CHAPTER VI: MINISTRY OF COMMERCE AND INDUSTRY

The State Trading Corporation of India Limited

6.1.1 Non-recovery of Rs.119.14 crore due to lapses in monitoring the execution of a contract

The Company could not recover Rs.119.14 crore from M/s. Metro Machinery Traders due to lapses in monitoring the execution of a contract.

The State Trading Corporation of India Limited (Company) received (April 2005) a proposal from M/s. Metro Machinery Traders (M/s. MMT) for financing the project pertaining to dismantling and disposal of the fertiliser plant of Neyveli Lignite Corporation Limited (NLC) at a cost of Rs.149.80 crore. The Committee of Management* approved the proposal and a Memorandum of Understanding (MOU) with M/s. MMT was signed on 29 April 2005. The MOU stipulated that M/s. MMT would deposit an amount of Rs.25 crore as margin money besides providing personal guarantee of the partners and post dated cheques as security. All the material of the plant was also to be pledged with the Company. The Company released (April 2005) Rs.149.80 crore on behalf of M/s. MMT to NLC.

As per the MOU, M/s. MMT was solely responsible for disposal of the scrapped plant *i.e.,* selecting the buyers and raising invoices. The Company was only to issue delivery orders to the parties nominated by M/s. MMT against the receipt of full sale value of the material towards recovery of Rs.149.80 crore along with the interest and trade margin. Upto March 2007, the Company had realised an amount of Rs.37.37 crore only and the value of the unlifted materials was assessed at Rs.1.81 crore as per the report of the surveyor appointed by the Company (June 2006).

In February 2006, Audit pointed out the slow progress of work by M/s. MMT and unrealised amount of Rs.105.48 crore. Thereafter, the Company directed M/s. MMT (14 March 2006) to deposit the balance amount due. Instead of making the payment, M/s. MMT issued a legal notice (25 April 2006) to the Company that the entire material had been sold to the Company vide invoice dated 17 May 2005 for the total contract value and sought the return of the post dated cheques. The Company's efforts to realise its dues by depositing the post-dated cheques (26 April 2006) also did not materialise as the cheques were dishonoured.

Audit while reviewing the case (March 2007) observed:

(i) As per the business arrangement, the Company was entirely dependent on M/s. MMT to find a buyer and finalise the value of the material being sold. The Company's role was limited to issue of delivery orders to the buyers identified by M/s. MMT and collection of the invoice value. The Company was to conduct

* ***The Committee of Management is the approving authority for all contracts exceeding Rs. three crore***

physical inspection of the consignments being dispatched with the help of the surveyor/security agency appointed by it along with its local representative. The Company's Chennai branch had been warning the Corporate Office since July 2005 that the valuation of material being done by M/s. MMT was suspect. It was apprehended that items being disposed of were not fetching the right value. Despite repeated requests[1] by the Chennai branch to appoint a technically competent person to assess the reasonability of the valuation of the material being disposed of by M/s. MMT, the Corporate Office did not take any action on the plea that the surveyor/security agency was to discharge the functions of a technically competent person also. Moreover, the Corporate Office argued, that engaging a valuer was outside the purview of the MOU and would result in duplication of work. It was observed by Audit that the independent surveyor appointed by the Company in June 2006, after the deal with M/s. MMT had fallen apart, reported that the value of the materials left on the site was only Rs.1.81 crore. Hence, against a finance of Rs.149.80 crore for the entire plant, the Company had managed to recover only Rs.37.37 crore with materials worth Rs.1.81 crore left to be disposed of indicating gross undervaluation of the material sold.

(ii) M/s. MMT also denied liability to the Company for the remaining dues as the plant stood sold to the Company as a consideration for money paid by the Company to NLC on behalf of M/s. MMT. Audit observed, that the terms of MOU were also flawed allowing this escape route to M/s. MMT. While on one hand the plant was to be pledged to the Company (clause 4) implying M/s. MMT's liability to repay the unrecovered amount, on the other, M/s. MMT was to sell the same to the Company (clause 5) thereby discharging all its liability to the Company.

The Management replied (June 2007) that though the Company had no previous experience in such business, no specialised skill was required for the business. It was M/s. MMT's responsibility to dismantle and sell the material. The reply of the Management was not tenable as failure of the Company to ensure proper monitoring of the dispatches by a technically competent independent agency and its excessive and optimistic reliance on M/s. MMT to operate the MOU properly with due diligence led to non-recovery of Rs.119.14 crore[2] after adjusting the amount of margin money deposited by M/s. MMT with the Company.

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

[1] ***July 2005, September 2005, December 2005 and January 2006***

[2] ***Rs.119.14 crore includes Rs.87.43 crore towards unrealised financed amount, Rs.4.49 crore towards trade margin, Rs.26.77 crore towards interest and Rs.0.45 crore being other charges***