Chapter III

Compliance Audit Observations

Chapter III

Compliance Audit Observations

Important audit findings that emerged from the test check of transactions of the Government of Gujarat Companies are included in this Chapter. It also includes audit findings in respect of test-check of transactions of Statutory Corporations of the Government of Gujarat.

Government Companies

Gujarat Mineral Development Corporation Limited

3.1 Sale of land below the prevailing jantri rates

The Company sold land at a price which was ₹ 5.24 crore below the *jantri* valuation of the land.

Gujarat Mineral Development Corporation Limited (Company) was in possession of land admeasuring 16,188 square meter (sqm) since May 2001. The land was transferred in part settlement of loan recoverable by the Company from Gujarat Communications and Electronics Limited (GCEL).

The Company's attempts (May and July 2001) to sell the land by public auction were not successful. The Company's attempt (August 2008) to sell/ lease the land to Government Companies/ institutions was also not successful. The Company invited tender in June 2012 in which six bids were received. The highest bidder i.e., Cube Construction Engineering Limited (CCEL) quoted ₹ 18.31 crore. The valuation of the land as per the prevailing *jantri* rate was ₹ 23.55 crore[1].

The Company initially did not approve (June 2012) the offer of CCEL. It wanted the bidder to increase the price. CCEL did not agree (July 2012) to this on the plea that the land available to it would be lesser after reconstitution of plots under the TP scheme[2]. The Company took the view (November 2012) that CCEL might get only 11,331 sqm of land due to reduction of 30 *per cent* under the TP scheme. The reduced land was therefore valued at only ₹ 16.26 crore[3] for the purpose of justification of the sale. The Company eventually sold (January 2013) the land at the bid price of ₹ 18.31 crore and handed over its possession to CCEL.

The *jantr*i valuation of ₹ 14,550 *per* sqm was current and therefore subsumed the impact of the TP scheme of 2004. The *jantri* rate was applicable to the

---

[1] 16,188 sqm X ₹ 14,550 *per* sqm = ₹ 23.55 crore.
The *jantri* rate was notified in the year 2011 by the Revenue Department, Government of Gujarat and the *jantri* rate for this land area was ₹ 14,550 *per* sqm.

[2] In July 2004, Vadodara Municipal Corporation (VMC) notified that the said land would be covered under a proposed Town Planning (TP) Scheme.

[3] 11,331 sqm X ₹ 14,350 *per* sqm = ₹ 16.26 crore.

entire land area and not on the 70 *per cent* of land as contended by the Company. The sale deed was also executed for the entire land area of 16,188 sqm. Even the stamp duty of ₹ 1.15 crore[4] was paid by CCEL on the entire land area calculated at the *jantri* rate. The Company also took the wrong *jantri* rate of ₹ 14,350 *per* sqm instead of ₹ 14,550 *per* sqm for justifying its sale consideration. Considering the above, there was no reason for the Company to accept the sale consideration lesser by ₹ 5.24 crore[5].

The Management/ Government reiterated in its response (September 2016) that the land available had reduced by 30 *per cent* on account of the TP scheme. According to the Company, it got higher amount than the *jantri* rate. It was also stated that its efforts to sell the land had been unsuccessful in the past. The Company, therefore, accepted the offer of CCEL.

The reply is not convincing as the entire land of 16,188 sqm was handed over and registered in the name of CCEL and not merely 70 *per cent* as contended by the Company. The *jantri* rate cannot be applied on certain portion of the land to justify the sale consideration.

Gujarat State Handloom and Handicrafts Development Corporation Limited

3.2 Performance of Emporia and Training cum Procurement Centres of Gujarat State Handloom and Handicrafts Development Corporation Limited

Introduction

3.2.1 Handloom and Handicraft activities, a part of the textile sector, provide employment to a vast segment of craft persons in rural and semi urban areas. Both the sectors are largely unorganised with a majority of production activities being conducted in the houses of the artisans/ weavers.

Gujarat State Handloom and Handicrafts Development Corporation Limited (the Company) was formed in the year 2002. The Company is under the administrative control of the Industries and Mines Department of the Government of Gujarat (GoG). The main objectives of the Company as per its Memorandum of Association are:

- to assist, promote, manufacture and propagate all kinds of handicrafts and handloom and products of khadi in the State of Gujarat;
- to organise and establish Emporia and sales depots in the country;
- to maintain, conduct or otherwise subsidise research laboratories and experiments;
- to undertake export of handloom and handicraft products;

[4] Stamp duty paid at 4.90 *per cent* on entire land area of 16,188 sqm at *jantri* rate of ₹ 14,550 *per* sqm as per the notification.

[5] ₹ 23.55 crore *less* ₹ 18.31 crore.

½ to organise production through cooperative artisans or its own production centres; and

½ to enter into contract and take up indents from the State/ Central Government and local authorities for handloom and handicraft products.

In keeping with the above objectives, the Company was carrying out most of the above activities except those in relation to export and research work. The mission statement of the Company also stated creation of employment opportunities with sustainable income as one of its missions.

The Company is presently operating 25 Emporia[6] with the brand name ***Garvi-Gurjari*** within and outside Gujarat. It also operates 10 Training-cum-Procurement Centres[7] (TCPCs) (including one Central Stores at Gandhinagar) in Gujarat. TCPCs provide training to artisans, procure raw material and get it processed through artisans. TCPCs also procure finished products directly from artisans and supply these to the Emporia. Finished products that are produced or purchased at TCPCs are supplied to the Emporia based on the requisitions received from them. The selling price is fixed by TCPCs after considering the cost of production or the purchase price.

Supplies received by the Emporia from TCPCs are sold at the Emporia and through exhibitions. There is also a system of consignment sale wherein the artisans directly bring their items to the Emporia and to the exhibitions for sale. In consignment sale, the items are sold at the selling price fixed for the said items. On sale of the consignment items, the Company retains the profit margin and pays out the cost price to the artisans. The Company has also launched a web portal viz., e-Store in June 2015 for online sale of its products.

The Company's manpower resources are deployed at three levels viz., Corporate Office, Emporia and TCPCs. As on 31 March 2016, out of total manpower of 109 persons, 63 were deployed at Emporia, 20 at TCPCs and 26 at the Corporate Office. The Company's financial resources are mainly generated from sales revenue and grants received from the Government of Gujarat (GoG). The grants are utilised for purchase of raw material, finished products and other expenses depending on the purpose for which the grants are received. The revenue realised is utilised for the remaining purchase of raw material and finished products, wages to artisans, employee and other payments.

Scope of Audit

3.2.2 The promotion of handloom and handicraft items and employment generation depends on the financial and operational performance of the Company. We, therefore, reviewed the financial performance of the Company and its Emporia. We also reviewed the operational performance of

---

6 Within Gujarat viz., Ashram Road (Ahmedabad), Ambavadi (Ahmedabad), Vastrapur (Ahmedabad), Ahmedabad Airport, Anand, Bharuch, Bhavnagar, Bhuj-1, Bhuj-2, Gandhinagar, Kudasan, Rajkot, Rajpipla, Surat-1, Surat-2, Surendranagar and Vadodara, Outside Gujarat viz., Bangalore, Chennai, Hyderabad, Kolkata-1, Kolkata-2, Lucknow, Mumbai and New Delhi.

7 Bhuj, Khambhat, Dholka, Kanodar, Surendranagar, (Sanidhya) Ahmedabad, Rajkot, Gundlav, Patan and Central Stores Gandhingar.

23 operational Emporia[8] and employment generation for artisans at TCPCs. The audit was conducted for the period 2013-14 to 2015-16 during March to May 2016.

Audit Findings

3.2.3 The audit findings are discussed under three themes viz.,

- financial performance of the Company and its Emporia;
- operational performance of the Emporia and the e-Store; and
- generation of employment opportunities for artisans by TCPCs.

Financial performance of the Company and its Emporia

Financial performance of the Company

3.2.4 The Company earns revenue primarily from sale of handloom and handicraft items at the Emporia and through exhibitions. The Company also receives grants from the GoG for purchase of raw materials, finished items, conducting exhibitions, training artisans, brand promotion, etc. The major expenditure of the Company comprises purchases to the extent not financed by grants, artisan wages, employee and other expenses. The Company has finalised its accounts only till 2013-14 and accounts for the years of 2014-15 and 2015-16 are in arrears. The quality of accounts has not been satisfactory for the years 2012-13 and 2013-14. In both the years, the Statutory Auditors of the Company have given a disclaimer certificate[9].

The revenue and expenses of the Company for the three years 2012-13 to 2014-15 are given in **Table 3.1**. For the year 2015-16, even the provisional figures were not available, hence, were not furnished to Audit (October 2016).

Table 3.1: Financial position of the Company

(₹ in crore)

Year	2012-13	2013-14	2014-15 (Provisional)
Revenue from Operations	24.77	17.64	17.79
Other Income[10]	8.29	6.80	19.57
Total	33.06	24.44	37.36
Operational expenditure[11]	23.91	16.89	25.32
Other expenditure[12]	11.21	10.08	12.15
Profit (Loss)	**(2.06)**	**(2.53)**	**(0.11)**

Source: Information from Annual Accounts of the Company

The higher sale and purchase figures in 2012-13 is because of a bulk sale to parties other than the Government to the extent of ₹ 6.94 crore.

8 Excluding Ahmedabad Airport shop and Kudasan which were not in operation as on 31 March 2015.

9 Disclaimer certificate indicates that the Statutory Auditors were not in a position to give an opinion on the financial statements of the Company on the basis of available records.

10 Other Income constitutes (i) Grants utilised for expenses, (ii) Interest Income and (iii) Miscellaneous income.

11 Operational expenditure consists of purchase of stock, manufacturing cost and expenses against grants.

12 Other Expenditure constitutes (i) employee benefit expense, (ii) finance cost, (iii) depreciation and amortisation expense, (iv) provisions, (v) other expenses etc.

Financial performance of the Emporia

3.2.5 The Company had not made any analysis of the financial performance of its Emporia. We observed that the Emporia had compilation of sales details and inventory positions only. The supply of goods was made by TCPCs with only sales price marked on the items. We worked out the Emporia wise profitability for two years only i.e., 2013-14 and 2014-15 as figures for 2015-16 were not available. This was done by deriving the purchase cost from the sales value[13] and deducting from it the Emporia related expenses[14]. The working so done is exhibited in ***Annexure 5*** and it revealed the following:

½ The 23 Emporia incurred loss of ₹ 14.58 lakh in 2013-14 which turned into profit of ₹ 14.82 lakh in 2014-15. The profit was mainly because of improvement in sales and profitability of two outside Gujarat Emporia and one Gujarat based Emporia. They were Kolkata-1 and Mumbai outside Gujarat and Ashram Road in Ahmedabad. This contributed to the overall reduction in the total losses of the Company for the year 2014-15 (provisional) as shown in **Table 3.1**.

½ Out of the 23 Emporia, 14 Emporia incurred losses (61 *per cent*) in 2013-14 and 2014-15. These included 10 Emporia in Gujarat and four outside Gujarat in 2013-14. Similarly in 2014-15, it included nine Emporia in Gujarat and five Emporia outside Gujarat. Twelve Emporia incurred losses in both the years.

As the Company had not analysed the financial performance of individual Emporia, it had not taken specific measures for improving their performance.

The Management in an interim reply (October 2016) stated that the Company had invited offers to appoint a creative agency for advertisement and publicity. They further stated that the Company is under the process of using the latest information technology for monitoring the performance of the Emporia.

The reply is not specific to the observations on losses incurred by the Emporia. The reply also does not indicate any timeline set by the Company to achieve improved performance in terms of measurable/ quantifiable parameters.

It is recommended that the financial performance of the Emporia should be improved by periodical review of sales revenue against the expenses. Based on the analysis corrective action should be taken.

Operational performance of the Emporia and the e-Store

To analyse the reasons for the continued losses in most Emporia, we examined in audit the operational performance of the Emporia and the e-Store. We observed that most of the Emporia did not achieve the sales targets set for them by the Corporate Office. The contribution of sales at Emporia to total

[13] Since cost price of finished items is not available with Emporia, the purchase (cost) of finished items is derived by deducting 26 *per cent* of sales value. This calculation is done based on the accounting policy of the Company in respect of valuation of closing stock of finished items.

[14] Salaries and Administrative expenses.

sales of the Company was low as compared to bulk sales to Government bodies and sales through exhibitions. The sale of own stock of Emporia was less compared to the consignment stock. This had resulted in accumulation of finished products in the Emporia. The Company did not implement bar coding system in 17 out of 25 Emporia and did not have an effective system for monitoring and evaluation. The online sales through e-Store were also very low. Our observations are discussed in detail below.

Non-achievement of targets

3.2.6 To enhance the sales performance, the Company fixed targets for its Emporia annually. The overall sales target for the Company as a whole was fixed at ₹ 23.95 crore for 2013-14 and ₹ 23.90 crore for 2014-15.

Seven Emporia[15] in 2013-14 and eleven Emporia[16] in 2014-15 did not achieve even 50 *per cent* of the targeted sales (***Annexure 5***). Chennai registered as low as 16 *per cent* of the targeted sales in 2013-14. Similarly, Surat-II registered as low as 18 *per cent* of the targeted sales in 2014-15. In terms of total sales, the Emporia could achieve sales target of ₹ 17.18 crore and ₹ 16.06 crore. This was 72 and 67 *per cent* of the target fixed for the above two years respectively. This was despite two Emporia[17] in 2013-14 and one Emporium[18] in 2014-15 achieving more than 100 *per cent* of the targets fixed.

We found that the targets were not fixed in a scientific manner depending on the potential of the Emporia. The Company had no mechanism to analyse the reasons for shortfall in target achievement. It also did not take corrective action wherever targets were not achieved.

It is recommended that operational performance of the Emporia should be improved by using systematic techniques for fixing targets. The Company should also enhance the sales at Emporia, analyse reasons for shortfalls and take corrective actions.

Low sales at Emporia

3.2.7 The Company sells handloom and handicraft items in the normal course through its Emporia to the customers who visit the Emporia. Apart from this, the Company also receives bulk purchase orders from various Government Departments/ bodies. We observed that bulk sales to Government Department/ Bodies contributed 20, 25 and 20 *per cent* of the total sales during 2013-14 to 2015-16. These bulk sales were not due to efforts by the Company but were on account of the Government's own decision to purchase. This indicated that if bulk orders from the Government were not received, there would be significant impact on the Company's sales revenue.

We also observed that the revenue from sales at exhibitions contributed 36, 35 and 42 *per cent* of the total sales during 2013-14 to 2015-16. Therefore,

[15] Bharuch, Bhuj-2, Chennai, Lucknow, Surat-1, Surat-2 and Vadodara.
[16] Bangalore, Bharuch, Bhuj-1, Gandhinagar, Hyderabad, Lucknow, Rajpipla, Rajkot, Surat-1, Surat-2 and Vadodara.
[17] Gandhinagar and Kolkata-2.
[18] Mumbai.

excluding the bulk sales and sales at exhibitions, the revenue from sales at the Emporia was only 44, 40 and 38 *per cent* of the total sales. This indicated that the Emporia played a limited role in promoting the products of artisans, thereby not serving its purpose to the expected extent.

Low sales of own stock compared to consignment stock

3.2.8 A test-check of the sales of own stock *vis-à-vis* consignment stock[19] for the period 2013-14 to 2015-16 was conducted in five Emporia[20]. It revealed that the total sales of own items ranged between ₹ 1.52 crore and ₹ 2.85 crore. On the other hand the sale of consignment items ranged between ₹ 3.50 crore and ₹ 4.95 crore. The total sales of own stock increased in absolute terms but the percentage of consignment sales to total sales remained much higher in the above period. During the period 2013-14 to 2015-16, the consignment sales at Emporia were 76, 57 and 62 *per cent* respectively of the total sales. The Company needs to analyse the reasons for low sales of own stock and take effective measures to increase the same.

Non disposal of accumulated stock

3.2.9 Inventory comprises raw materials and finished products lying at TCPCs and Emporia. There was an increase in inventory of finished items from ₹ 7.26 crore at the end of 2013-14 to ₹ 9.22 crore at the end of 2014-15. Out of this, the Company considered stock[21] of ₹ 1.10 crore and ₹ 1.13 crore as unrealisable. This was 15 *per cent* and 12 *per cent* of the available stock for the above respective years. The Company has a policy of offering slab wise discounts on the basis of age of inventory. We observed that the policy has not been effective as accumulation of stock has increased over the years. The realisable inventory of finished items at the end of the year compared to sales was 35 and 45 *per cent*[22] in 2013-14 and 2014-15. Thus, there was substantial accumulation of inventory of finished goods which was due to low sales as discussed in the previous paragraphs. Further, there were instances of purchase of items in excess of requirement, which led to accumulation of stock, as discussed below.

Purchase in excess of requirement

3.2.9.1 The compiled data of procurement was not maintained by the Emporia in respect of regular products produced/ procured by TCPCs. In absence of this, it was not possible to compare the purchases and sales to identify excess purchases, if any. In respect of two items viz., t-shirts and labels procured as per instructions of the Corporate Office, we could compare the purchases with the requirement. We observed that the purchases were in

---

[19] Consignment stock represents products brought by the artisans directly to the Emporia and to the exhibitions for sale. In consignment sale, the items are sold at the selling price fixed for the said items by the Company. On sale of the consignment stock, the Company retains the profit margin and pays out the cost price to the artisans.

[20] Ashram Road (Ahmedabad), Ambavadi (Ahmedabad), Vastrapur (Ahmedabad), Kolkata-1 and Kolkata-2.

[21] Finished goods.

[22] (Total inventory of finished items *minus* unrealisable inventory of finished items) X 100 / Total sales (as per accounts)

excess of ordered quantity/ estimates resulting in accumulation of stock and blockage of funds as discussed below:

The Company purchased 64,664 t-shirts in November 2010 against the requirement of 30,000 t-shirts for Khel Mahakumbh[23]. This was done without receiving a confirmed order for the additional quantity. The Company has unsold stock of 10,262 t-shirts valuing ₹ 10.06 lakh at its Ashram Road Emporium in Ahmedabad. The rationale for purchases in excess of requirement and retaining 10,262 t-shirts in stock (April 2016) was not available on record.

The Company placed purchase orders for 5,16,666 labels in November 2010 at the rate of ₹ 3.75 *per* label. These labels were meant to portray the logo of the Company viz., *Garvi-Gurjari* on the t-shirts, caps and track suits. Against the total purchases, only 1,55,508 labels being 30 *per cent* of the total purchases were utilised (April 2016). Procuring labels without assessing the requirement resulted in idle stock of 3,61,158 labels valuing ₹ 13.54 lakh at TCPC Ahmedabad since March 2011.

The Company may explore the possibility of disposing the t-shirts through Emporia sales by extending discounts as per the extant policy. The Company needs to develop a system of monitoring of stock at all the Emporia at regular intervals and take decisions for its disposal.

Non-implementation of bar-coding system and software

3.2.10 Bar coding system provides for generation of several management information system (MIS) reports. For effective report generation it is necessary that bar coding is implemented in all the Emporia. This will enable consolidated and linked information to be obtained for proper decision making at the Corporate Office level.

The Company decided (December 2004) to implement the bar coding system in its Emporia and TCPCs. Since introduction of this system more than ten years ago the Company was successful in implementing it in only eight Emporia[24]. The remaining 17 Emporia and 10 TCPCs continued with the manual billing system as on April 2016. The Corporate Office was not getting any reports because the bar coding system had only been partially implemented.

Implementing the bar coding system could have been an effective tool for internal control at the Corporate Office level. The MIS reports generated from the software would have facilitated effective decision making. This would have improved the operational performance of the Emporia. If the system had been implemented in all the Emporia and TCPCs and cost data captured in it the financials of the Emporia and TCPCs could have been worked out.

---

[23] Khel Mahakumbh was held from 20 November to 15 December 2010 and was sponsored by the GoG.

[24] Ashram Road (Ahmedabad), Ambavadi (Ahmedabad), Vastrapur (Ahmedabad), Gandhinagar, Rajkot, New Delhi, Kolkata-1 and Kolkata-2

The Management in its interim reply stated (October 2016) that the Company is in the process of using the latest information technology. This shall be used in marketing, inventory control, accounting, finalisation of balance sheet and for monitoring the performance of Emporia and TCPCs.

The reply is not specific to the observation as to why the Company did not implement bar coding system in all the Emporia. The reply also did not indicate any timeline for implementing the new technology or plans for making the software inclusive of cost data.

Shortcomings in the implementation of the e-Store project for online sales

3.2.11 The Company decided (21 October 2013) to add online shopping cart with payment gateway as part of ***e-Store/ web-portal***. This was to be a part of the existing website of the Company. The web-portal was launched (June 2015) at a cost of ₹ 18.80 lakh by M/s Cybersurf (India) Private Limited (Cybersurf). The management of the web portal was also assigned to Cybersurf in June 2015 for a period of one year. Payment of ₹ 20.70 lakh upto March 2016 was also made to Cybersurf. For the setting up of the e-Store project, the Company hired 3,408 sq. ft area in Gandhinagar. This was to be used for the physical stores, designer room, photo shoot room, office back up functions etc. An expenditure of ₹ 50.56 lakh was incurred for interior designing works of the hired premises. We noticed the following deficiencies in the implementation of the e-Store project:

Low sales through e-Store

3.2.11.1 A review of the sales from the date of launching, (June 2015) to April 2016 revealed sales of only ₹ 1.66 lakh involving 218 items[25]. The total visitors to the site from within India were 21,112 and from outside India were 6,728. The Company incurred an operational cost of ₹ 39.80 lakh[26] upto April 2016 for running the e-Store. The total revenue generated from the e-Store was not enough to cover even the operational costs incurred for it.

We observed that the Company did not consider the online sales of its products through online marketing companies like eBay, Flipkart, Amazon etc. Performance of web-portals operated by other State-owned organisations[27] was also not considered before deciding to launch the e-Store. The Company did not carry out any periodical analysis of the sales trend during the period of operation of the e-Store. There was also no plan/ strategy to improve the business in the future considering the above operational cost being incurred for the e-Store.

It is recommended that the Company may develop means of increasing the online sales through appropriate plan and business strategy.

---

25 Handloom items 74 and Handicrafts items 144.

26 ₹ 20.70 lakh for manpower cost and ₹ 19.10 lakh for rent for the place hired for e-Store.

27 www.cauveryhandicrafts.net (Karnataka State Handicrafts Development Corporation Limited), www.mphandicrafts.com/modules/booking/home.aspx (Madhya Pradesh Hasthshilp Evam Hathkargha Vikas Nigam Limited), www.indrayanihandlooms.com (Maharashtra State Handlooms Corporation), www.poompuhar.org (Tamil Nadu Handicrafts Development Corporation.

Deficiencies in the delivery system

3.2.11.2 We placed (October 2016) a sample order on e-Store in order to test the entire process of purchase, payment and delivery. We observed (November 2016) that the estimated period of delivery was not specified on placing the order. The delivery, even in the local area of operations of the e-Store i.e., Ahmedabad-Gandhinagar, was made in 14 days. Delayed delivery of the product indicated lack of proper coordination between the e-Store and the delivery agency.

Non-imparting of training to the staff

3.2.11.3 M/s Cybersurf, as per conditions of the management contract, was required to train the outsourcing staff or agency appointed by the Company. This condition was with the intention that the Company would be able to manage the web-portal on its own in future. M/s Cybersurf's contract period for management of the web-portal was to expire on 30 June 2016. We observed that the Company neither initiated training of its own staff nor did it recruit any outsourced staff or agency for the same till date (May 2016). Thus, in the absence of trained staff, Company would continue to incur operational cost of ₹ 2.10 lakh *per* month to manage the e-Store. The revenue generation from e-Store was very low against this expenditure.

The Management in its interim reply stated (October 2016) that the Company invited offers in September 2016 to appoint a professional agency for effective operational management of the e-Store.

The reply is not convincing as the Company did not give any reason for low sales and for not imparting training to the staff.

Lack of monitoring at the Corporate Office level

3.2.12 We observed in Audit that there were no periodical inspections of the Emporia and TCPCs by the officials of the Corporate Office. There was also no mechanism to monitor the timely completion and submission of finished products by artisans for job works assigned. There was no system of obtaining periodical reports of the performance of the Emporia and TCPCs by the Corporate office as discussed in the above paragraphs. Only the sales details were annually obtained.

The Management stated (October 2016) that the Company is in the process of using the latest information technology for monitoring the performance of Emporia and TCPCs.

The reply does not indicate any timeline set by the Company to achieve improved performance in measurable/ quantifiable parameters.

Generation of employment opportunities

Low generation of employment

3.2.13 The Company procures yarn, gray yardage/ dress, cloth (raw material for handloom items) from various sources. The Company receives grants from the GoG for purchasing the raw material every year based on the estimates submitted by it. It assigns work to artisans and pays them the weaving and processing charges as per the decided piece rates[28]. It also fixes the time limit for each type of work based on the quantum and type of job work given. It thereby generates employment and income for artisans. A review of production work entrusted to the artisans test-checked in three TCPCs[29] revealed the following deficiencies:

½ In Rajkot, the Company did not entrust any job work to the artisans during the years 2013-14 and 2014-15. In 2015-16, the job work to artisans was given only in the month of December 2015. The number of artisans employed and days of employment generated was not available on record.

½ In Sanidhya, Ahmedabad, the Company employed 11, two and six individual artisans during the three years 2013-14 to 2015-16 respectively. The average number of employment days generated for the individual artisans was 127, 30 and 37 days during the above three years. The employment generation in terms of number of days was low and had reduced from 2013-14 to 2015-16.

½ In Bhuj, the Company employed 25, eight and 10 artisans during the three years 2013-14 to 2015-16. In this period it generated an average of 42, 145 and 62 days of employment respectively. It can be seen from the data that number of artisans employed has declined from 2013-14 to 2015-16.

The Company has also engaged certain Mandalis[30] in Ahmedabad TCPC for job works. The period of employment for each artisan engaged by such Mandalis was not available. These job works being assigned on a piece rate basis, we were not able to determine whether the requirements of minimum wages were complied with.

Accumulation of raw material due to low employment generation

3.2.14 During the years 2013-14 and 2014-15, the Company purchased raw material valuing ₹ 0.08 crore and ₹ 1.39 crore respectively for the TCPCs. It utilised raw material worth ₹ 0.02 crore and ₹ 1.35 crore during the years 2013-14 and 2014-15 respectively. The Company thus had consumed only 0.98 *per cent* and 39.59 *per cent* of the available stock[31] of raw material during the two years. This resulted in accumulation of stock of raw material to the extent of ₹ 2.02 crore and ₹ 2.06 respectively for these two years. The

---

[28] The rate per meter or number of item manufactured.
[29] Sanidhya (Ahmedabad), Bhuj and Rajkot.
[30] Mandalis refer to Cooperative Societies.
[31] Opening stock *plus* purchases during the year, i.e. for the year 2013-14: ₹ 2.04 crore and for the year 2014-15: ₹ 3.41 crore.

Company had considered raw material stock valuing ₹ 1.40 crore as unrealisable as at the end of March 2015. Accumulation of raw material is indicative of not providing adequate employment to artisans despite having huge quantity of raw material.

Conclusion

3.2.15 The Company is operating 25 Emporia and 10 TCPCs with the objective of promoting and propagating handlooms and handicraft items. It also aims to create employment for the rural artisans. The Company had also launched an e-Store for online sale of products in June 2015.

We noticed that the operational performance of the Emporia was poor and their sales were low. Many Emporia (seven in 2013-14 and 11 in 2014-15) could not achieve even 50 *per cent* of the sales targets. The revenue generated from online sales through the e-Store was not enough to cover even the operational costs incurred on it. The Company did not carry out any periodical analysis of the e-Store sales trend nor did it evolve any plan for improving this business in future. The Company incurred losses during 2012-13 and 2013-14 and its financial statements were in arrears for last two years. Fourteen out of the twenty three (61 *per cent*) Emporia incurred financial losses. The Company was also not consistent in creating employment opportunities for the artisans.

The matter was reported to Government/ Management (August 2016); their replies had not been received (December 2016). An interim reply (October 2016) received from the Management has been suitably incorporated.

Gujarat State Petroleum Corporation Limited

3.3 Expenditure for KG-21 well remained idle

Expenditure of ₹ 478.98 crore on KG-21 well drilled outside the template remained idle. The Company incurred additional expenditure of ₹ 34.37 crore to remove the unaligned KG-21 conductor.

The process of exploration and production of oil and gas in offshore fields starts with the award of an offshore block or area to a contractor. The exploration work involves drilling of wells with a view to find oil and gas. The drilling of wells is usually done using a drilling template[32]. In case of discovery of oil and gas, the development strategy is prepared. This involves development of the existing wells and drilling of new wells in the determined area in order to harness the discovered oil and gas commercially. This is

[32] A drilling template consists of an open steel box with multiple holes, depending on the number of wells to be drilled.

generally done using a Well Head Platform[33] (WHP) which is aligned to the drilling template.

Gujarat State Petroleum Corporation Limited (Company)[34] was awarded (February 2003) the KG-OSN-2001/3 block (KG block) for oil exploration. During the exploration stage, five wells were drilled (January 2005 to October 2009) at a particular location. This location was named as KG-08 location based on the first well (KG-08) drilled in this area.

After drilling of two wells (KG-08 and KG-17), a six-slot drilling template was installed (June 2006) on the conductors[35] of the two drilled wells. This was done for undertaking further exploration activities. After the installation of the template, three more wells (KG-15, KG-28 and KG-21) were drilled. The fifth of the five wells (KG-21) was however drilled (September 2008 to October 2009) outside the template. The Company was not aware of this fact at that stage.

All of these five wells found gas. Four of these wells (KG-08, KG-17, KG-15 and KG-28) found gas in Deen Dayal West[36] (DDW) area and one well (KG-21) found gas in Deen Dayal North West area. Based on these finds, a development strategy was framed (June 2009) for the entire DDW area. It included drilling of eleven new wells[37] over and above the four explored wells in DDW area. Since, the KG-21 well was also drilled from the same location, the development strategy envisaged a flexibility of tying the KG-21 well with the DDW development plan. The development strategy involved installation of a sixteen slot WHP at this location which was to be aligned with the already installed drilling template. This WHP was to be used for 15 wells for DDW area and development of KG-21 well.

Prior to the installation of WHP in the development stage, a pre-engineering survey of the KG-08 location was done in May 2010 by the WHP contractor. It was at this stage that the Company became aware of the fact that KG-21 well was drilled outside the template. The conductor of the KG-21 well was protruding above the sea bed. It was, therefore, imperative to cut and remove this conductor for safe installation of the jacket (legs) of the WHP at the pre-defined location. It needs to be mentioned that the location of the WHP could not be changed as the WHP had to remain aligned with the template wells already drilled. The Company conducted activities for cutting and removing the protruding conductor of the KG-21 well and other related activities for safe installation of the WHP. The Company incurred additional expenditure of ₹ 34.37 crore for these activities. The WHP was installed at the pre-defined location in May 2011.

---

33 A well head platform is a fixed off-shore platform over the drilling template from where well completion, extraction and production take place.

34 Alongwith its consortium partners Geo Global Resources Inc. and Jubilant Energy Limited.

35 Casing a well involves running a steel pipe down the inside of a recently drilled well. The space between the casing and the sides is filled with cement to set the casing. The widest type of casing is called conductor pipe and is usually having diameter of about 30 to 42 inches for offshore wells.

36 DDW encompasses a larger area than KG-08 location.

37 This included one well from the remaining sixth slot of the template.

As the jacket of the WHP had come over the KG-21 well, the possibility of re-entering and utilising the already drilled KG-21 well had become very difficult. This had resulted in expenditure worth ₹ 478.98 crore[38] incurred on the KG-21 discovery well remaining idle (December 2016). Drilling outside the template had also resulted in additional expenditure of ₹ 34.37 crore for the safe installation of the WHP.

The Management stated (November 2015/ August 2016) that zero visibility and diver error contributed to the KG-21 well being drilled outside the template. It was also mentioned that the drilling of the KG-21 well could not be held up as it was not practically and economically viable to hold the jack up rig on standby. The Company admitted that the position of the well had made re-entry extremely difficult. The Company also contended that the exploration cost was not wasted as the exploration objectives were met and converting an exploration well into a development well was not always practicable in offshore oil fields.

The reply is not convincing as the exploration objectives were fully met only when the gas discovered in a well at the exploration stage was developed for commercial extraction. The development strategy had provided for flexibility for tying the KG-21 well to the DDW development plan. The sixteen slot WHP was also planned considering the 15 wells for DDW and the KG-21 well for DD North West. The Company found gas reserves in the KG-21 well in exploration stage but may not be able to develop the same for commercial purpose. This was due to the KG-21 well being drilled outside the template and re-entry being difficult. As the KG-21 well could not be developed at present due to operational errors as conceded by the Management, the exploration cost of ₹ 478.98 crore incurred on the same remained idle.

The matter was reported to Government/ Management (July 2016); the Government reply is awaited (December 2016).

Sabarmati Gas Limited

3.4 Accumulation of doubtful dues for want of prompt remedial action

Inadequate monitoring of outstanding dues of a consumer and delayed remedial action led to accumulation of doubtful dues of ₹ 4.72 crore.

Sabarmati Gas Limited (Company) was incorporated (6 June 2006) as a joint venture Company. It was promoted by Gujarat State Petroleum Corporation Limited (GSPC) and Bharat Petroleum Corporation Limited (BPCL). Its main objects were to procure, transmit and sell natural gas and related fuels. As on 31 March 2016, 99.88 *per cent* of the share capital[39] of the Company was held by three companies viz., BPCL, GSPC and Gujarat State Petronet Limited.

[38] Cost of KG-21 well was US $ 98.82 million (₹ 478.98 crore worked out at the average rate of ₹ 48.47/US $).

[39] BPCL: 49.94 *per cent,* GSPC: 22.47 *per cent* and GSPL: 27.47 *per cent*.

The Company entered (30 May 2008) into a gas sale agreement (GSA) with M/s Shah Alloys Limited (SAL). The GSA envisaged supply of daily contract quantity (DCQ) of 10,000 SCMD[40] of natural gas for a period of ten years. The GSA *inter-alia* also provided for the following clauses for protecting the interest of the Company:

½ SAL shall provide an interest free deposit or bank guarantee (BG) equivalent to 45 days' bill based on DCQ plus applicable taxes[41].

½ If SAL on a quarterly basis lifts quantities of gas in excess of 105 *per cent* of total contracted quantity, the Company shall have the right to refuse to supply further gas at the existing/ unrevised DCQ and charge penalty. Even on a daily basis variation beyond +/- 5 *per cent* will not be permitted.

½ SAL shall pay for the fortnightly invoice raised by the Company within seven days. Interest at prescribed rates will be levied for delays beyond seven days. In case payment was not made within 30 days, the Company shall have the right to disconnect the supply and invoke the security.

At the request of SAL, DCQ was increased to 15,000 SCMD (August 2009) and further to 25,000 SCMD (January 2010). The BG of ₹ 0.96 crore initially furnished by SAL was subsequently increased to ₹ 1.91 crore in April 2010. SAL was declared a sick unit under the SICA Act[42], 1985 in August 2010. The Company stopped supply of gas to SAL in August 2012. After encashment of BG (August 2012) of ₹ 1.91 crore, an amount of ₹ 4.72 crore remained outstanding from SAL (August 2012). The recovery of the same being doubtful, the Company made a provision of ₹ 4.72 crore in its accounts for the year 2012-13. The Company's claim (August 2013) was included as a debt (September 2015) in the draft rehabilitation scheme (DRS) of SAL by Board for Industrial and Financial Restructuring (BIFR). Further progress was awaited (April 2016).

We scrutinised (March 2016) the Company's ledger account of SAL for the period from June 2008 to August 2012. In 39 out of 51 months the outstanding dues at the end of the month was more than previous fortnight's bill issued. From November 2010 to July 2012, it was as high as two to four fortnights' bill. Increase in the DCQ and the gas sales price entailed that the Company should have obtained BG upto ₹ 3.90 crore from SAL during June 2010 to July 2012. In August 2010 (when SAL was registered as a sick unit) the outstanding dues of SAL were less than the BG available with the Company. We observed that the outstanding dues of SAL progressively increased and were more than the BG available from March 2011 onwards.

We noticed (March 2016) that the Company was aware of SAL being registered as a sick unit as early as September 2010. The Company, however, took no action till March/ April 2012. An internal proposal was initiated (March/ April 2012) to stop gas supply to SAL in view of its increased outstanding dues worth ₹ 2.34 crore. This proposal was not acted upon till August 2012 which showed lack of monitoring on the part of the

[40] Standard cubic metres *per* day.
[41] Value Added Tax @ 15 *per cent*
[42] Sick Industrial Companies (Special Provision) Act.

Management. The Company did not safeguard its interest by either obtaining additional BG security or stopping the gas supply. When the dues increased to ₹ 7.70 crore, the Company stopped (August 2012) the supply of gas. It enforced some payments and encashed the BG to reduce the outstanding dues to ₹ 4.72 crore.

We also noticed overdrawal of gas more than 105 *per cent* of the DCQ in 33 out of 51 months (June 2008 to August 2012). Penalty of ₹ 0.92 crore was not levied for the overdrawal as required in the terms of the GSA. The penalty was levied only from July 2010 onwards. Thus, the Company did not take timely action by effectively using the provisions of the GSA. This led to accumulation of doubtful dues of ₹ 4.72 crore.

The Management/ Government stated (July/ August 2016) that it had received BG as per the GSA when it had increased the DCQ of SAL. The Company also stated that it did not exercise its option to charge penalty for overdrawal of gas till June 2010 from any of its customers. This was a policy decision considering the competition in the industry. The decision to continue gas supply to SAL even after it was declared sick and the decision to stop gas supply in August 2012 were business decisions. They were taken in the interest of the Company. It was also contended that the Company had made and realised sales of about ₹ 53 crore from SAL during August 2010 to July 2012. The outstanding dues of ₹ 4.72 crore have been accepted by SAL and included in the DRS by BIFR and may be recovered in future.

The reply is not convincing as the Company was aware of the sick status of SAL as early as in September 2010. The Company should have safeguarded its interest by monitoring the dues of SAL against the available BG. The Company did not take steps to increase the BG or stop the gas supply though the dues of SAL became more than the BG from March 2011 onwards. It was only in March 2012 that a proposal to stop the supply of gas to SAL was mooted. The stoppage of supply and forfeiture of BG was done only in August 2012. The Company's contention that the decision to continue and later stop gas supply to SAL was a business decision is not supported by any recorded evidence to that effect. Further, a report on the outstanding dues of SAL was put up to the Board for the first time in September 2013.

Statutory Corporations

Gujarat State Financial Corporation

3.5 Recovery Performance of Gujarat State Financial Corporation

Introduction

3.5.1 Gujarat State Financial Corporation (the Corporation) was established (1 May 1960) under the State Financial Corporations Act (SFCA), 1951. The main objective of the Corporation was to extend financial assistance to small and medium level industrial units in the State of Gujarat. The Corporation sanctioned finances in the form of term loans, lease finance, hire purchase, bill discounting, line of credit and working capital loans. The loans were sanctioned based on applications received from entrepreneurs after conducting required technical and financial appraisal.

The Corporation had stopped its lending activity from 2001-02. The Corporation sanctioned loans till 2001-02 and disbursed ₹ 3,404.31 crore till 2003-04., The Corporation recovered (till 31 March 2016) ₹ 4,073.47 crore along with interest against these disbursements. The major activity of the Corporation at present is recovery of its outstanding dues. The recovery activity involves enforcing personal guarantees, sale of assets taken over under Section 29 of the SFCA[43] or under Section 13 of the SARFAESI[44] Act, 2002. One Time Settlement (OTS) schemes are also formulated by the Corporation from time to time for recovery activity. During the period 2011-16 the Corporation recovered ₹ 119.60 crore through its recovery efforts. Out of this recovery, 71.58 *per cent* (₹ 85.61 crore) was through OTS schemes and 22.51 *per cent* (₹ 26.92 crore) was through sale of assets. The remaining 5.91 *per cent* (₹ 7.07 crore) was through general recovery procedures.

The Corporation had an outstanding balance of ₹ 15,349.51 crore as on 31 March 2016. It consisted of principal of ₹ 432.39 crore and interest and other recoveries of ₹ 14,917.12 crore. These were from 5,520 loan accounts as on 31 March 2016. Provision for doubtful debts has been made in the books of accounts in respect of all the loan accounts being loss assets[45]. This has been done in accordance with the prudential norms prescribed by the Small Industries Development Bank of India (SIDBI). Consequently, interest is not charged in the books of accounts on accrual basis but only accounted for as and when received. The Corporation has a Head Office (HO) at Gandhinagar and three Regional Offices (ROs) at Ahmedabad, Rajkot and Surat.

---

43 Where any industrial concern under a liability to a financial corporation defaults in repayment of any loan or in complying with the terms of the agreement, the Financial Corporation shall have the right to take over the management or possession of the concern as well as right to sell the property pledged, mortgaged or hypothecated to it (Section 29 of SFCA).

44 Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI Act). Where any borrower who is under liability to a secured creditor defaults in repayment and gets classified as a non-performing asset, the secured creditor can take possession of the asset given as security, take over the management of the borrower unit or appoint any person to manage the secured asset or sell the asset (Section 13 (2) and (4) of SARFAESI Act).

45 Assets classified as doubtful for more than three years.

The defaults and recovery performance of the Corporation was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002 (Commercial), Government of Gujarat. The Report was discussed by the Committee on Public Undertakings in January and September 2005 and no recommendations were made.

Scope of Audit

3.5.2 The present audit conducted during February to May 2016 focused on:

½ the formulation and implementation of OTS schemes through which major recoveries were made by the Corporation during the period 2011-16; and

½ adequacy of recovery efforts by the Corporation in the loan accounts which could not be settled during the above period.

In all 575 loan accounts with an outstanding balance of ₹ 1,425.34 crore[46] were settled during the period 2011-16 by issuing 'No Due Certificates' (NDCs). For the purpose of examination of the OTS schemes, we reviewed 171 loan accounts from them, having an outstanding balance of ₹ 1,174.61 crore.

As on 31 March 2016, 5,520 loans accounts having a balance of ₹ 15,349.51 crore (inclusive of interest) were outstanding. To assess the adequacy of the recovery efforts made in these loan accounts, we test-checked 118 accounts having an outstanding balance of ₹ 1,440.52 crore.

Audit Findings

3.5.3 The recoveries made during the last five years and the amount outstanding at the end of each year is given in **Table 3.2**:

Table 3.2: Amount recovered against total outstanding

(₹ in crore)

Year	Total amount recoverable at year end including interest at agreement rates	Principal amount recoverable at year end	Amount recovered during the year including interest at agreed rates				Percentage of recovery to total amount recoverable at year end
			OTS	Sale	General	Total	
2011-12	7,322.90	502.31	26.39	4.28	1.01	31.68	0.43
2012-13	10,632.72	470.58	26.16	7.43	0.96	34.55	0.32
2013-14	11,939.87	454.69	16.08	4.76	2.04	22.88	0.19
2014-15	13,191.04	444.20	9.12	3.87	0.64	13.63	0.10
2015-16	15,349.51	432.39	7.86	6.58	2.42	16.86	0.11

Source: As per data received from GSFC Head Office, Gandhinagar.

It can be seen from the above table that recovery percentage in terms of total outstanding has been very low. The percentage recovery shows a reducing trend over the years till 2014-15 with a negligible improvement in 2015-16. The amount outstanding has continuously increased over the years by 109.60 *per cent* due to accumulation of interest and low recoveries. The low recoveries resulted in principal outstanding reducing only at an average rate of 3.67 *per cent* during the period. The major portion of the recovery has been affected through OTS schemes.

[46] This represents the outstanding with interest and will not tally with recoveries made under OTS as substantial portion of the interest is sacrificed.

The audit findings are discussed under two headings viz., i) formulation and implementation of OTS schemes and ii) adequacy of recovery efforts in respect of outstanding accounts.

Formulation and Implementation of OTS schemes

Formulation of OTS schemes

3.5.4 OTS schemes were introduced by the Corporation for the first time during the period 1997-2001. During the audit period, the major OTS schemes in operation were:

- OTS schemes for term loans;
- OTS schemes for finance service division[47] (FSD); and
- OTS schemes for BIFR[48]/ GBIFR[49] units[50].

The OTS schemes for BIFR/ GBIFR units and FSD loans for non BIFR units were first introduced in February 2009. The various OTS schemes were approved by the Board of Directors and approval for individual OTS cases was given at the Managing Director level. The broad parameters for the calculation of amount for OTS are tabulated in **Table 3.3:**

Table 3.3: OTS parameters as per the latest schemes

Particulars	OTS parameters
Term loans above ₹ 15 lakh	Higher of the original loan amount recalculated with eight *per cent* per annum on quarterly compounding interest or 65 *per cent* of principal outstanding.
FSD loans	Original loan amount recalculated at eight *per cent* per annum on quarterly compounding interest but in no case less than 65 *per cent* of the principal outstanding.
BIFR/ GBIFR units	Higher of principal outstanding or original loan amount recalculated with six *per cent* compound interest since beginning. From September 2011 only principal outstanding was to be recovered.

Source: OTS policies as approved by Board of Directors of the Corporation.

The major audit observations on the formulation of OTS schemes are discussed below:

Absence of adequate checks and balances for BIFR/ GBIFR units

3.5.4.1 The Corporation introduced (February 2009) OTS scheme for the units declared sick by BIFR or registered as sick unit under GBIFR. The amount for OTS under this scheme would be higher of the original loan amount recalculated at six *per cent* compound interest from the date of disbursement till last date of recovery (LDR) and simple interest thereafter **or** 100 *per cent* of the present principal outstanding. The Corporation (21 October 2009) modified the second parameter to 65 *per cent* of principal outstanding as the response to the scheme was not encouraging.

Government of Gujarat (GoG) introduced (15 July 2010) a settlement scheme for sick units registered with BIFR/ GBIFR. The sick units could avail benefits

47 Finance Service Division deals with loans other than term loans like bill discounting, hire purchase, lease financing, working capital loan etc.
48 Board of Industrial and Financial Reconstruction.
49 Gujarat Board of Industrial and Financial Reconstruction.
50 Units declared sick by the Board for Industrial and Financial Restructuring or registered with Gujarat Board for Industrial and Financial Restructuring. The GBIFR was constituted in Gujarat to rehabilitate small scale units and non BIFR units.

under the scheme for their revival and settle dues of financial institutions at principal outstanding. The scheme specified that these reliefs would be extended to them on merit basis and would not be available automatically. The scheme was valid for six months and prescribed that:

½ In respect of units registered with GBIFR the prescribed criteria[51] of sickness had to be satisfied by the units. Only large units declared sick by BIFR were not required to satisfy eligibility conditions.

½ Sick units registered with GBIFR were to be decided on merit basis by a committee chaired by the Industries Commissioner (IC).

½ BIFR units having outstanding amount upto ₹ 10 crore were to be decided by a committee chaired by the Chief Secretary. Units having outstanding above ₹ 10 crore were to be decided by a High Power Committee chaired by the Chief Minister.

The Corporation approved (12 September 2011) modification in its existing scheme for BIFR/ GBIFR units. This was to make it in line with the above scheme of the GoG based on demand from loanees. The revised scheme was introduced (26 September 2011) by the Corporation for registered BIFR/ GBIFR units. The revised scheme permitted that BIFR/ GBIFR units could settle their accounts at the present principal outstanding. It allowed the outstanding interest and penal interest to be waived. The scheme is still operative as on September 2016.

We observed that the OTS scheme of the Corporation though introduced based on the GoG scheme did not have the checks and balances of the GoG scheme. This is explained below:

½ The Corporation gave the benefit of the scheme to all GBIFR registered units. The satisfaction of eligibility conditions for sickness like erosion of net-worth and minimum period of commercial production was not ensured. The GoG scheme on the other hand gave the benefit to only those registered units which satisfied the eligibility conditions prescribed.

½ The Corporation gave the benefit of the scheme to all BIFR/ GBIFR units based on the Managing Director’s approval. In the GoG scheme the decision was required to be taken by specified committees on a case to case basis based on the outstanding amount.

Some illustrative cases observed in Audit are discussed below:

½ Four units[52] had been declared sick by BIFR and had outstanding above ₹ 10 crore each (November 2011 to November 2014). As per GoG scheme, the grant of OTS at principal outstanding in these cases was to be decided by a Committee headed by the Chief Minister. The Corporation

---

[51] Sick unit means any unit where borrower accounts remains substandard for more than six months or there has been erosion in the net worth due to accumulated cash losses to the extent of 50 *per cent* during the previous year and the unit was in commercial production for at least two years. Substandard means the principal or interest in respect of its borrower account has remained outstanding for a period exceeding one year.

[52] M/s Jay Bharat Fabrics Mills Limited (₹ 29.66 crore),M/s Yeast Alco Enzymes Limited (₹ 47.19 crore), M/s Modern Terry Towel Limited (₹ 75.14 crore) and M/s Modern Denim Limited (₹ 39.37 crore).

granted all these units OTS at principal outstanding based on the Managing Director's approval.

½ In the case of M/s Bhagyodaya Oils Private Limited the settlement at principal outstanding was granted based on GBIFR registration. It was not ensured that the unit satisfied sickness conditions. The registration of the unit was subsequently cancelled (08 May 2012) by GBIFR as it did not satisfy conditions of being a sick unit. The unit thus availed the benefit of the OTS scheme of the Corporation without being a sick unit.

The Management/ Government stated (October/ December 2016) that eligibility criteria for the OTS scheme was not kept in respect of GBIFR units. This was because it would not be correct to have two offices examining sickness of an entity. The GoG scheme also covered outstanding of other GoG Offices/ Boards/ Corporations. Hence the decision was taken by different committees depending on the amount outstanding. The objective of the GoG scheme included rehabilitation and employment generation which was different from the objective of the Corporation. The objective of the Corporation was to effect recovery from stressed accounts and hence, the Corporation's scheme had been made more liberal.

The reply is not convincing as registration with GBIFR did not necessarily mean declaration of sickness by GBIFR. The satisfaction of eligibility conditions should have been ensured to avoid a situation as in the case of M/s Bhagyodaya Oils Private Limited. In the said case, the Corporation itself later took up the matter with the Industries Commissioner (IC) office. They reiterated that they granted OTS to the unit based on IC registration, which was subsequently cancelled for non satisfaction of eligibility conditions.

The Corporation introduced BIFR/ GBIFR OTS scheme with settlement at principal outstanding as the loanees demanded a scheme in line with the GoG scheme. Commensurate checks and balances as existing in the GoG scheme should have introduced. In fact it would have ensured that the benefit of settlement at principal outstanding was given only to the proven sick units. This would have safeguarded the financial interest of the Corporation since it is a continuing scheme contrary to the six month tenure of the GoG scheme.

It is recommended that the Corporation consider introducing the checks and balances of the GoG scheme in its BIFR/ GBIFR OTS scheme.

Non inclusion of asset valuation clause in the OTS schemes

3.5.4.2 In Gujarat Industrial Investment Corporation (GIIC) and other State Financial Corporations (SFCs)[53] the value of assets was a parameter for arriving at the amount for OTS. The formula for OTS schemes adopted by the Corporation did not consider the valuation of assets as a parameter in the OTS formula. In the absence of this, details of asset valuation were not available in

[53] In Himachal Pradesh State Financial Corporation (HPSFC), the minimum amount recoverable for OTS shall be principal outstanding or 75 *per cent* of the realisable value of primary and collateral security whichever is higher. Similar clauses exist in the OTS schemes of Gujarat Industrial Investment Corporation (GIIC) and Uttar Pradesh State Financial Corporation (UPSFC).

the accounts test-checked in Audit except in four cases. In these four cases even if 65 *per cent* of the asset value was considered as a parameter, the potential recovery would have been higher. The calculation is given in **Table 3.4:**

Table 3.4: Potential recovery not made due to not considering valuation of assets

(₹ in crore)

Sl No.	Name of the unit	Outstanding during OTS	Amount recovered under OTS	Value of security	65 *per cent* of security value	Potential recovery lost
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (6)-(4)
1	M/s Enkay Texo Foods Industries Limited and Accelerated Synthetic Private Limited	87.26	6.13	26.60	17.29	11.16
2	M/s Raj Quarry Works	1.11	0.11	1.24	0.81	0.70
3	M/s Gautam Spinning Mills	2.51	0.46	1.15	0.75	0.29
4	M/s Kiran Ceramics Industries	7.64	0.80	2.32	1.51	0.71
	Total	**98.52**	**7.50**	**31.31**	**20.36**	**12.86**

Source: Compiled from documents in loanee files.

Thus due to non insertion of an asset valuation clause, the Corporation lost an opportunity to make potential recovery of ₹ 12.86 crore.

The Management/ Government stated (October/ December 2016) that in the initial OTS scheme of 2007 the asset valuation clause had been introduced. It had to be immediately removed as it was creating difficulties in implementation. It was contended that the non-insertion of the asset valuation clause had made the Corporation's scheme more successful. In the four cases mentioned there were several legal and administrative problems in taking possession of the assets mortgaged by the units. These units would not have come for the OTS if the asset valuation clause had been there.

The reply is not convincing as GIIC and other SFCs had an asset valuation clause as one of the parameters for deciding the amount for OTS. The Corporation, however, did not have asset valuation as a parameter in the OTS formula. It, therefore, did not get the benefit of a higher amount for OTS if the asset valuation was higher. As an asset is the only security which can be sold in the event of non-payment, its valuation should be one of the criteria for deciding the amount for OTS. The Corporation should keep its mortgaged assets free from encumbrances.

It is recommended that the Corporation should insert the clause of asset valuation in the OTS formula to protect its financial interest.

Non loading of interest element in instalments granted

3.5.4.3 On review of cases settled under BIFR/ GBIFR and non BIFR OTS schemes, we observed that generally amount for OTS was not received at one go. The loanees were permitted to pay in instalments after the down payment. There was no interest built into the equated instalments in the OTS schemes of the Corporation. Only if the instalments were not paid on the prescribed due dates then interest at 14 *per cent* was chargeable for the delay.

In the case of other SFCs[54], interest was loaded in the instalments granted under the various OTS schemes. Loading interest in the instalments granted can compensate the Corporation for the delay in the recovery of the full amount for OTS. On a test-check of 23 cases settled under OTS schemes, we observed that the Corporation suffered potential interest loss of ₹ 0.78 crore[55] .

The Management/ Government has not provided a detailed reply to this audit observation yet (December 2016).

It is recommended that the Corporation may consider loading of interest in the instalments granted for payment of amount for OTS.

Implementation of OTS schemes

3.5.5 The Board of Directors of the Corporation formulate OTS schemes and the HO sanctions OTS proposals and sale proposals received from the ROs. The OTS applications are received and processed at the ROs as per the approved policy/ scheme. They are then sent to the HO for approval and issue of sanction letters. The recovery action is then monitored by the ROs, as per the terms of sanction. We observed that there was no time limit laid down for issue of OTS sanction letters from the date of receipt of application. The only exception was in the case of OTS schemes for term loans wherein a time limit of 30 days had been fixed. We observed that there was delay beyond 30 days in processing of applications in 76 loanee accounts (including term loans). The delay in these cases beyond the period of 30 days ranged from 10 to 377 days. There was no monitoring at the HO level insisting on the submission of regular progress reports on the OTS applications received and under process. Such monitoring could have increased the extent of recoveries made by expediting the finalisation of OTS proposals.

In both the schemes for non-BIFR units viz., term loans and FSD loans, interest at eight *per cent* was recoverable on the original principal amount. In case of BIFR/ GBIFR units the settlement was done only at the principal outstanding after waiving interest and penalty. The settlement of loans at principal outstanding gives a substantial benefit to the loanee. It is essential that clear cut guidelines are laid as to when a unit should be given the benefit of the BIFR/ GBIFR OTS scheme so that discretion is minimised. A few cases wherein discretion was exercised against the interests of the Corporation, due to absence of a policy are discussed below:

3.5.5.1 M/s Vasparr Container Limited (unit) which was granted three FSD loans of ₹ 4.29 crore in 1997/ 1998 started defaulting since 2001-02. The unit was declared sick by BIFR in December 2011 and the Corporation appealed against the declaration of sickness to AAIFR[56] in February 2012. Pending the decision on the AAIFR appeal, the Corporation granted (October 2012) the unit OTS at principal outstanding amount of ₹ 4.35 crore. The Corporation,

---

54 Haryana State Financial Corporation, Uttar Pradesh State Financial Corporation and Punjab State Financial Corporation at the rate of 12 to 13 *per cent*.

55 Calculated at the rate of nine *per cent* on the instalments given after down payment being the interest earning rate of the corporation on the funds invested in the Gujarat State Financial Services.

56 Appellate Authority for Industrial and Financial Restructuring

subsequently, also withdrew the AAIFR appeal after issuance of NDC (18 January 2013).

In general practice if the Corporation was contesting the sickness of the unit in AAIFR it did not allow them benefit of the OTS scheme under BIFR/ GBIFR. In this case the unit was allowed to make settlement at principal outstanding, which lacked justification. Had the Corporation insisted on a non BIFR settlement with interest, the potential recovery could have been ₹ 8.38 crore[57].

3.5.5.2 M/s Rupangi Impex Limited (unit) was sanctioned (January 1998) a FSD loan of ₹ 2.40 crore. It never paid any amount towards principal or interest. The unit made reference to BIFR thrice (1999, 2001 and 2008) but its case was rejected. The rejection was on the ground of deliberate manipulation of accounts to make the unit artificially sick. It was finally declared sick by BIFR in May 2013 without stating the changed circumstances in justification.

In July 2013 the Corporation issued a notice to the unit to enforce the personal guarantee of the directors. The Corporation did not follow up the notice and also did not file an appeal against the BIFR order in AAIFR. The unit was granted BIFR/ GBIFR OTS in September 2013 at the principal outstanding of ₹ 2.40 crore.

The Corporation should have filed an appeal in AAIFR considering the earlier rejections of BIFR and monitored this case earnestly. This would have enabled the Corporation to insist the unit for a non BIFR settlement. Had the Corporation insisted on a non BIFR settlement, the potential recovery could have been ₹ 5.80 crore[58] based on Corporation's calculation.

3.5.5.3 M/s Quantum Digital Vision (India) Limited (unit) was sanctioned (April 1997/ September 1998) three FSD loans of ₹ 4.53 crore. The loan was sanctioned against hypothecation of assets valuing ₹ 3.23 crore. The unit started defaulting since 1999. The property was taken over in 2001, but was returned upon issue of post dated cheques by the unit. Later, most of the cheques were dishonoured.

We observed that neither was the property taken over again nor was action taken for dishonour of cheques. The unit's appeal to BIFR (July 2012) for declaring the unit as a sick was not considered as the Corporation had objected (November 2012) to the same. The Corporation withdrew its objection in July 2013 '*taking other facts taken into consideration and keeping in mind its overall interest*'. The unit was declared sick by BIFR (July 2013). The Corporation granted BIFR/ GBIFR OTS (October 2013) to the unit at the principal outstanding of ₹ 3.37 crore.

We observed that the Corporation was a secured creditor and it could have objected to the unit being declared as sick. It could have then taken appropriate action under SARFAESI Act. This would have led the unit to accept a non BIFR OTS. The Corporation could have made a potential recovery of ₹ 5.94 crore under non BIFR OTS based on its own calculation.

[57] This has been adopted from the Non-BIFR amount for OTS calculated by the Corporation.
[58] This has been adopted from the Non-BIFR amount for OTS calculated by the Corporation.

3.5.5.4 M/s Kangaroo Cement Private Limited (unit) was disbursed (August 1998) term loan of ₹ 1.39 crore. It was later also provided a funded interest term loan of ₹ 0.65 crore against equitable mortgage of its assets. As the unit started defaulting, the primary security was taken over in July 2005. The unit's GBIFR registration was rejected (June 2006) by GoG as the unit was not viable for rehabilitation and assets were possessed by the Corporation. The Corporation received (06 January 2007) an offer for the primary security for ₹ 2.61 crore against valuation of ₹ 2.56 crore.

We observed that the primary security was not sold but was handed back (April 2007) to the unit against payment of ₹ 45 lakh. The unit was registered (May 2008) as a sick unit under GBIFR by the Industries Commissioner. The Corporation issued (02 January 2012) OTS sanction letter to the unit as a BIFR unit for principal outstanding of ₹ 1.26 crore. The Corporation could have sold the securities when a clear cut offer was received in January 2007 and realised ₹ 1.30 crore more from the loanee.

Thus, in the above four cases, the Corporation had foregone potential revenue of ₹ 11.30 crore[59] due to settling the four loanees at principal outstanding.

The Management/ Government stated (October/ December 2016) that audit suggestion of time limit for issue of sanction letter had been implemented. The monitoring of recovery activity by HO had been revived. It also stated that the decisions on filing an AAIFR appeal or not was taken on case to case basis for loanee units declared sick by BIFR. It was also contended that it would not be possible to lay down a general policy in this regard. The Management also informed that its general experience had been that filing an AAIFR appeal only further delayed the settlement of the case. Thus, it was better to give them a BIFR OTS and ensure recovery of at least the principal outstanding.

The reply is not convincing as laying down broad guidelines prevents exercise of discretion on a case to case basis as happened in the above four cases. There were no recorded reasons for the decisions taken in the four cases test-checked in audit. There was also no reference to any general practice followed in recent years in three out of the four cases mentioned above. Even in the case of M/s Vasparr Container Limited the reference to the general practice was contrary to the action taken by the Corporation.

It is recommended that a clear cut policy should be framed laying down circumstances and conditions for grant of BIFR/ GBIFR OTS.

Adequacy of recovery efforts in respect of outstanding accounts

3.5.6 As referred in ***Paragraph 3.5.1***, the Corporation had an outstanding balance of ₹ 15,349.51 crore from 5,520 loan accounts as on 31 March 2016. Only in 147 accounts having an outstanding balance of ₹ 860.43 crore the Corporation had assets in its possession. In respect of 974 loanee accounts

[59] M/s Vasparr Container Limited ₹ 4.03 crore (₹ 8.38 crore - ₹ 4.35 crore), M/s Rupangi Impex Limited ₹ 3.40 crore (₹ 5.80 crore - ₹ 2.40 crore), M/s Quantum Digital Vision Limited ₹ 2.57 crore (₹ 5.94 crore - ₹ 3.37 crore) and M/s Kangaroo Cement Private Limited ₹ 1.30 crore (₹ 2.56 crore - ₹ 1.26 crore)

having an outstanding balance of ₹ 7,536.08 crore there were legal cases pending. Audit observations on the recovery efforts made by the Corporation in regard to the above outstanding accounts are discussed below:

Change in policy of settlement of group accounts

3.5.6.1 The Corporation laid down (February 2009) a condition under the OTS schemes that all defaulting accounts of a group company had to be settled simultaneously. This was to be done before issue of NDC to the group as a whole. This policy was changed in November 2011 by deletion of the above condition. The units were issued NDC even if there were outstanding dues against their sister concerns. The reason for the change in policy as mentioned in the Board note was that there was less response to its OTS scheme due to the above clause. It was stated that if this clause is removed at least 33 units would settle their accounts through OTS. After the change in policy NDCs were issued to seven units though there were outstanding dues in respect of their associated concerns. The same is shown in **Table 3.5:**

Table 3.5: Outstanding of Associated accounts

Sl. No.	Unit to whom NDC issued	Associate concern where amount was outstanding	Outstanding amount (₹ in crore)
1	M/s Enkay Texo Foods Industries Limited M/s Accelerated Synthetics Private Limited	M/s Rama Filament Private Limited	81.06
2	M/s Vasparr Container Limited	M/s Vasparr Fischer Limited	130.33
3	M/s Norris Medicines Limited	M/s Innovative Prints Forms Limited	14.78
4	M/s Pooja Textiles Limited	M/s Patel Textiles Limited	14.33
5	M/s Geologging Industries Limited	M/s Mono Acriglass Limited	48.43
6	M/s Sakha Organics Limited	M/s Indian Chemical Manufacturer Limited.	6.60
	Total		**295.53**

Source: As per data received from GSFC Head Office and Regional Offices.

The OTS scheme was sanctioned to M/s Enkay Texo Foods Industries Limited and M/s Accelerated Synthetics Private Limited in October 2012. We observed that assets valuing ₹ 26.60 crore was available with the Corporation which was released alongwith NDC to these units. This was sufficient to cover the amount for OTS of M/s Rama Filament Private Limited (the associate concern of the units) also. Due to the change in policy, M/s Rama Filament Private Limited continues to have outstanding dues but the group assets are no longer available.

In three of these outstanding accounts related to associate concerns (Sl. No.1, 3 and 5), we observed that there was inadequate monitoring. Even the required action that could be taken with the existing assets of the associate concern was not taken. This resulted in the accounts remaining outstanding as discussed in ***Paragraph 3.5.6.3.*** Thus the change in policy did not result in recoveries as anticipated by the Corporation and instead benefitted a few loanees with large assets.

The Management/ Government stated (October/ December 2016) that the change in policy of settlement of group accounts was done to make the scheme more practical and attractive. The change had due impact as a large number of units came forward to settle their individual accounts.

The reply is not convincing as the Corporation had not made any analysis to determine the impact of such change in policy. The issues regarding value of assets of group companies, assets which would be released and its impact on the remaining dues were not analysed. The change in the policy did not lead to higher recovery as only seven out of the 33 units had settled their dues after the change in the policy.

Delay in the sale of available security

3.5.6.2 The Corporation can sell assets taken over under Section 29 of the SFC Act 1951 or under Section 13 of the SARFAESI Act. The details of assets available in respect of individual loanee were kept at the RO level and there was no monitoring at the HO level. The **Table 3.6** shows the time taken by the Corporation for sale of assets after taking over their possession:

Table 3.6: Time taken for sale of assets by the ROs of the Corporation

Sl. No.	Time taken for sale after possession	Ahmedabad		Surat		Rajkot	
		No. of cases	Amount (₹ in lakhs)	No. of cases	Amount (₹ in lakhs)	No. of cases	Amount (₹ in lakhs)
1	15 to 13 years	1	10.25	2	187.21	4	4.69
2	12 to 10 years	5	435.03	1	0.03	2	13.01
3	9 to 7 years	10	352.97	5	403.79	1	47.11
4	Less than six years	19	753.35	8	119.89	37	342.26
	Total	**35**	**1,551.60**	**16**	**710.92**	**44**	**407.07**

Source: Compiled from information received from three Regional Offices

We observed that in 31 out of 95 cases sales were done after more than six years from the date of possession of assets. Delay in sale resulted in delayed realisation of revenue. We observed that the security available was either in the form of land and building or plant and machinery. Plant and machinery and factory building was subject to depreciation in value. The delay in sale might have led to lesser realisation due to depreciation with the efflux of time. In respect of land there is generally an appreciation in value. The Corporation did not carry out any valuation of assets though it had prescribed a system of valuation of assets at regular intervals. The Corporation could, therefore, not take the benefit of the increased valuation of land.

The Management/ Government stated (October/ December 2016) that the Corporation makes sincere efforts to dispose of the property taken over. It may not, however, always succeed due to reasons like property being in remote area, legal issues regarding land and outstanding statutory dues. The Management assured that more intensive efforts would be made for monitoring the sale of assets at the HO level also.

One instance of delay in the sale of assets due to lapse on the part of the Management is reported below:

In the case of M/s Quality Crimpers Private Limited, the Corporation took over possession of assets in March 1998. The Corporation did not make any effort to sell the asset under the impression that it was under liquidation. On clarity that the unit was not under liquidation, the Corporation started (June 2011) making efforts to sell the asset. The Corporation finally agreed (October 2013) to sell the assets at ₹ 1.72 crore. The delay in the sales had delayed the realisation of revenue.

The Management/ Government stated (October/ December 2016) that the financed machinery of the unit was lying with the banks who also had a second charge over the assets. The bank gave its consent for sale in June 2011 and the sale was made in October 2013.

The reply is not convincing as the delay in the sale cannot be attributed to the banks giving its consent for sale in June 2011. The records show that the Corporation became aware of the assets not being with the liquidator only in November 2010 though the asset was taken over by it in 1998. The process of obtaining permission from the bank started only after that date and hence was obtained in June 2011. Thus, the delay cannot be attributed to the permission not been obtained from the bank.

It is recommended that valuation of available assets should be done at regular intervals as directed by HO in its circulars. The efforts of ROs in selling available security should be regularly monitored at the HO level to avoid delays as pointed out above.

Delayed recovery action resulting in accounts remaining outstanding

3.5.6.3 Where the Corporation was a secured creditor, the SFCA and SARFAESI Act entitled the Corporation to take over the management of the defaulting unit. For the assets provided as security, the Corporation could initiate action[60] for taking over possession and sale of the security of the defaulting unit. We observed delays in taking action for sale of security and invoking of available personal guarantee. Instances of inadequate action by the Corporation are given below:

½ M/s Sweetliner Investment & Finance Private Limited (SIFL) was disbursed (August 1996 to May 1997) hire purchase loan of ₹ 2.85 crore. This loan was guaranteed against security of plant and machinery and personal guarantee of its directors. M/s Shaan Housewares Limited (SHWL), having the same directors as SIFL, was also sanctioned (March 1997) term loan of ₹ 2.20 crore. This loan was guaranteed against security of plant and machinery and collateral security of plot at Mahabaleshwar. SIFL never purchased the financed machinery. The site of SIFL was in the possession of GIIC when inspected by the Corporation (July 1999).

The Corporation filed (October 2004) criminal complaint against the directors of SIFL for non-acquisition of machinery. It also filed a civil miscellaneous application (CMA) (May 2005) for invoking personal guarantee in respect of SIFL. SHWL was a fake company which was never in existence as disclosed in the criminal complaint filed against the director (October 2004). The CMA and the criminal complaint were not followed up leading to an outstanding of ₹ 76.83 crore from SHWL and ₹ 26.28 crore from SIFL as on March 2016.

[60] Under Section 29 of SFCA and Section 13 of SARFAESI Act.

The Management/ Government stated (October/ December 2016) that it had filed a criminal complaint in respect of SIFL and SHWL in October 2006. It further stated that the CMA filed in respect of SIFL had been transferred to Commercial Court in July 2016. The Management, however, did not give the action/ follow up done by them for the period 2006 to 2016.

½ M/s Innovative Prints Forms Limited (unit) was sanctioned (February 1997) hire purchase loan of ₹ 1.50 crore. This was against security of machinery and personal guarantee of its three directors. No instalments were paid by the unit since June 1997. Show Cause Notices issued against the unit were returned as the unit was taken over by the Court Receiver of Mumbai.

The Corporation did not have documentary proof of personal property of guarantors. In view of this, the CMA filed against the directors (July 2003) for invocation of guarantee was withdrawn (March 2010). The action taken by the Corporation thereafter was not available on the record. The reasons for delay of six years in filing CMA and for not taking documentary proof of property of directors were not available on record. The outstanding dues of the unit worth ₹ 14.78 crore remained unsettled as on March 2016.

The Management/ Government confirmed (October/ December 2016) that it had not taken documentary proof of the property of the personal guarantors. It was not a general practice in the Corporation to obtain such details or to obtain affidavit from personal guarantors.

In view of the above, the possibility of any further recovery appears remote.

½ M/s Mono Acriglass Industries Private Limited (unit) was financed (January 1998) to the extent of ₹ 5.75 crore jointly by the Corporation, GIIC and Gujarat Industrial Cooperative Bank. The share of the Corporation in the loan was ₹ 2.40 crore. This loan of ₹ 5.75 crore was against *pari-passu*[61] charge over primary and collateral security worth ₹ 8.58 crore and personal guarantee of the directors. The unit stopped paying dues from March 2000. No action was taken to jointly take over the available assets for realisation of the dues.

During the period 2004 to 2014, the unit made many appeals before the BIFR and AAIFR for declaring the unit as sick. All the appeals of the unit were set aside at different levels. The unit finally filed a case in the Honourable High Court of Gujarat (November 2014) for quashing the orders of BIFR and AAIFR. The financing agencies did not sell the available security or invoke the guarantees in spite of many opportunities for the same. Due to not taking action, the unit account remained outstanding for ₹ 48.43 crore as on 31 March 2016.

The Management/ Government stated (October/ December 2016) that as the unit had been taken over by GIIC, it could not take over the asset under SFC Act or SARFAESI Act.

[61] *Pari-passu* describes situations where two or more assets, securities, creditors or obligations are equally managed without any display of preference.

The reply is not convincing as GIIC had given its consent to the Corporation to initiate action under SARFAESI Act in July 2012 itself.

½ M/s Rama Filament Private Limited (unit) was sanctioned (September 1999) working capital loan of ₹ 1.50 crore. The loan was sanctioned against mortgage of plot admeasuring 3,541 sq. mtrs as collateral security. The Corporation came to know that the mortgaged land was a new tenure agricultural land[62] only in December 2007. This was when the land was to be auctioned due to the default of the unit. The land has not been sold till date as the conversion of the land to old tenure is still pending (September 2016).

The Corporation failed to ascertain the nature of the land mortgaged and delayed action for its subsequent conversion. This led to land valuing ₹ 8.68 crore (as on December 2011) remaining unsold. The unit account remained outstanding for ₹ 81.06 crore as on March 2016.

The Management/ Government stated (October/ December 2016) that it had applied (November 2008) to the Collector for permission to sell the land in accordance with the Land Revenue laws. It was also stated that the permission was not received till date.

½ M/s Rotoflex Industries Limited (unit) was sanctioned five loans of ₹ 4.36 crore during 1994-1998. The loans were sanctioned against security of machinery, collateral security of office premises and personal guarantee of its directors. The unit started defaulting during 2000-2003. The Corporation took possession (August 2008) of the plant and machinery and attempted (January 2010) sale which was not successful. The Corporation did not take over the collateral security.

In between 1999 and 2006 the unit preferred five appeals to BIFR for declaring the unit as sick. All of the appeals were dismissed. The unit was subsequently declared sick by BIFR in July 2010. An appeal by the Corporation against this order to AAIFR was rejected (April 2012). In November 2013, BIFR passed an order for winding up the unit. Appeals made by the Corporation to AAIFR and Gujarat High Court against the winding up were rejected (May 2015/ April 2016).

The unit having been wound up, the assets now vest with the official liquidator and the Corporation cannot sell the same. Due to delay on the part of the Corporation in taking over the assets, the outstanding dues of the unit as on 31 March 2016 was ₹ 236.67 crore. As seen from the above chronology, there were many instances prior to the winding up when the collateral security could have been taken over. This was not done.

The Management/ Government stated (October/ December 2016) that it was the general practice not to take possession of the assets of the unit as soon as it

[62] New tenure agricultural land is a property wherein Government of Gujarat has a stake and therefore if such land is sold a prescribed percentage of the sales proceeds have to be given to the State Government. Such land can be converted into old tenure land on payment of premium price to the Government and sold without the above restriction.

becoming defaulter. There is always a chance for the unit to be revived and possibility of it paying the dues.

The reply is not convincing as the unit was a defaulter since 2000. There was no justification for not taking over the assets till 2008 as the unit had made five appeals to BIFR during 1999 to 2006.

It is recommended that the Head Office monitor the outstanding cases on a regular basis. This would ensure that such delays as illustrated in our test check can be minimised and recoveries can be ensured wherever possible.

Conclusion

3.5.7 The Corporation stopped all lending activity from 2001-02 and had been concentrating only on recovery activity since then. Recovery proceeds through OTS schemes and sale of assets had been decreasing over the past five years. We observed deficiencies in the formulation and implementation of OTS schemes and in the recovery efforts of the Corporation in the accounts still outstanding.

The OTS scheme for BIFR/ GBIFR units was formulated on the basis of a similar GoG scheme. However, the checks and balances that existed in the GoG scheme were absent in this scheme. The OTS schemes formulated by the Corporation did not envisage valuation of assets as a parameter for deciding the amount for OTS. This resulted in lesser potential realisation of ₹ 12.86 crore in four cases. While implementing the BIFR/ GBIFR OTS, the Corporation did not lay down clear cut guidelines for grant of this OTS to loanees. This led to loss of potential revenue of ₹ 11.30 crore in four cases. In the recovery efforts of outstanding accounts, we noticed instances of lack of follow up of suits filed. There were instances of assets not being sold and personal guarantees not being invoked.

After 14 years of recovery process, the Corporation still had an outstanding of ₹ 15,349.51 crore in respect of 5,520 loanee accounts. The amount outstanding had continuously increased over the years by 109.60 *per cent* due to accumulation of interest and low recoveries. The low recoveries resulted in principal outstanding reducing only at an average rate of 3.67 *per cent* during the period.

Gujarat Industrial Development Corporation

3.6 Short recovery of allotment price

The Corporation violated its own approved policy for allotment of adjoining plots which resulted in short recovery of ₹ 3.41 crore

Gujarat Industrial Development Corporation (the Corporation) allots plots/ sheds on lease for 99 years in the Industrial Estates. It recovers Allotment Price (AP) from them. The Corporation issued a policy for allotment of adjoining[63] plots through a Circular dated 28 August 2012. It stated that the existing allottees could apply for vacant plots adjoining to their existing plots for expansion of projects. The benefit of *out of turn priority* (OTP) in allotment for the adjoining plots was provided to the existing allottees of both *saturated*[64] and *normal*[65] estates. For the allotment of the adjoining plots, a premium of 20 *per cent* on the prevailing AP in the estate was chargeable. This was over and above the AP for the plots.

In three cases[66], the Corporation while allotting the adjoining plots to the existing allottees in Sanand II Estate had short recovered the allotment price. It had either not recovered the applicable premium of 20 *per cent* or short recovered the premium at a lower rate of 10 *per cent*. The details are given in **Table 3.7**:

Table 3.7: Table showing the short recovery from allotment of adjoining plots

Name of the allottee		M/s Emcure Pharmaceuticals Limited (EPL)	M/s Multicolor Steels (India) Pvt. Ltd. (MSL)	M/s Harsha Gandhi Prop Pure Temptation Ltd. (HGT)
Original Plot	Plot No.	SM-14	PE-43	WP-14
	Allotment date	December 2013	January 2013	March 2012
	Area (in sq. mtrs)	57,159.00	10,000.00	2,000.00
Adjoining Plot	Plot No.	SM-15 and 16/1	PE-46	WP-13, 15 and 16
	Allotment date	March 2015	January 2014	September 2012
	Area (in sq. mtrs)	68,271.28	9,999.96	6,600.00
Prevailing rate of AP during allotment of adjoining plot (₹/sq. mtr.)		3,420	3,250	3,225
Premium charged for adjoining plot (₹/sq. mtr.)		342 (10 *per cent*)	Nil	Nil
Premium payable at 20 *per cent* for adjoining plot as per Policy (in ₹/sq. mtr.)		684	650	645
Short recovery of premium on Allotment price for the adjoining plot (in Rupees)		2,33,48,778 (at 10 *per cent*)	64,99,974 (at 20 *per cent*)	42,57,000 (at 20 *per cent*)
Total Short recovery (in Rupees)				**3,41,05,752**

Source: Information collected from the records of the Corporation

The Corporation, in violation of its policy, did not charge any premium for allotment of adjoining plots to two allottees (i.e., M/s MSL and M/s HGT). It also charged lesser premium in respect of one allottee (i.e., M/s EPL). This had led to short recovery of the allotment price to the extent of ₹ 3.41 crore.

The Management stated (October 2016) that it provides *out of turn priority* to certain categories of persons and for allotment of adjoining plots. An applicant while applying to the Corporation for any allotment has to mention whether his application is under the general or OTP category. As per the Circular dated 28 August 2012, the basic condition for deserving adjoining plot is that the existing plot needs to be utilised. In all the three cases, the applications were received as general category applicant and not as OTP. Hence, they were not

63 Adjoining plots for this policy meant plots next to the boundary of the existing plot and also plots separated by road but within the periphery of 100 metres radius.

64 Saturated estate is an estate where most of the plots have been allotted and further plots can be allotted only through auction except in the case of adjoining plots. The Corporation displays a list of saturated estates on its website.

65 Normal estates are estates other than saturated estates where allotment is made on first come first serve basis.

66 We observed these cases in May 2013, May 2014 and December 2015.

considered as application for adjoining plot and no premium was recovered. In case of M/s MSL, the allottee had already surrendered the adjoining plot allotted in January 2014. In case of M/s EPL, the Corporation took a conservative approach and charged 10 *per cent* additional premium as per Circular dated 26 June 2002.

The reply is not convincing. In all the three cases the allottees had applied for adjoining plots under General category. Not charging the premium for adjoining plot just because the applicant had applied under the general category highlights the loopholes in the application process. It defeated the very purpose of the policy. In respect of M/s MSL, the Corporation's response was misleading as the possession of the adjoining Plot No. PE-46 was handed over to M/s MSL during April 2014. The premium was payable at the time of allotment of the adjoining plot. The subsequent surrender of the plot does not affect the premium payable at the time of allotment. Similarly, the Corporation had arbitrarily charged 10 *per cent* additional premium instead of 20 *per cent* in case of M/s EPL and did not charge any additional premium in cases of M/s MSL and M/s HGT. The practice of allotting adjoining plot was not followed uniformly and was left to the discretion of the Corporation. Audit is of the view that the request for adjoining plot by an allottee is meant for expansion of project and has definite commercial interests. The manner in which the allotment has to be made should be transparent and uniform without causing any loss to the Government exchequer.

The matter was reported to Government/ Management (June 2016); the Government reply is awaited (December 2016).

(GURVEEN SIDHU)
Ahmedabad **Accountant General**
The **(Economic & Revenue Sector Audit) Gujarat**

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
The **Comptroller and Auditor General of India**