and cold air. The process is known as withering

<sup>Ω</sup> Jat denotes clone

**Quality deterioration due to improper rolling operation and excessive time lag between plucking operation and withering**

c) Fine leaf required lighter and shorter roll and the duration of one roll should not exceed 45 to 50 minutes. Test check revealed that, in Rungmook-Cedars TE, the duration of single roll for fine leaf was 60 minutes on an average. Further, due to improper rolling operation and excessive time lag between plucking operation and its withering, the actual whole leaf grade percentage varied between 35 to 37 *per cent* against the industry norm of 50 *per cent* of the total production. **This led to quality deterioration with lower sales realisation for Darjeeling Tea.**

**2C.9.1** Against the industry norm of average recovery of made tea from green leaves of 24.7 *per cent*, the average actual recovery was 20.99, 21.42, 23.95 and 24.25 *per cent* in Mohua, Rungmook-Cedars, Hilla and Rangaroon TEs while the same in Pandam (25.10 *per cent*) was above the norm during 1997-2002. **The management did not analyse the reasons for the loss in recovery of 2.22 lakh kg of made tea valued at Rs 3.59 crore below the industry norm.** However, scrutiny revealed that as green leaves of Mahua TE were transferred to Hilla TE for processing, there was time lag of seven to eight hours between the plucking and withering of green leaves. This resulted in poor recovery rate and lower sales realisation.

#### **2C.9.2 Avoidable expenditure**

Scrutiny revealed that Pandam T.E and Rungmook/ Cedars TE had been paying carrying charges ranging between 45 and 54 paise per kg for transporting goods from Siliguri to garden point and vice-versa during the five years up to 2001-02 (December 2001). Although the contractor was selected through tender enquiry, no analysis was, however, made by the management to ascertain the justification of rates with reference to the rates of adjacent private gardens. Scrutiny of records revealed that carrying charges paid by the adjacent gardens varied between 25 paise and 36 paise per kg. resulting in **excess payment of Rs 11.95 lakh due to higher rates.**

### **2C.10 Sales performance**

**Non-existent marketing set up and policy**

**2C.10.1** Even after existence of 26 years the Company did not set up its own marketing organisation and did not lay down marketing policy so as to maximise sales realisation. The Company sells tea in auction at Kolkata (Darjeeling tea) and Siliguri (CTC tea) through one and two brokers respectively. The brokers are entitled to a commission of 1 *per cent* of gross sale value. It was observed in audit that the Company had no system of assessing the probable selling price on its own or through brokers based on quality of tea produced before putting the lots in auction. Therefore, the Company had left the entire marketing arrangement to the brokers. Further, **no attempt was made to appoint more brokers in case of Darjeeling tea to ensure better prices** through competition. In this connection the following points were noticed in audit:-

**Absence of control and monitoring over the auction sale resulted in loss of potential revenue of Rs 6.07 crore**

(a) Test check of sale of Darjeeling tea during 1999 - 2001 at Kolkata auction revealed that tea produced at Pandam and Rungmook-Cedars TEs were placed in a lower position amongst the total lots in all the auctions by the broker as compared to the lot position of the adjacent private tea gardens, thereby depriving the Company of getting remunerative prices. This indicated absence of any control mechanism over auction by the brokers. It was revealed from sales reports that while the sale price of Pandam and Rungmook TEs fluctuated between Rs 69 and Rs 162 per kg, the prices as obtained by the adjacent private gardens ranged between Rs 140 and Rs 232 per kg during January 1999 to March 2002. Such **short realisation of sales value resulted in loss of potential revenue of Rs 6.07 crore**. General Manager (Tea) who was responsible to monitor the auction failed to exercise any control over the erring brokers and to call for any explanation from them. The matter needs investigation to fix the responsibility.

**Short realisation of revenue of Rs 1.04 crore at Siliguri auction**

(b) Against the average sale price of Rs 60 to Rs 75 per kg realised by private TEs at Siliguri auction for Dooars tea, the actual sales realisation obtained by the Company for Hilla and Mahua (Dooars region) stood at Rs 40 to Rs 59 per kg resulting in short realisation of revenue of Rs 1.04 crore during the three years up to March 2002.

(c) For prevention of moisture absorption and retention of aroma, made tea are required to be packed immediately after processing. It was noticed that the Rungmook-Cedars and Pandam TEs sent (February 2002) the indents to the Kolkata Head office for supply of tea chests for packing made tea. However, MD took two months to take the decision (April 2002) to despatch the tea chests to TEs. This led to accumulation of 0.31 lakh kg first flush tea awaiting packing at the gardens which were ultimately despatched to Kolkata auction in May 2002. Since the quality of first flush tea fetches higher sales realisation compared to other flushes, delay in despatch of 0.31 lakh kg tea resulted in short realisation of Rs 13.89 lakh to the Company.

**2C.10.2** As per Tea (Marketing) Control Order, 1984, the Company was entitled to sell 25 *per cent* of its production outside auction. This restriction was withdrawn from January 2001. During the period from November 2000 to January 2001, the Company sold only 0.01 lakh kg out side auction at an average realisation of Rs 177 per kg as against the realisation of Rs 69 to Rs 110 per kg from auction sales. As per tea market annual report and statistics published by M/s. J. Thomas & Co., Kolkata, the percentage of auction sales to total production in Dooars and Darjeeling region ranged between 38 and 52 *per cent* and 49 and 57 *per cent* respectively while the All India percentage was between 51 and 60 during the last three years ending March 2002. Compared to this, the Company's sale through auction was between 99 and 100 *per cent* during the same period. This indicated that the **Company's sales policy was not in conformity with the trend** in the tea industry.

## 2C.11 Ineffective monitoring

Absence of monitoring the activities of sick TEs

Monitoring of activities of sick TEs is a pre-requisite to evaluate the performance of TEs so as to take remedial action for revival. The Company has evolved a system of periodical visits of TEs by the directors and General Manager (GM-Tea) and submission of tour reports for follow up by the Board. The Company did not, however, maintain records in regard to number of visits made, submission of tour reports and follow up action. Audit scrutiny revealed that during June 1999 to April 2002, directors and the GM (Tea) conducted 25 visits only in Pandam, but none of them submitted any tour report. The Board did not also monitor the submission of reports along with the action taken thereon.

During 1997-2002, the Board did not analyse the poor performance of TEs with reference to adjacent gardens/ district performance and so as to evolve a long term plan for revival of these TEs. **Thus, the monitoring of TEs was entirely ineffective.**

The Government admitted in Economic Review for 1998-1999 and 2001-2002 that the poor performance of the tea industry in West Bengal was attributable to low productivity, high vacancies, lack of irrigation facilities, old age of bushes etc. and the Company has been trying to revive these TEs by replantation, filling up vacancies, arranging for irrigation. However, as observed in paragraphs 2C.4.2 and 2C.5 *supra*, due to non availability of fund from the Government and failure to evolve any action plan for development work since inception, revival of TEs was far from reality.

## 2C.12 Land labour ratio

558 labourers engaged in excess of district average resulted in extra expenditure of Rs 5.40 crore

**2C.12.1** During 1997-2002 the staff cost constituted 74 *per cent* of total cost of production of made tea. Neither the Company nor the industry had fixed any norms for engagement of labour per hectare. However, as compared to the district average of permanent labour per hectare of 2.50 and of the adjacent gardens of 2.87 in Darjeeling region in Rungmook- Cedars TE, **558 labourers (30 *per cent*) were engaged in excess of district average resulting in extra expenditure of Rs 5.40 crore towards salaries and wages** during the last five years up to March 2002. The management did not take action to reduce manpower, instead the Manager deployed casual workers for 94,792 mandays during the same period and incurred an avoidable expenditure of Rs 33.18 lakh (@ Rs 35/= per day) towards their salary. The matter needs investigation to fix responsibility.

### **2C.12.2 Payment of ex-gratia to non entitled employees**

Payment of bonus under Payment of Bonus Act, 1965 was admissible to employees drawing pay and allowances not exceeding Rs 3500 per month with effect from 1 April 1993. Employees drawing salary exceeding Rs 3500

per month were not entitled to such bonus. It was observed in audit that despite incurring cash losses, the Company paid Rs 12.70 lakh as ex-gratia to non entitled employees during 1998-2002 which was not justified.

### 2C.13 Internal audit

#### Ineffective internal audit mechanism

The Company appointed M/S Chowdhury & Banerjee, Chartered Accountants as internal auditors only in February 2002 for five TEs and Head office for the years 1998-99 to 2000-2001. The Company did not specify the areas/ aspects to be examined by the internal auditors nor mentioned any stipulated time for submission of reports. Internal auditors have not submitted any report. The management did not take up the matter seriously with the internal auditor for **submission of the report, thereby indicating the management's apathy to make the internal audit effective in commensurate with the size of the business.**

#### Conclusion

**Despite 26 years of existence, the Company did not develop a corporate plan for turning the taken-over sick tea estates into economically viable units. The TEs suffered from maladies like substantial unutilised land, high vacancies, preponderance of old plants, lack of efforts towards new plantations and low yield. Further, Company's dependence on one or two brokers for auction-sales coupled with the absence of private sales resulted in realisation of substantially low prices for its tea. Consequently, the financial position of the Company, as evidenced by incurring of cash losses and erosion of its entire paid-up capital, has been precarious.**

**The Company must attempt to streamline its activities for revival, failing which its continuance *vis-à-vis* option to sell out should be seriously considered.**

These matters were reported to the Government and the management in April 2002, their replies were awaited (September 2002).