

**CHAPTER VII**  
**ITI LIMITED**  
**MAJOR FINDINGS IN TRANSACTION AUDIT**

**7.1 Absence of due professional care in safeguarding the Company's interest**

**The Company did not obtain equivalent Performance Guarantee from HFCL which resulted in loss of Rs 10.40 crore to the Company.**

The Company received two advance purchase orders (November/December 2004) under Reservation Quota\* from Bharat Sanchar Nigam Limited (BSNL) for supply of 4,83,137 Integrated Fixed Wireless terminals (IFW terminals) of ZTE model• at a total value of Rs 198 crore (provisional) with a delivery schedule of three months i.e. by February/March 2005. The Company furnished a Corporate Performance Guarantee (CPG) of five *per cent* of the order value amounting to Rs 9.90 crore during May/July 2005.

The Company placed (November 2004) a Letter of Intent (LOI) on ZTE Corporation, China for the supply of IFW terminals. ZTE did not respond to the LOI. Meanwhile, Hindustan Futuristic Communications Limited, Solan (HFCL) which was L2 in the tender of BSNL agreed (January 2005) to supply at L1 price. Accordingly, a purchase order was placed (February 2005) on HFCL for supply of 483137 IFW terminals valued at Rs 206.26 crore with a delivery period up to June 2005. As against the CPG of Rs 9.90 crore (five *per cent* of order value) given by the Company to BSNL, the Company obtained a performance bank guarantee (PBG) of Rs 1.09 crore only (0.5 *per cent* of order value) from HFCL. On Company's request (12 April 2005) BSNL extended the delivery schedule up to July 2005 with additional PBG of Rs 9.90 crore. The Company did not obtain any additional PBG from HFCL to cover its risk exposure in the contract with BSNL.

HFCL could supply only 1,17,630 terminals even in the extended delivery schedule of July 2005 and BSNL short closed (August 2005) the order with Company and recovered Rs 19.80 crore of the CPG against the supply bills. The Company, however, could recover Rs 9.40 crore by invoking the PBG of Rs 1.09 crore and adjusting Rs 8.31 crore from pending bills of HFCL. The Company suffered a loss of Rs 10.40 crore.

---

\* *Reservation Quota orders refers to entitlement of the Company to receive 25 to 30 percent of the requirement of BSNL against total tender quantity.*

• *As part of the Co-operation Agreement and MoU (September/October 2004) with ZTE Corporation, China (ZTE) for manufacture and marketing of ZTE products .*

The Management stated (April 2007) that the entire amount had been adjusted against the amount payable to ZTE and HFCL; there was no loss to the Company in this transaction.

The reply of the Management is not tenable since the Company itself decided (October 2007) that ZTE had nothing to do in this contract and full penalty of Rs 19.80 crore should be levied on HFCL. Since order was placed on back-to-back basis, the Company should have obtained equivalent PBG from HFCL to cover its risk in the contract with BSNL particularly when the Company had furnished 10 per cent guarantee to BSNL for the very same order.

Absence of due professional care by the Company in safeguarding its interests by obtaining equivalent PBG of Rs 19.80 crore at par with the CPG furnished to BSNL resulted in loss of Rs 10.40 crore.

The matter was referred to the Ministry in June 2007; its reply was awaited (November 2007).

## **7.2 Loss in execution of AMC work**

**The Company suffered a loss of Rs 3.78 crore during April 2004 to August 2007 due to incorrect estimation of cost of the AMC work.**

The Mankapur unit of ITI Limited (Company) executed Phases I and II of the West zone GSM<sup>1</sup> project of Bharat Sanchar Nigam Limited (BSNL) during 2002 to 2004. As a part of the project the Company was also required to provide Annual Maintenance Contract (AMC) for the project for three years. The AMC for Phases I and II of the project for three years from 1 April 2004 and 10 November 2004, respectively was awarded (June 2004 to January 2005) to the Company by BSNL at Rs 17.78 crore based on the bid submitted. The Company in turn sub-contracted (August 2004) the AMC work to four companies<sup>2</sup> at a total contract value of Rs 18.11 crore. In addition, the Company also estimated an infrastructure cost at Rs 9.31 crore to execute the AMC. Thus, the total cost of the annual maintenance services to be provided by the Company was more than the total contract value receivable by it for the service.

Up to August 2007 the Company in actual execution of AMC had incurred an expenditure of Rs 21.57 crore<sup>3</sup> against the total revenue of Rs 17.79 crore<sup>4</sup> resulting in a loss of Rs 3.78 crore, on implementing the AMC.

<sup>1</sup> Global System for Mobile communications

<sup>2</sup> Wipro Infotech, Lucent Technologies Hindustan(P) Limited, Logica Global Solutions Pt Limited and Jatayu Software (P) Limited

<sup>3</sup> Rs 12.60 crore paid to sub-contractors, Rs 5.52 further payable to sub-contractors and Rs 3.45 crore incurred by the Company on project management and infrastructure costs

<sup>4</sup> Rs 11.32 crore received and Rs 6.47 crore balance receivable from the BSNL

The Management stated (December 2006) that GSM being a new technology, the Company did not have sufficient expertise at the inception of the project due to which full impact of the cost involved could not be envisaged.

The reply was not tenable as the Company's core business is related to manufacturing and installation of telecommunication network. The Company was not new to the GSM business as it had already entered into GSM networking in 1999 by signing MOU for execution of work for MTNL at Mumbai and Delhi.

Thus, the Company suffered a loss of Rs 3.78 crore due to incorrect estimation of the cost of AMC work.

The matter was referred to Ministry in April 2007; its reply was awaited (November 2007).

### **7.3 Loss due to non-repair of defective meters**

**ITI Limited suffered loss of Rs 1.57 crore during April 2001 to March 2007 due to non-repair of defective meters in the residential units of its township at Mankapur.**

ITI Limited (Company) had contracted (August 1999) an electrical load of 2500 KVA from Uttar Pradesh State Electricity Board (now Uttar Pradesh Power Corporation Limited (UPPCL) for its township at Mankapur, Uttar Pradesh. To recover charges for consumption of electricity from the residents, the Company had installed meters at the residential units in the township.

It was observed in Audit (February 2005) that the Company was recovering electricity charges based on the actual consumption from the residential units that had separate electricity meters installed and working and in case of other residential units, recovery was being made at *ad-hoc* rates fixed on the basis of connected load. During March 2007 only 178 residential units were paying charges on the basis of actual consumption while 1879 residential units were paying charges on *ad-hoc* basis.

During the period April 2001 to March 2007 the Company as per its own estimate has suffered a loss of Rs 1.57 crore<sup>5</sup> due to under recovery of electricity charges by charging *ad-hoc* rates instead of actual metered consumption

The Management stated (September 2007) that they had installed electro-mechanical meters from the beginning for individual quarters. The defective and un-repairable meters were replaced with 700 number electronic meters.

---

<sup>5</sup> Rs 48.72 lakh, Rs 27.75 lakh, Rs 24.87 lakh, Rs 19.24 lakh, Rs 14.37 lakh and Rs 21.58 lakh during the six years from 2001-02 to 2006-07, respectively.

Remaining meters were being monitored and repair action was being taken accordingly.

The reply is not tenable as more than 91 per cent meters were defective as of March 2007 and the Company had been incurring losses due to defective meters year after year since 2001-02 as indicated above.

Thus, the Company suffered a loss of Rs 1.57 crore due to non-repair and non-replacement of the defective meters.

The matter was referred to Ministry in July 2007; its reply was awaited (November 2007).