

## CHAPTER VI: MINISTRY OF COMMERCE AND INDUSTRY

### Export Credit Guarantee Corporation of India Limited

#### 6.1.1 Undue favour to an exporter

**In spite of delay in payment by an exporter and the embargo imposed by the Reserve Bank of India, the Company extended guarantee cover to an exporter resulting in a loss of Rs.2.95 crore.**

The Export Credit Guarantee Corporation of India Limited (Company) extends pre-shipment credit guarantee and post shipment guarantee to banks. Under the schemes, the Company fixes a discretionary limit upto which banks are permitted to extend advances to an exporter. To exceed the limit, banks have to obtain prior approval of the Company except where operation of the account was satisfactory. The Company issues a 'Specific Approval List' (SAL) containing the names and addresses of the exporters who have defaulted. Such exporters could be granted advance by the banks against the Company's guarantee only if the Company gave its specific approval in writing.

The City Union Bank Limited (CUBL) which had a discretionary limit of Rs.40 lakh only, sanctioned (July 2000) an advance credit facility of Rs. five crore to Beautiful Diamonds Limited (Exporter) and reported (November 2000) the same to the Company.

It was observed in Audit (January 2005) that while considering the approval of the limit to the CUBL, the Company noted as follows:

- (i) The exporter had been availing of credit facility from a consortium of 13 other banks and the operation of the account with them was irregular from 1998-99 due to non realisation of export proceeds from overseas buyers.
- (ii) Vysya Bank Limited (Vysya Bank), one of the consortium members that extended advance credit facilities had declared (October 1998) the exporter's accounts as non performing asset and filed (August 2000) the default declaration with the Company.
- (iii) The exporter had a working capital gap of around Rs.50 crore.
- (iv) The diamond industry was passing through a recessionary period.

Despite these shortcomings, the Company neither placed the exporter in the SAL nor denied the guarantee cover to the CUBL. Instead, the Company extended the period available to the exporter for repayment of the dues of the Vysya Bank from time to time upto October 2001. However, the exporter did not make the payment to the Vysya Bank.

Meanwhile, due to mounting receivables from the overseas buyers, the Reserve Bank of India (RBI) imposed (January 2001) an embargo prohibiting the exporter from making

further exports on credit. However, the Company placed the exporter in the SAL only in October 2001. Even after putting the exporter in the SAL and the embargo imposed by the RBI, the Company continued to extend guarantee to the exporter through CUBL upto the limit of Rs. five crore.

CUBL released advances from time to time upto May 2002 and in view of the persistent default, it preferred (March 2003) the claims under the guarantees. The Company settled (November 2003) the claim for Rs.2.95 crore which included an amount of Rs.1.05 crore in respect of the period after the RBI embargo. Thus, due to extending undue favour to the exporter, the Company incurred an avoidable expenditure of Rs.2.95 crore. Besides, the Company had paid claims of Rs.52.82 crore (upto November 2003) to 11 other banks for advances paid to the same exporter by these banks between January 2000 and March 2001.

The Management in their reply stated (April 2006) that the Company had extended the guarantee within the sanctioned limit because the consortium members had considered the possibility of recommending to the RBI the lifting of the embargo and the exporter had liquidated his entire overdue in September 2001.

The reply of the Management was not factually correct as the exporter continued to have heavy outstanding dues to CUBL long beyond September 2001 as per documents seen during Audit.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

### **The State Trading Corporation of India Limited**

#### **6.2.1 Loss due to not initiating action against a broker as per agreement**

**The Company purchased castor oil for export through a broker but made distress export of its own incurring loss of Rs.1.67 crore. Subsequently it did not recover the loss incurred despite a provision in the agreement with the broker in this regard.**

Ahmedabad Branch of The State Trading Corporation of India Limited (Company) received a proposal (17 April 2003) from M/s. Rajesh Brokers (broker) for purchase of castor oil through them and exporting the same to a foreign buyer to be identified by the broker, on a back to back basis. As per the agreement signed on 17 April 2003, the broker was to find suitable foreign buyers for export of castor oil in the name of the Company, finalise the export contracts, arrange to establish the letters of credit (LC) in favour of the Company and to arrange the procurement of castor oil from domestic market. In case of any default by foreign buyers and consequential loss to the Company, the broker was also liable to bear all the losses (either direct or consequential) and keep the Company indemnified at all times.

The Company entered (May 2003) into a contract with M/s. Cluster Plan Pte. Limited, Singapore, identified by the broker as per its proposal of 17 April 2003, for export of 1,000 MT of castor oil at US\$ 950\* (Rs.44,650) *per* MT.

The Company procured 909.280 MT of castor oil in June 2003 for Rs.3.96 crore from two firms, introduced by the broker by availing of Export Packing Credit from banks amounting to Rs.3.92 crore for which the Company was liable to pay interest of Rs.66.73 lakh upto March 2005. The Company also incurred expenditure of Rs.24.23 lakh towards storage, sample analysis, inspection and insurance.

Audit observed (April 2005) that the foreign buyer introduced by the broker did not establish the LC. Besides, the broker also failed to arrange the opening of LC in the name of the Company by finding new or alternative foreign buyers. As such, the Company, on its own, exported 860.700 MT of castor oil between January and April 2005 realising Rs.3.15 crore. Out of the balance of 48.58 MT of castor oil, 36.76 MT was returned to the sister concern of the broker for which a debit note of Rs.16.01 lakh was issued but no payment has been received so far (October 2006), 10.72 MT was sold to another firm by realising Rs.4.67 lakh and the remaining 1.10 MT was absorbed as wastage. The Company, thus, realised Rs.3.20 crore (Rs.3.15 crore plus Rs.0.05 crore) on export of castor oil against expenditure of Rs.4.87 crore, resulting in a loss of Rs.1.67 crore.

On this being pointed out in Audit, the Company presented (October 2005) two cheques (valuing Rs.30 lakh) obtained from the broker as security and one cheque for Rs.1.27 crore received from the sister concern of the broker to cover the loss. The cheques were dishonoured by the bank due to insufficient funds.

The Company purchased castor oil for export without obtaining a confirmed LC, and without ascertaining the financial credibility of the broker with whom no trade was carried from April 2000 to March 2003. The market was showing a downward price trend of castor oil owing to which the foreign buyer introduced by the broker did not establish the LC. The Company also remained solely dependent on the broker for indigenous procurement of castor oil. So these led to the loss of Rs.1.67 crore.

The Ministry stated (December 2006) that the Company had been dealing in castor oil with the broker through the broker's sister concern, M/s. Swastik Overseas Corporation since February 2000 and therefore, the financial credentials were known on the date of contract. Moreover, the prices of castor seeds were governed by the international market trends. The reply of the Ministry was not tenable because the Company should have established the financial credibility of the broker independently instead of relying on its experience with a sister concern which was a separate legal entity. Moreover, the Company should have obtained a confirmed LC before entering into any transaction with the broker to safeguard its interest. The Company also did not initiate any action for recovery of loss for more than two years until the same was pointed out by Audit in April 2005.

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\* *Rate of conversion Rs.47 per US\$*