2.2 WEST BENGAL HANDLOOM AND POWERLOOM DEVELOPMENT CORPORATION LIMITED

Highlights

West Bengal Handloom and Powerloom Development Corporation Limited (Company) was incorporated in September 1973 mainly with the objectives of developing handloom and powerloom industries. As on 31 March 2003, accumulated loss of Rs 65.23 crore had completely eroded the paid up capital of Rs 26.04 crore due to procurement without regard to demand, high selling price, huge interest burden, poor sales performance, stockpiling of inventory, high incidence of employees' cost and operation of loss incurring sales depots.

(Paragraphs 2.2.1, 2.29 & 2.2.10)

Due to unfavourable settlement of cash credit dues with bank and failure to abide by the repayment schedule, the Company had to bear additional interest burden of Rs 23.79 crore.

(Paragraphs 2.2.13 & 2.2.14)

The Company was negligent in implementing schemes for development of weavers and out of 14 such schemes, the Company partially implemented only three schemes. Further, defective procurement and lack of marketing led to accumulation of stock from Rs 5.44 crore to Rs 10.50 crore (including soiled/ non-moving stock of Rs 2.87 crore), leading to acute cash crunch and delayed payment of dues to weavers. This led to inventory carrying cost of Rs 2.85 crore during 1999-2003.

(Paragraphs 2.2.24, 2.2.35 & 2.2.38)

Despite offering rebates/ discount of 22 to 28 *per cent* (Rs 7.12 crore) sales through depots dipped by 15 *per cent* in 2002-03 over 1999-2000 due to defective procurement, lack of market research and overpricing of products. Further, in spite of incurring losses aggregating Rs 8.87 crore, unviable sales depots were not closed as per the direction of the Government.

(Paragraphs 2.2.27, 2.2.28 & 2.2.30)

Recruitment of 241 employees for unviable sales depots without assessing manpower requirement inflated the fixed costs, which exceeded the value addition by these employees. Even then, the Company spent Rs 55.43 lakh towards appointment of 28 casual workers and overtime payment.

(Paragraph 2.2.29)

Introduction

2.2.1 West Bengal Handloom and Powerloom Development Corporation Limited (Company), popularly known as '*Tantusree*', was incorporated in September 1973 as a Government company. The main objectives were to :

- supply raw materials to handloom, powerloom and hosiery industries;
- buy finished goods manufactured by handloom, powerloom and hosiery weavers and assist them in marketing their goods;
- promote, aid and assist in the rehabilitation, growth and development of handloom, powerloom and hosiery industries;
- provide financial assistance to handloom, powerloom, hosiery and allied industries; and
- train, undertake research or other ancillary services for development of handloom, powerloom and hosiery industries to improve their productivity and quality.

The objectives for which the Company was set-up were only partly taken-up.

2.2.2 During 1999-2004, the activities of the Company consisted of marketing of yarn procured from Government spinning mills, procurement of handloom products from weavers/ co-operative societies through its four procurement centres and three regional stores and selling them from its 71[1] sales depots, participation in exhibitions as well as export, consignment and agency sales. It also supplied handloom and readymade products in bulk to Government departments. The Company, however, failed to undertake activities in powerloom and hosiery due to non availability of fund required for procurement of powerloom and hosiery goods.

Organisational set up

2.2.3 As on March 2004, the Company was managed by a Board of eight Directors headed by the Chairman, of whom six were nominees of the State Government, while two were nominated by banks[2].

Managing Director (MD) is the Chief Executive and is aided by two sub-committees constituted (November 1979) by the Board to look after administrative and business matters. The MD is assisted by General Manager (General Division)- cum Secretary, Financial Controller and Chief Accounts Officer, Marketing Manager and Production Manager. The posts of Marketing Manager and General Manager-cum Secretary were vacant since January 2002 and July 2003 respectively. This had an adverse impact on the Company's marketing performance, as discussed at paragraph 2.2.27 *infra*.

[1] 69 within the State and two at Agartala (Tripura) & Ahmedabad
[2] West Bengal State Co-operative Bank, United Bank of India

Scope of Audit

2.2.4 The review on the performance of the Company was included in the Audit Report (Commercial) 1980-81 - Government of West Bengal. COPU discussed the review and recommended (March 1987) to curb organisational deficiencies, formulate programmes/ projects on a realistic basis, improve sales performance as well as to realise outstanding dues. However, management did not take remedial action on these aspects, as discussed in succeeding paragraphs.

The present appraisal, conducted from December 2003 to May 2004, covers the activities of the Company between 1999-2004. The audit findings as a result of test check of records relating to 19[©] out of 84 units were reported to Government/management in July 2004 with specific request for attending the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) so that viewpoint of Government/ management was taken into account before finalising the review. The meeting of ARCPSE was held on 20 August 2004 where Government was represented by the Principal Secretary, Cottage and Small Scale Industries Department and the management was represented by the Managing Director. The review was finalised after considering the views of Government/ management.

Audit objective

2.2.5 This appraisal evaluates the performance of the Company with regard to implementation of schemes, procurement and marketing of handloom products, pricing policy, inventory control and manpower utilisation. The findings are discussed in the succeeding paragraphs.

Absence of planning

Lack of planning had adversely affected the Company's performance.

2.2.6 Even after three decades, the Company did not evolve a corporate plan or document policies/ guidelines for development of the handloom, powerloom and hosiery industries. The Company neither prepared marketing plans based on market surveys and customer preference nor drew up procurement plans based on sales forecasts. The Government also released funds without any assessment or evaluation of the anticipated and actual benefits. The Government stated (August 2004) that as per the requirement of the Company, funds were released considering the interest of the weavers. However, the Company failed to utilise the fund for operational efficiency as well as to pay off dues to weavers and consequently, it has sunk into immense losses, as discussed in succeeding paragraphs.

[©] Head office, Central Stores at Salt Lake, Zonal Stores at Katwa, Santipur and Siliguri, Procurement Centres at Kolkata (three), Katwa, Santipur & Bishnupure and Sales depots at Kolkata (three), Siliguri (two), Krishnanagar, Katwa, Burdwan, Diamond Harbour, Baruipur and Malda

Ineffective budgeting

The Company had not analysed the reasons for variances between budgets and actuals.

2.2.7 The Company prepared financial budgets for 1999-2003, but had not specified physical targets. Analysis of the budgets *vis a vis* actuals (**Annexure-20**) showed that the Company had resorted to deficit budgets in all years with budgeted deficit rising from Rs 3.49 crore in 1999-2000 to Rs 6.29 crore in 2002-03 without mentioning ways to meet the deficit. Actual deficit increased from Rs 5.77 crore to Rs 9.28 crore in the same period. The adverse variances in net deficit against budgeted deficit in this period ranged from 27 to 141 *per cent*. Management had neither analysed the reasons for these significant variances nor taken corrective measures. Against budgeted capital receipts of Rs 7.55 crore, actual receipts were Rs 54.33 crore during 1999-2003 due to release of funds (Rs 49.37 crore) to settle bank dues (paragraphs 2.2.13 and 2.2.14). Government/ management accepted (August 2004) the audit observation.

Financial position and working results

2.2.8 The Company prepared its accounts up to 2002-03. The financial position and working results of the Company for four years ended March 2003 are indicated in **Annexure-21**. Some basic physical and financial parameters are tabulated below :

	Particulars	Unit	1999-2000	2000-01	2001-02	2002-03
(i)	Purchase plus opening stock	Pieces	12,30,263	11,82,322	7,01,731	7,00,220
(ii)	Sales	Pieces	7,09,609	8,05,721	3,84,103	3,30,025
(iii)	Sales value	Rs in crore	31.65	48.35	33.46	38.24
(iv)	Variable Expenditure	Rs in crore	30.55	45.65	30.30	37.82
(v)	Contribution	Rs in crore	1.10	2.70	3.16	0.42
(vi)	Cash loss	Rs in crore	8.47	5.76	9.28	7.96

Audit observed from the table and annexure that :

The accumulated loss was two and a half times the paid-up capital.

2.2.9 The Company sustained losses since inception. Consequently, the accumulated loss (Rs 65.23 crore) was two and a half times the paid up capital of Rs 26.04 crore as of March 2003. This would have increased by at least Rs 3.10 crore had the Company provided for doubtful receivables advances/ debtors (Rs 21.79 lakh) and payment of arrear of salaries (Rs 2.88 crore), as commented by the Statutory Auditors and the Comptroller and Auditor General of India on the accounts of the Company for 2002-03.

Despite continuous cash losses, the Company failed to draw up an action plan for its revival.

2.2.10 Cash loss varied from Rs 5.76 crore (2000-2001) to Rs 9.28 crore (2001-02) due to fall in contribution from Rs 1.10 crore in 1999-2000 to Rs 42 lakh in 2002-03 on account of low volume of procurement and sales, high employees' cost, operation of unviable retail outlets, absence of cost effective strategy for procurement, lack of motivation, imaginative marketing and commercial outlook, as observed (July 2002) by the Government/ Board.

No action plan was, however, formulated to revive the Company (September 2004). Thus, there were remote prospects of the Government obtaining any return on its investment of Rs 68.76 crore[2]. The Government stated (August 2004) that WEBCON was engaged recently to formulate an action plan for restructuring of the Company.

Utilisation of fund

Capital structure

2.2.11 The authorised capital of the Company was Rs 30 crore as on March 2004, against which paid up capital was Rs 27.04[ε] crore. During 1999-2004, the Company received share capital of Rs 14.73 crore from the State Government. Further, during 2001-02, State Government repaid working capital loan (Rs 40.60 crore) to two nationalised banks on behalf of the Company. The Company, without any Government's orders, treated Rs 40.60 crore as advance against share capital.

Borrowings

2.2.12 Till March 2004, the Company received loans of Rs 1.12 crore at interest rates of 8 to 9.5 *per cent* per *annum* from the State Government. Due to its failure to repay loan and interest, the outstanding principal and interest up to March 2003 was Rs 1.88 crore. Government stated (August 2004) that the Company had been instructed to pay off dues in instalments.

The Company also operated two cash credit accounts (CCAs) with United Bank of India (UBI) and West Bengal State Co-operative Bank Limited (WBSCB) since March 1981 and April 1990. Both CCAs became inoperative, in 1995-96 and September 1998 respectively, due to financial crunch.

Unfavourable settlement of outstanding dues to WBSCB and UBI

2.2.13 Till March 2000, the Company was liable to pay CCA dues of Rs 35.20 crore to WBSCB. WBSCB offered (May 2000) to waive off dues (Rs 17.21 crore) and to make CCA operative at Rs 11.99 crore (limit : Rs 12 crore), subject to payment of rupees six crore towards dues in 10 equal annual instalments from June 2000 and remittance of sale proceeds.

Failure to abide by schedule for repayment of dues to banks led to payment of additional interest of Rs 23.79 crore.

The State Government directly paid (March 2000) rupees five crore to WBSCB, which was adjusted (July 2000) towards payment of first instalment (Rs 60 lakh) of dues and reduction of cash credit balance by Rs 4.40 crore. Till October 2000, the Company availed cash credit of Rs 3.76 crore, while it remitted sale proceeds of Rs 30 lakh only during July to October 2000. Due to failure of the Company to remit sale proceeds and non-submission of details of

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[2] Paid up capital (Rs 27.04 crore), share suspense (Rs 40.60 crore) and borrowings (Rs 1.12 crore)

West Bengal Consultancy Organisation Limited, a deemed Government company

[ε] State Government : Rs 23.29 crore, Government of India : Rs 3.73 crore and nationalised banks : Rs 0.02 crore recoverables, WBSCB stopped operation of CCA in October 2000, when outstanding dues stood at Rs 11.06 crore.

Out of total dues of Rs 40.37 crore[7] as on 30 Novenber 2001, the State Government paid (November 2001) rupees two crore directly to WBSCB on behalf of the Company, while West Bengal Infrastructure Development Finance Corporation Limited (WBIDFC), on the direction of State Government, paid (March 2002) balance Rs 38.37 crore to WBSCB. The Government stated (August 2004) that as a last resort the Government stepped in to pay liabilities.

Had the Government and its agent viz. WBIDFC paid annual instalment of Rs 60 lakh as per proposal of WBSCB, instead of lumpsum payment of Rs 45.37 crore, the Company could have saved interest of Rs 23.23 crore as per details given in **Annexure-22**, as well as operated CCA. This had also adversely affected the availability of working capital for improving operating efficiency. The Government stated (August 2004) that the liability was discharged to assist the weavers. The contention is not tenable since paying instalments according to the time schedule of WBSCB, could have avoided payment of interest of Rs 23.23 crore. This payment did not benefit weavers, as discussed in paragraph 2.2.24.

2.2.14 Against the total dues of Rs 6.37 crore as on March 2000, UBI offered (April 2000) to waive Rs 2.35 crore on payment of Rs 4.02 crore in five half-yearly instalments within September 2003. The State Government paid (March 2000- March 2002) rupees four crore directly to UBI. Again, due to failure to make payments as per schedule, the Company was saddled with further liability of Rs 56.37 lakh towards interest as of March 2003.

2.2.15 The Company again availed (August 2002) Rs 2.80 crore (limit : rupees six crore) from the new CCA with WBSCB. The account also became inoperative since July 2003 due to its’ failure to remit sale proceeds to CCA as well as non receipt of State Government guarantee. The total amount outstanding stood at Rs 3.16 crore (including interest of Rs 35.96 lakh) as of March 2004. In ARCPSE meeting the Government stated (August 2004) that attempt would be made to give guarantee on receipt of concurrence of Finance Department.

Grants and subsidies

2.2.16 During 1999-2004, the State Government released financial assistance of Rs 4.63 crore to the Company as interest subsidy[ε] towards CCA interest (Rs 2.49 crore), Marketing Development Assistance Scheme (Rs 1.74 crore) and *Deen Dayal Hathkharga Yojana* Scheme (Rs 40.19 lakh).

[7] Non-waiver of dues- Rs 17.21 crore, non payment of instalment- Rs 5.40 crore, operative cash credit- Rs 11.74 crore, interest dues-Rs 6.02 crore (interest on Rs 17.21 crore and Rs 5.40 crore from April 2000 to November 2001) = Rs 40.37 crore

Rupees one crore (March 2000), Rs 77 lakh (September 2000) and Rs 2.23 crore (March 2002)

[ε] The amount was paid directly by the Government to WBSCB

Appraisal of activities

Procurement

2.2.17 During 1999-2003, the Company purchased yarn from spinning mills (Rs 80.70 crore), cloth/ linen from textile mills (Rs 38.91 crore) and handloom products from weavers and primary weavers' co-operatives (Rs 13.43 crore) aggregating Rs 133.04 crore. The Company procures cotton/ silk/ *tussar sarees*, *dhoties*, bedcovers, *lungies*, *gamchas*, readymade garments, silk *than* etc. for sale through its depots as well as buys handloom goods for supply to Government against orders. The procurement peaks in July-August (*Dusshera*, *Diwali*) and March-April (*Chaitra* sales).

2.2.18 The Company selects individual weavers/ societies, obtains product samples from them for inspection at different procurement centres and prepares estimated cost sheets based on yarn count and consumption of materials; wages, dyeing charges etc. The Company had not standardised the products. Individual selected weavers/ societies supply their products either at Company's central/ regional stores or at procurement centres. For supplies[♦] to Government departments/ organisations, the Company invites tenders from enlisted suppliers (including societies). The samples furnished by them are approved by the tender committee and materials procured at the lowest rates. The lacunae in procurement are discussed in succeeding paragraphs.

2.2.19 The Company prescribes an overall procurement target based on availability of fund and volume of sales of preceding years. The position of unsold stock was, however, not considered while fixing the procurement targets. During 1999-2003, the actual procurement of yarn ranged from 73 (1999-2000) to 142 (2000-01) *per cent* of targets whereas for handloom and other products the same was 78 (2001-02) to 96 (1999-2000) *per cent*. Consequently, there was shortfall in procurement of handloom products whereas procurement of yarn was in excess of targets, although yarn was a low-margin (1.40 *per cent* on cost) business. This was mainly attributable to reluctance of weavers/ co-operatives to supply goods in view of their dues pending with the Company as discussed in paragraph 2.2.24 *infra*. In ARCPSE meeting management assured (August 2004) to consider unsold stock while fixing targets in future.

The Company procured from co-operative societies at an additional cost of Rs 32.42 lakh.

2.2.20 The Company claimed that it conducted business with 250 individual weavers and 110 co-operative societies. The procurement targets did not indicate the quantum of procurement from these weavers and societies. The Company offered a higher margin of nine *per cent* to co-operative societies against seven *per cent* to individual weavers on estimated cost of production. During 1999-2000 and 2002-04, the Company procured handloom goods of Rs 5.26 crore from co-operative societies and Rs 4.74 crore from individual weavers. Procurement from co-operative societies at higher prices resulted in additional cost of Rs 34.42 lakh. The Company had no mechanism to ensure that these co-operatives had actually paid the wages ranging from 41 to

[♦] Liveries for staff, garments and hosiery products

78 *per cent* of cost included in the estimated cost sheets to individual weavers. In ARCPSE meeting, Government stated (August 2004) that earlier focus was given to co-operative societies which was now being shifted to individual weavers.

Between 1999-2003, unsold stocks rose to 57 *per cent*, while procurement had dipped by 68 *per cent*.

2.2.21 The Company had not undertaken market surveys to forecast market trends or determine changes in consumers' requirement. Procurement of handloom products for non-Government sales[τ] had dropped by 68 *per cent* from Rs 5.20 crore in 1999-2000 to Rs 1.68 crore in 2002-03 whereas the percentage of unsold stocks to procurement increased from seven to 57 *per cent* during the same period. Non-moving stocks at 19[3] showrooms indicated that 12 *per cent* stock remained unsold due to odd design and 13 *per cent* for being unfashionable. This indicated defective procurement of handloom products.

Indiscriminate procurement of non-moving stock led to blocking of Rs 1.45 crore.

Moreover, the Company procured poly-suitings, poly-shirtings and poly-sarees since 1990-91 without assessing demand and considering consumers' choice. Consequently, as on March 2003, goods valuing Rs 35.25 lakh remained unsold since 1997-98, although the Company offered discount of 50 *per cent*. Despite being aware of the lack of demand for these products, it continued to purchase poly-suitings (Rs 10.52 lakh), poly-shirtings (rupees eight lakh) and poly-sarees (Rs 10 lakh) in 1998-2003. But goods valuing Rs 14.60 lakh (51 *per cent*) remained non-moving as on March 2003. Audit observed that *tangail*/ *dhanekhali*/ *jamdani sarees* (value : Rs 95.60 lakh) which enjoy ready market in West Bengal were lying in stock for more than two years as on 31 March 2003 with consequential blocking of fund of Rs 1.45 crore. This had also hampered the Company's ability to pay dues to weavers/ societies.

2.2.22 To ensure fair price for weavers, the Government directed (April 1994) the Company to draw up a policy on procurement price. The Company, however, took no action to prepare such policy (August 2004). Moreover, the Company neither specified the basis of wage rates appearing in the cost sheet nor the number of mandays required for different components of the products. The basis of procurement rates for materials like yarn, silk and *zari* was also not recorded. Consequently, the justification of these rates was not ascertainable. Government/ management stated (August 2004) that price would be determined after considering the mandays, wage rate and other components of products.

2.2.23 The Company set up a quality control cell (QCC) in 1994. QCC, however, did not specify in advance the quality of materials to be procured. The Company's stores keepers only certified that goods had been received in good condition and according to sample. Physical verification of 3,581 items

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[τ] Sales through depots, consignment, exhibition and export

[3] Dakshinapan, Ballygunj, Hill Cart Road, Baruipur, Diamond Harbour, Hakim Para, Maniktala, Sealdah (2), Howrah Maidan, Shyambazar, Madhyam Gram, Sodepur, Ashok Nagar, Burdwan, Krishnanagar, Katwa, Asansol and Durgapur (Benachiti)

of non-moving goods by depot staff at 19[4] depots showed that 11 *per cent* of stock remained unsold on account of manufacturing defects while another nine *per cent* remained unsold on account of odd colour, indicating absence of quality control. These deficiencies resulted in stockpiling of inventory as discussed in paragraph 2.2.35 *infra*. Further, the poor quality of liveries supplied to Police was also responsible for reduction in average annual sales to Police by 38 and 84 *per cent* in 2002-03 and 2003-04 respectively, compared to sales in 1999-2002. In ARCPSE meeting Government/ management assured (August 2004) to strengthen the quality control cell.

Delays in payment of weavers' dues

Eighty-nine societies and 100 weavers faced bankruptcy as the Company failed to pay their dues.

2.2.24 The Company purchased goods on credit from weavers/ co-operative societies without specifying the credit period. Department of Company Affairs, Government of India (GOI) notified (May 2002) that dues to small scale enterprises in excess of 30 days should be disclosed in the accounts. The Company owed Rs 4.48 crore (May 2004) to individual weavers (Rs 2.05 crore) and co-operative societies (Rs 2.43 crore) since 2001-02, which had not been disclosed in the Accounts. The credit period availed by the Company during 1999-2003 ranged from 8.5 to 12.55 months thereby squeezing the weavers and co-operative societies, which was in contravention of the objects of the Company.

In the process, 89 societies and 100 individual weavers faced liquidation/ bankruptcy. Government observed (August 2003) that the Company had lost its credibility among weavers. The Company, however, was yet to take action to overcome the situation. Government/ management stated (August 2004) that the financial crisis stood in way of timely payment. The reply contradicts Government's statement (August 2004) that funds were released keeping in view the interest of weavers. Thus, the Company failed to effect any improvement in the welfare of weavers.

Ineffective marketing and poor sales performance

2.2.25 The Marketing division of the Company was to undertake **(a)** retail sale of handloom products through sales depots; **(b)** Government supply; **(c)** participation in exhibitions; **(d)** exports; **(e)** marketing research; **(f)** fixation of selling prices; **(g)** periodic disposal of old, slow-moving and soiled stocks; **(h)** inspection, management and control of sales depots as well as training and supervision of sales staff. At present, the Division operates with three Deputy Managers, three Assistant Managers, 21 Supervisors and 524 staff looking after sales depots, stores, yarn sales and Government supplies. The post of Marketing Manager was vacant since January 2002.

The Company operated 76 sales depots in 1999-2000, which reduced to 71 as on 31 March 2003 due to closure/ non-operation of six depots and opening of one new depot between 2000-03. These depots had 333 employees.

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[4] Dakshinapan, Ballygunj, Hill Cart Road, Hakim Para, Baruipur, Diamond Harbour, Maniktala, Sealdah (2), Shyambazar, Howrah Maidan, Sodpur, Madhyamgram, Ashokenagar, Burdwan, Krishnagar, Katwa Asansol and Durgapur (Benachiti)

The Company limited its sales to festive season by offering discounts of 22 to 28 *per cent*.

2.2.26 Even after 30 years in operation, the Company did not formulate sales policy nor maintain a database in regard to demand and selling rates offered by competitors to penetrate the market. Instead of spreading sales throughout the year, the Company resorted to spurt in sales through depots during September-October (Dussehra and Diwali) and March-April (Chaitra sales) by offering discounts/ rebates aggregating 22 to 28 *per cent* on list price.

2.2.27 The Company did not fix any sales target under different categories. The turnover of the Company during 1999-2003 is analysed below :

Particulars		**1999-2000**	**2000-01**	**2001-02**	**2002-03**
		(Rupees in crore)			
A) Sale of finished goods					
i) Depot sales		7.93 (47)	7.83 (40)	6.65 (44)	5.81 (32)
ii) Supplies to Government		7.58 (45)	10.33 (53)	7.69 (51)	11.80 (66)
iii) Supplies to Government agencies		1.10 (6)	0.67 (3)	--	0.02
iv) Others©		0.40 (2)	0.79 (4)	0.61 (5)	0.36 (2)
Total		**17.02**	**19.62**	**14.95**	**17.99**
B) Sale of yarn		14.64	28.73	18.51	20.26
Grand total		**31.65**	**48.35**	**33.46**	**38.24**
C)	**Break even sales (BeS)**	**275.86**	**151.97**	**132.20**	**764.55**
D)	**Percentage shortfall in BeS**	**89**	**68**	**75**	**95**
E)	**Non-government sales of handloom goods**	**8.33**	**8.62**	**7.26**	**6.17**

Note: Figures in brackets indicate percentage to total sales of finished goods

It would be apparent that-

The Company had bound its fortunes to sales to Government, thereby limiting itself to a meagre market share of six *per cent*.

- Sales to Government rose from 45 *per cent* in 1999-2000 to 66 *per cent* in 2002-03. The Company sustained losses aggregating Rs 2.21 crore during 1999-2002 and earned profit of Rs 73 lakh in 2002-03 on Government sales.
- Even after offering discounts/ rebates (22-28 *per cent*), sales from retail outlets dipped drastically from 47 to 32 *per cent* during the same period, thereby indicating that the Company was getting out of the market and becoming increasingly dependent on captive sales to Government.
- Total sales fell short of break-even sales from 68 to 95 *per cent*, mainly due to procurement without market survey of customer choice/ taste, lack of quality control, poor salesmanship and high selling prices.
- The break even sales had increased from Rs 132.20 crore in 2001-02 to Rs 764.55 crore in 2002-03. The abnormal increase in break even sales was mainly due to drastic fall in contribution in 2002-03, as may be seen from **Annexure-21**.

Consequently, the Company contributed a paltry six *per cent* of the total turnover of the handloom sector in the State during 2002-03. In ARCPSE

© Consignment, exhibition, agency and export sales meeting, the Government/ management assured (August 2004) that action would be taken to market the products throughout the year after proper market survey and fix the prices after considering competitors' prices.

Poor performance of sales depots

2.2.28 The Board directed (July 1979/ December 1980) that management should open new depots only after analysis of their commercial viability and each depot would be treated as a profit centre and should achieve break even sales. However, management neither determined break even sales for each depot nor fixed individual sales targets.

All 76 depots incurred losses aggregating Rs 8.87 crore on sales of Rs 22.08 crore.

Audit observed that all 76 depots incurred losses[5] aggregating Rs 8.87 crore against sales of Rs 22.08 crore during 1999-2003 (**Annexure-23**). It would be seen from the annexure that all 76 depots sustained losses as average annual contribution (Rs 0.27 lakh) failed to recover average cost per employee (Rs 0.85 lakh), of which 15 depots contributed to one third of the loss. Despite Government's direction (April 1994) to the Company to either wind up loss-incurring depots or hand them over to agents, the Company did not take any action (May 2004). Government/ management stated (August 2004) that the Company was considering closing down eight more sales depots.

High employees' cost

2.2.29 The Company operated 44 depots in 1979-80 with 192 employees. During 1980-88, the Company opened 27 new sales depots without assessing their commercial viability and recruited 241 additional employees. The Company had not fixed norms for staffing at depots. The particulars of value of goods sold, employees' cost and value addition and activity-wise employee cost are given in **Annexure -24**. It would be seen that though men-in-position marginally reduced in 2002-03 over 1999-2000, the value addition was inadequate to meet the employees' cost in the year 2002-03.

Overstaffing and high employees' cost had rendered all retail sale depots unviable.

During 1999-2003, five *per cent* (Rs 1.17 crore) of employees' cost in yarn sales and in Government sales yielded 54 *per cent* (Rs 82.14 crore) and 26 *per cent* (Rs 39.19 crore) of total sales respectively, while 95 *per cent* (Rs 23.81 crore) of employees' cost yielded meagre 20 *per cent* (Rs 30.37 crore) of total sales during these years. This indicated overstaffing and high employees' cost in depot and other retail sales, which rendered the activity in the sector unviable. Despite this, the Company incurred Rs 33.03 lakh on engagement of 28 casual workers and Rs 22.40 lakh for payment of overtime to employees during 1999-2003.

Government directed (July 2002) the management to rationalise existing manpower. However, no action was taken (August 2004). In ARCPSE meeting Government/ management stated (August 2004) that WEBCON, presently studying the Company, would also examine the aspect of rationalisation of manpower.

[5] Considering 16 *per cent* operational surplus on net sales and ignoring carrying cost on inventory

Overpricing of goods

2.2.30 The Company did not frame a pricing policy (May 2004) to ensure affordable prices for consumers throughout the year, in contravention of Government directives (August 1994) and merely fixed list prices of different goods for sale through depots after adding estimated mark-up with procurement price to meet fixed cost.

The Company had to offer discount of Rs 7.12 crore due to excessive mark-up on prices.

The Company never compared the estimated mark-up with actual fixed costs to fix selling prices on realistic levels. Against the actual fixed cost of 16 (2000-01) and 29 (2001-02) *per cent* during 1999-2003, the Company marked-up prices by 20 to 65 *per cent*. The Company had no mechanism to compare the list prices with those of other selling agencies in the market. This indicated lack of efficacy in fixing list prices that had the effect of reducing sales through retail outlets by 27 *per cent* in 2002-03 over 1999-2000, with accumulation of handloom goods at depots/ stores. Physical verification of non-moving stock at 19 sales depots indicated that 13 *per cent* of 3,581 items remained unsold due to high prices. To sell goods, the Company had to offer discounts and rebates of 22 to 28 *per cent* on list prices aggregating Rs 7.12 crore during 1999-2003. Government/ management stated (August 2004) that the pricing would be reviewed to reduce the mark-up.

Sale of Yarn to private traders

The Company was liable to Central Excise Duty of Rs 14.80 crore on yarn sales.

2.2.31 The State Government decided (February 1994) that the Company would purchase entire output of hank yarn from KSM[χ] and MCML[ω], both State-owned spinning mills for resale to weavers' co-operative societies, individual weavers and thereafter to other organisations. Government of India exempted (March 1997 – March 2001) cotton hank yarn from payment of Central Excise Duty (CED) subject to purchase of yarn by a registered apex handloom co-operative society/ the National/ State Handloom Development Corporation on production of a certificate by such handloom co-operative society/ corporation to the excise authority stating that this yarn would be used only in handlooms.

During 1997-2003, the Company, in deviation of Government's instructions sold yarn to private traders (Rs 123.99 crore) and Burdwan Area Development Organisation (Rs 20 lakh), while yarn of Rs 25.38 lakh only was sold to weavers' societies. To avail CED exemption, the Company issued end-use certificates to KSM and MCML although yarn was actually sold to private traders.

Consequently, GOI initiated (August 2002) legal action for abetting CED evasion, imposed penalty of Rs 20 lakh on the Company and claimed CED of Rs 14.80 crore from the spinning mills. The matter was still sub-judice (September 2004).

Thus, sale of yarn to private traders frustrated the objective of supplying yarn

[χ] Kalyani Spinning Mills Limited
[ω] Mayurakshi Cotton Mills Limited

to weavers/ co-operative societies at reasonable price, besides incurring of liability towards CED.

Ineffective credit control and poor recovery of debts

Ineffective credit control led to interest burden of Rs 3.08 crore.

2.2.32 The Company offered credit on sales to Government departments/ undertakings. Despite Government directives (April 1994) to claim interest for delayed payment, the Company had neither fixed the credit limits/ periods for different buyers nor rate of interest leviable on delayed payments. The entire debts of Rs 8.29 crore as on March 2003 were recoverable from Government departments/ undertakings[©] with an average credit period of eight to 14 months. This had resulted in avoidable interest burden of Rs 3.08 crore.

Dues of Rs 2.70 crore were not recovered by the Company.

2.2.33 The Company neither prepared age-wise analysis of debts nor monitored the recovery of dues from different Government departments and organisations. Management stated (August 2004) that the debtors were disclosed in the accounts as per Schedule-VI of the Companies Act, 1956. The contention is not tenable as such disclosure does not reflect age-wise old dues (more than six months) for monitoring. Test check revealed that while Rs 68.89 lakh was due prior to April 1999, Rs 2.01 crore (24 *per cent*) was due from the Directorate of Handloom & Textiles, West Bengal, details of which were not available. Thus, the Company failed to recover 32 *per cent* (Rs 2.70 crore) of dues owing to inept collection. Government stated (August 2004) that different departments were regularly pursued for the early settlement of dues.

Inventory control

2.2.34 The table below indicates the position of inventory and abnormal carrying cost incurred thereagainst for the last four years up to 2002-03 :

(Rupees in crore)

Particulars	1999-2000	2000-01	2001-02	2002-03
Closing stock of handloom goods	10.50	9.85	9.45	5.44[ℜ]
Stock in terms of months' sales	14	14	16	11
Normal stock holding in terms of months' sales	6	6	6	6
Excess stock holding in terms of months' sales	8	8	10	5
Carrying cost of excess stock holding	0.84	0.79	0.95	0.27

High inventory holding had led to carrying cost of Rs 2.85 crore.

2.2.35 In deviation of the Board's direction (July 1988), management did not periodically review stock-piling to identify soiled/ damaged/ slow moving goods for disposal within six months either through depots or by auction. Only in January 2004, management identified that out of total stock of Rs 5.44 crore, stock of Rs 2.87 crore had piled up out of procurement made in 1999-2003, whereas stock of Rs 1.32 crore was procured before 1999-2000. The Company failed to segregate balance stock of Rs 1.25 crore. The

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[©] Home Department- Rs 3.06 crore, Director of Handloom and Textiles- Rs 2.01 crore, Education Department- Rs 60.43 lakh, Health Department- Rs 39.22 lakh, Relief Department- Rs 42.22 lakh, Milk Commissioner- Rs 30.82 lakh, Co-operative Department- Rs 22.76 lakh and others- Rs 1.27 crore

[ℜ] Reduced by Rs 2.07 crore due to change in method of valuation of stock

Company did not, however, fix responsibility for violating Board's directions. Consequently, inventory stood as high as 11 to 16 months' sales during 1999-2003 leading to avoidable carrying cost of Rs 2.85 crore. As observed in audit, the accumulation arose mainly due to indiscriminate procurement of handloom products without assessing demand/ quality, manufacturing defects, poor quality control and high selling prices, as discussed in paragraphs 2.2.23 and 2.2.30 *supra*.

It was noticed in audit that 45 *per cent* of 3,581 handloom goods were not sold due to odd design/ colour/ out of fashion/ manufacturing defects, while 42 *per cent* was damaged in transportation or due to poor storage and balance 13 *per cent* remained unsold on account of high price. Government/ management stated (August 2004) that the Company was reviewing the whole issue of purchase and sales.

Loss due to delays in disposal of condemned goods

Delays in disposal of condemned goods led to loss of Rs 42.36 lakh.

2.2.36 In May 2001, the Board constituted a Committee for identification, inspection and segregation of condemned stock. The Committee identified (August 2001) condemned stock valuing Rs 49.06 lakh accumulated since 1985. The Board, however, overruled (August 2002) the Committee's Report and appointed (December 2003) a firm of Chartered Accountants (CAs) for the same job. The CAs assessed (March 2004) the value of condemned goods at Rs 44.79 lakh and endorsed (March 2004) the reserve price of Rs 3.38 lakh for their disposal. Ultimately, these condemned goods were sold (May 2004) at Rs 2.43 lakh. Thus, there was inordinate delay in disposal of condemned stock leading to loss of Rs 42.36 lakh besides inventory carrying cost of Rs 47.80 lakh. Government/ management stated (August 2004) that the Company was examining ways of streamlining the procedure.

Failure to recover stock shortages

Stock shortages of Rs 44.76 lakh were recoverable from employees for more than five years.

2.2.37 The value of annual shortages of stock are recovered from the employees of concerned depots and stores. However, only in September 2001, the Board decided to effect recovery in twelve monthly instalments.

Against the amount recoverable for shortages (Rs 37.33 lakh) as of 01 April 1999, only 21 *per cent* (Rs 7.86 lakh) was recovered during 1999-2004. During 1999-2004, further stock shortages of Rs 15.29 lakh were recoverable, against which no recovery had been effected (August 2004). In absence of monitoring, Rs 44.76 lakh was still recoverable. In ARCPSE meeting Government /management stated (September 2004) that recovery would be effected within one year.

Non-implementation of schemes for weavers

Absence of monitoring, failure to take up available schemes and their poor implementation had adversely affected the uplift of weavers.

2.2.38 Although the Company was to assist handloom weavers, it maintained no statistics on status of weavers, weavers' societies, looms, production, exports etc. in West Bengal. During 1999-2004, Government of India (GOI) operated 14 schemes for development of the handloom sector and five schemes for the powerloom sector but the Company availed assistance under only three schemes. Further, the Company operated *Sulav* scheme of its own formulation. The implementation of schemes is discussed hereafter.

Sulav scheme

2.2.39 In view of withdrawal (1998) of Janata scheme by GOI, the Company took up in July 1998, a scheme for procurement of low cost *sarees* and *dhotis* for sale through its outlets, under the brand name "Sulav". The sale prices of *sarees* and *dhoties* were fixed at Rs 59 and Rs 55 each respectively. The Company neither identified the target population nor fixed sales targets for the scheme. Subsequently, Food & Supplies and Cottage & Small Scale Industries departments decided (July 2000) to distribute these low cost *sarees*, *dhoties* and also *lungies* through public distribution system (PDS) amongst the poorest sections of the people at Rs 66.50, Rs 59.50 and Rs 40 each respectively.

Accordingly, between July 2000 and March 2002, the Company procured 1,15,483 *sarees*, 26,653 *dhoties* and 5,666 *lungies* at Rs 78.56 lakh for sale through PDS dealers without any assessment of requirement of PDS dealers and demand. Till September 2001, dealers lifted only 4,899 *sarees*, 1,909 *dhoties* and 2,737 *lungies* respectively. Thereafter, the dealers showed reluctance to lift materials due to low margins offered to them. The Company discontinued the scheme in June 2002. It was observed in audit that the Board of Directors had not monitored the scheme nor had the Company undertaken impact evaluation of this scheme.

The Government stated (August 2004) that measures had since been taken to dispose of the stock. However, stock of Rs 42.02 lakh remained unsold till March 2003 resulting in loss of interest of Rs 25.21 lakh, besides frustrating the objective of providing low cost clothes to the poor.

Deen Dayal Hathkharga Protsahan Yojana (DDHPY)

2.2.40 To ensure overall development of the handloom sector in an integrated manner and to benefit weavers by upgrading their skills and their products, GOI introduced (April 2000) the DDHPY scheme[©] to be equally financed by GOI and State Government, with half the eligible assistance from GOI, available on approval. Out of six components available, the Company approached (2000-04) GOI through DHT[ω] for financial assistance under

[©] Under six different components *viz.* Basic inputs, infrastructure support, design input, publicity, marketing incentive, strengthening handloom organisations by way of financial restructuring

[ω] Director of Handloom & Textiles, Government of West Bengal marketing incentive, publicity and design input components only. Government/ management stated (August 2004) that attempts would be made to submit proposals for other components.

2.2.41 Under marketing incentive component, the Company was to utilise incentive for allowing discount to customers thereby reducing sale price and increasing sales to benefit weavers. Incentive for each financial year would be based on average non-government sales of handloom products as per audited accounts of the immediately preceding three financial years.

Even after delays of six to 12 months in submission (March 2001-December 2003) of incentive claims of Rs 2.17 crore by the Company for the period 2000-04, claims were returned (January/ February 2002) by the DHT since they were incomplete. The Company resubmitted (February 2003) claims after lapse of 12 months. Meanwhile, DHT released (January 2002-March 2004) 39 *per cent* (Rs 84.14 lakh) of the claim to the Company. The Company, instead of utilising the incentive to reduce the price of handloom products, enhanced mark-up by five *per cent* from 2001-02. Thus, the objective of increasing sales volume was defeated since sales through depots reduced by 28 *per cent* from Rs 8.62 crore in 2000-01 to Rs 6.17 crore in 2002-03. Government stated (August 2004) that management had since been advised to review the mark-up price and to reduce the same.

2.2.42 Under design input and publicity components, the Company submitted (March 2001) two proposals to GOI through DHT for financial assistance of rupees five lakh each to develop value added/ price effective handloom products through computer aided design and market survey throughout the State. GOI approved the proposal only in August 2003 due to delay of 29 months in submission of requisite clarifications by the Company. The Company received (March 2004) rupees five lakh from State Government and GOI. Thus, due to inordinate delay the Company failed to develop new and improved designs for weavers as well as to develop market strategy based on market survey. Management stated (August 2004) that measures had been taken to utilise the fund for the specific purpose.

Development of exportable products and their marketing (DEPM) scheme

2.2.43 GOI introduced (June 1996) a scheme for developing production capabilities to produce and market exportable handloom goods.

The Company submitted (February 1998) a project report to GOI through DHT for developing silk/ cotton mixed dress materials, scarves, jute cotton mixed furnishing fabrics at Santipur, Nadia for export, to be implemented in three phases* within a year of sanction at a cost of Rs 63.50 lakh (GOI : Rs 43.75 lakh, State Government : Rs 19.75 lakh). The project report envisaged deployment of reputed designers to develop 250-1,125 designs to

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* Phase-I : Conduct of workshop, development of design through lead designer, training, development of samples, Phase-II : Marketing and Phase-III : Promotion of development of overseas market

benefit 200 weavers by increasing their annual income by Rs 31.20 lakh as well as to increase annual exports by Rs 38 lakh.

Government of India approved (October 1999) the project cost of first phase (Rs 38.50 lakh) and released (December 1999) Rs 8.75 lakh. However, State Government was yet to release its share (September 2004).

Scrutiny in audit revealed that the Company commenced the project work in April 2000 and appointed (March 2002) the lead designers after a delay of 22 months. The Company incurred Rs 10.24 lakh towards payment to two designers, conduct of workshop and development of sample designs for 2002-03 season. Although the lead designer submitted 50 designs up to January 2003, the Company developed finished handloom products of only five designs (April 2004). The weavers, however, were reluctant to adopt new designs due to non-payment of their dues by the Company. The Company failed to make efforts to market even these five designs. Further, in ARCPSE meeting the Government stated (August 2004) that the agreement with the designer did not include any provision to obtain assurance from the designer in regard to marketability of design. Thus, the project scheduled to be completed by April 2001 has still not yielded any tangible benefits. Management stated (August 2004) that existing designs need modifications to make them saleable in the market.

2.2.44 Despite availability of many Government financed schemes for uplift of the weavers, the Company failed to take up appropriate schemes for purchasing/ modernising looms; improving knowledge and skill of weavers through information and training; providing computer-aided designs for handloom products; and assisting in marketing handloom products sourced from weavers and primary weavers' co-operative societies in domestic/ international markets. Even the schemes taken up were not monitored leading to slippages and poor implementation. Besides, the Company did not regularly pay the dues of weavers/ societies, as discussed in paragraph 2.2.24 *infra*.

Ineffective internal control

2.2.45 Internal control was deficient as the Company failed to prepare segment-wise accounts, evolve a reliable management information system, periodically review performance of sales depots and accumulation of old/ soiled goods, compile cost data of different types of handloom products for strengthening cost control, ensure quality of products and carry out market survey. Moreover, there was ineffective monitoring of all schemes and absence of impact evaluation of the Company's activities *vis-à-vis* weavers and the handloom sector.

Internal audit

2.2.46 Internal audit (IA) wing, under the control of Financial Controller & Chief Accounts Officer, conducted only physical verification of stock at different depots and stores. It did not examine the purchase procedure, procurement targets and performance of sales depots. The Board did not oversee the performance of IA wing. Despite repeated observations of the Statutory Auditors on inadequacies in internal control and internal audit the Company failed to address these aspects, revealing management's apathy to develop effective internal control and internal audit commensurate with the size and operations of the Company. In ARCPSE meeting Government /management assured (August 2004) to strengthen internal control mechanism.

Conclusion

Even after three decades in operation, the Company failed to ensure development of handloom/ powerloom units in the State despite confining its activities to the handloom sector or implement schemes for development of weavers, procured handloom products without market surveys, resorted to high selling prices leading to huge accumulation of stock and shortage of working capital. Due to poor performance of sales depots and non-recovery of dues from Government departments/ organisations, the Company was unable to liquidate dues to weavers/ co-operative societies thereby hampering procurement and driving the weavers to insolvency.

The Company's sales were way below break-even level, all the sales depots were incurring losses and the possibility of the Company achieving turnaround in the near future was remote.

In view of these findings, Government may consider closure of the Company.