





REPORT
OF THE
COMPTROLLER
AND
AUDITOR GENERAL OF INDIA
FOR THE YEAR ENDED 31 MARCH 1988
No. 2
(COMMERCIAL)

UPTRON INDIA LIMITED AND TELETRONIX LIMITED

GOVERNMENT OF UTTAR PRADESH

TABLE OF CONTENTS

	<u>REFERENCE TO</u>	
	Chapter(s)/	Page(s)
	paragraph(s)	
PREFACE		(i)
OVERVIEW		(ii)-(vii)
REVIEW RELATING TO UPTRON INDIA LIMITED	†	1- 179
Introduction	1.1	8
Objectives	1.2	9
Scope of Audit	1.3	10
Organisational set-up	1.4	10-11
Funding	1.5	11-12
Financial position	1.6	12-15
Working results	1.7	15-18
Cash management	1.8	19-24
Setting up of factories of TV sets	1.9	25-45
Project in progress	1.10	45-63
Production Performance	1.11	63-100
Repair of consumer electronics	1.12	100-103
Sales and services	1.13	103-121
Material management	1.14	122-167
Manpower analysis	1.15	167-169
Research and Develop- ment	1.16	170-171
Other points of interest	1.17	171-179

II

REVIEW RELATING TO TELETRONIX LIMITED	II	180-221
Introduction	2.1	183
Objectives	2.2	183
Scope of audit	2.3	184
Organisational set up	2.4	184
Funding	2.5	185
Production perfor-	2.6	186-195
Inventory Control	2.7	196-198
Sales performance	2.8	198-204
Transport arrange-	2.9	205-206
Manpower analysis	2.10	206-208
Internal audit	2.11	208-209
Implementation of schemes	2.12	209-215
Financial position	2.13	215-216
Working results	2.14	217-221

ANNEXURES

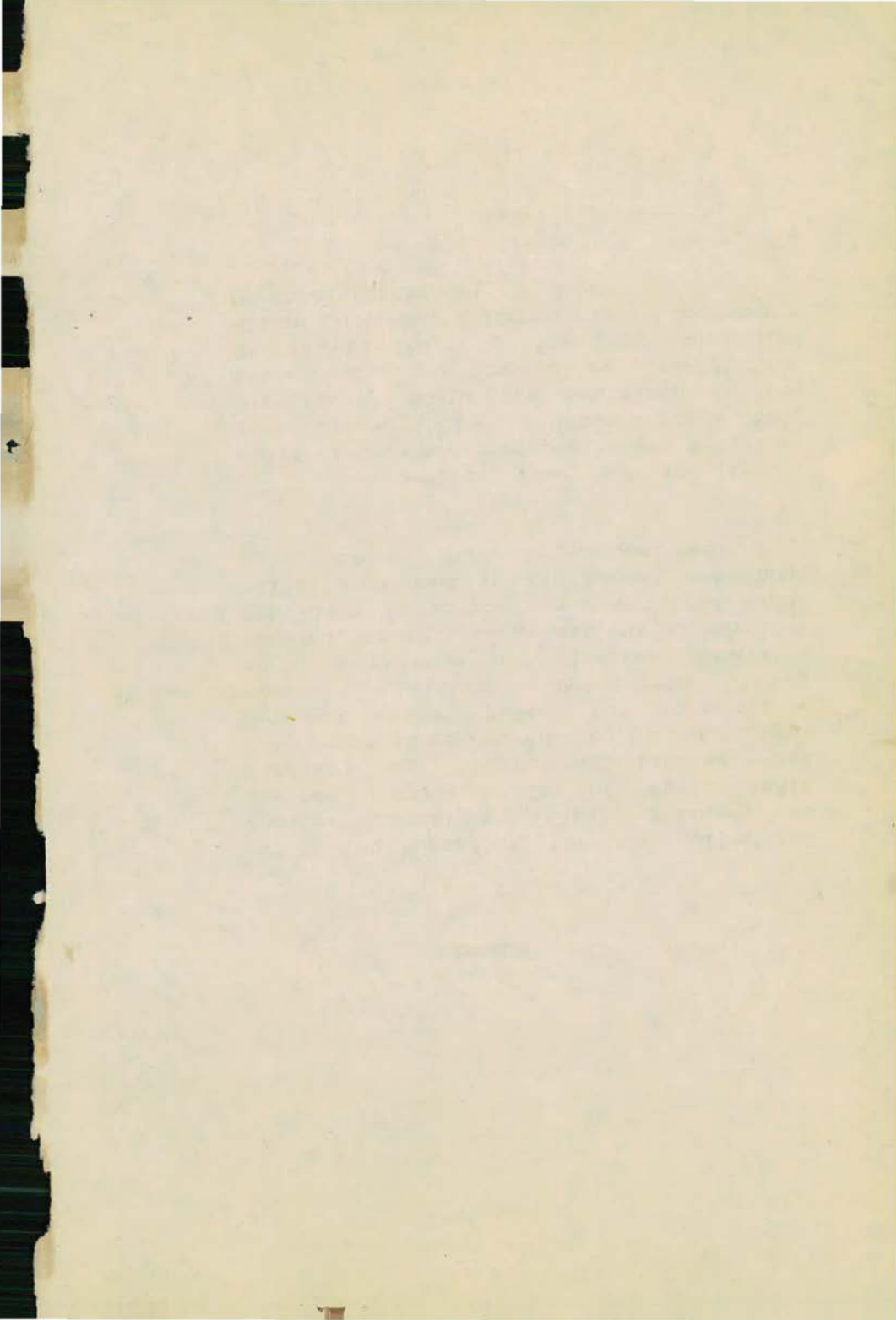
Annexure 'A' - Details of expenditure on construction of buildings		222-233
Annexure 'B' - Statement showing position of pro- jects in progress		234-241
Annexure 'C' - Statement showing excess consumption of materials due to higher process losses, etc.		242-249

+++++

PREFACE

The Report of the Comptroller and Auditor General of India containing two reviews on the working of 'Uptron India Limited' and 'Teletronix Limited' has been prepared for submission to the Government of Uttar Pradesh for presentation to the Legislature under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 as amended in March 1984. The points mentioned in the Report are those which came to notice during test audit.

The general view and results of audit of Government companies and Statutory corporations including Uttar Pradesh State Electricity Board are contained in the Report of the Comptroller and Auditor General of India for the year ended 31st March 1988 (No.I) (Commercial)- Government of Uttar Pradesh.



OVERVIEW

1. Uptron India Limited is engaged in production and marketing of T.V.sets, radios, two-in-ones, calculators, capacitors, computers, electronic private automatic branch exchanges inter-coms and communication & control systems. Its paid up capital as on 30th June 1987 was Rs.17.82 crores. Despite earning profits year after year since commencement of operations over eight years ago, accumulating in the process profit of Rs.5.05 crores by June 1987, the Company is yet to declare any dividend.

It set up additional factories apart from two taken over from the holding company, but did not prescribe any procedure for civil works. There were wide variations in the values of the awarded works and their actual cost. The civil construction works of Electronics Factory (EF) III at Lucknow was awarded to a contractor on the basis of tenders at a cost of Rs. 30.41 lakhs which increased to Rs. 52.38 lakhs due to substantial extra items, indicating inadequacy of designs and estimation. Reasonableness of the rates settled with the same contractor for construction of three more factories at 18 per cent above the rates for EF III in the case of one factory building and 26 per cent above in the case of other two factories is open to question since tendered rates for another building were higher than the rates for EF III for only 10.93 per cent. That apart, the settled rates for some items were higher than U.P.P.W.D. rates causing extra expenditure of Rs.6.34 lakhs. Even though the delay in completion

(ii)

(iii)

of work was substantially more than that attributable to the company in deciding the scope of work, liquidated damages of over Rs.10 lakhs were not levied on the contractor.

The Company's action in selling the acquired plant and machinery valuing Rs. 88.44 lakhs to a party of Calcutta and then obtaining the same on lease for five years at a monthly rental of Rs. 2.36 lakhs would entail an extra expenditure of Rs. 75 lakhs vis-a-vis interest that would have been paid over the lease period.

Foreign drawings and designs and plant and machinery costing about Rs.5.5 crores for FDM and EPABX systems were lying unutilised due to Company's inability to secure orders.

Failure of the Company to include certain items in import licence for Super Computers from U.S.A. resulted in an extra expenditure of Rs. 8.39 lakhs towards demurrage, fine, penalty etc., the Company is yet to fix responsibility for this. Further, Super computers costing Rs. 42.72 lakhs were sold for Rs. 18.66 lakhs, resulting in a loss of Rs.24.06 lakhs.

While the Company's capacity for production of TV sets was underutilised, it went on purchasing them from private parties for sale under its brand names. On the basis of highest production in a quarter of a year, (peaking performance) the Company should have produced 4.19 lakh sets during the years 1983-84 to 1986-87.

(iv)

But it produced only 2.95 lakhs sets - a shortfall of 1.24 lakh sets. On the other hand, it purchased 2.17 lakh sets from private parties. Had the Company achieved even 90 per cent of the peaking performance in other quarters of the respective years it could have added another Rs.137.46 lakhs to its net income.

Colour T.V. sets with remote control produced by the Company proved a failure, and had to be converted to different models resulting in loss of Rs. 5.41 lakhs, besides non-utilisation of moulding dies costing Rs.0.61 lakh and components for Rs.11 lakhs.

Payment of production linked annual incentive on the basis of quarterly production of TV sets in some quarters, without adjusting shortfalls in other quarters resulted in an excess payment of Rs. 16.44 lakhs.

Purchase of 10 imported computers from two firms of Delhi, instead from the manufacturers direct, resulted in an extra expenditure of Rs.19.90 lakhs. Further, components of computers for Rs. 50.64 lakhs were lying for over 3 years as works in progress.

(v)

Repair of over 4000 T.V. sets by the company instead of getting them repaired/replaced by their suppliers involved an extra expenditure of Rs. 42.77 lakhs.

Non-provision of sufficient margin for overheads in selling prices of audio and other products resulted in loss of Rs. 72.80 lakhs. Imported components for two way radio systems and EPABX purchased from firms of Delhi at a total cost of Rs.123.22 lakhs were sold at a loss of Rs.40.03 lakhs.

Purchase of imported diodes from indigenous source and of indigenous components on the basis of limited/single offers involved an extra expenditure of Rs. 43.65 lakhs.

Purchase of 67,688 T.V. sets on negotiated rates and their sales without sufficient margin resulted in loss of Rs.49.46 lakhs. There was an extra expenditure of Rs.49.78 lakhs in uneconomical purchases of T.V. sets.

The company had to pay interest of Rs.40.86 lakhs due to filing of incorrect income-tax returns and extra excise duty of Rs. 15.11 lakhs for failure to produce the requisite documents.

Though there was delay by the seller of a building in giving its possession, the Company did not recover interest of Rs.13.34 lakhs from him.

[Chapter I]

(vi)

2. Teletronix Limited, which was incorporated in November 1973, had been functioning without a Secretary, in violation of provisions of the Companies Act, 1956.

It had not been utilising its installed capacities for production of colour TVs, while utilisation of capacities for production of black and white (B/W) TV had been decreasing steadily from year to year and touched an all time low level of 22 per cent in 1988-89. The main reasons attributed by the Management for under-utilisation of B/W TV capacities were severe competition, higher cost of production, technical problems and total dependence on Uptron India Limited (UIL) for marketing. Having not developed its own marketing infrastructure, the company had been continuing to market its products through UIL, (without any written valid agreement) and thus had been agreeing to the arbitrary changes made by UIL in prices and other terms.

As against permissible process loss of 2 per cent, actual process loss ranged from 5.7 to 10.9 per cent, resulting in loss of Rs.64.50 lakhs in five years upto 1987-88, while the process loss in three major components in respect of which there should not have been any loss/rejection in process ranged from 0.4 to 8.00 per cent, resulting loss of Rs.10.09 lakhs. The Company was manufacturing TV sets for supply to UIL only. Taking advantage of this situation, UIL made frequent changes in procurement rates, payment terms and mode of deli-

(vii)

veries etc., of TV sets to suit their interests only, resulting in cash losses to the company aggregating Rs. 32.08 lakhs during 1986-87 and 1987-88.

The loan amount of Rs. 10 lakhs, obtained from State Government for purchase of raw materials under Self Employment Training Scheme, was utilised by the company for meeting its working capital requirements. Out of grant of Rs.44.42 lakhs received from State Government for establishment of an Industrial Training Centre, the Company incurred an expenditure of Rs. 15.92 lakhs on training without establishing the training centre; the balance amount of Rs. 28.50 lakhs was diverted for meeting its working capital requirements.

Since the company had been reducing its production from year to year in view of its inability to compete in the market and it had also no long term plans for either making the project viable or for diversification, there is apparently a need for consideration regarding the continuance of the company.

[Chapter II]

CHAPTER I
UPTRON INDIA LIMITED
ELECTRONIC DEPARTMENT

HIGHLIGHTS

Uptron India Limited (initially Uptron Video Limited, name changed in May 1981), incorporated in October 1979 as a subsidiary of U.P. Electronics Corporation Limited (UPLC), engaged in production and marketing of T.V. sets , radios, two-in-ones, calculators, capacitors, computers, electronic private automatic branch exchanges, inter-com, and communication and control systems. It absorbed three other subsidiaries of UPLC on 1st July 1986. As on 30th June 1988, the authorised and paid-up capital of the company was Rs.25 crores and Rs. 17.82 crores respectively. Though the company made a net profit every year accumulating to Rs. 5.05 crores by June 1987, it had not declared any dividend so far.

- The cash and bank balances at the close of 1983-84 to 1986-87 ranged between Rs. 5.16 crores and Rs. 7.82 crores, but the company paid Rs. 16.45 lakhs towards interest, wharfage and warehousing charges for delay in retiring documents and delay in lifting of imported materials on the ground of shortage of funds. Payment of interest-

(1)

free loan of Rs.40.00 lakhs to another subsidiary out of interest-bearing loan of Rs.200 lakhs raised for some other purpose and drawal of loan far in advance of requirement and keeping the same in fixed deposits, resulted in additional interest burden of Rs. 8.58 lakhs.

The company set up additional factories apart from two taken over from the holding company, but did not prescribe any procedure for civil works. There were wide variations in the values of the awarded works and their actual costs. The civil constructionwork of electronics Factory III (EF III) was awarded to a contractor on the basis of tenders at a cost of Rs. 30.41 lakhs which increased to Rs.52.38 lakhs due to substantial extra items indicating inadequacy of designs and estimation. Reasonableness of the rates settled with the same contractor for construction of 3 more factories at 18 per cent above the rates for EF III in the case of one factory building and 26 per cent above in the case of other two factories is open to question since tendered rates for another building were higher than the rates for EF III by only 10.93 per cent. That apart, although civil works were to be completed as per PWD specifications, higher rates were allowed resulting in extra expenditure of Rs.6.34 lakhs. Liquidated damages of Rs.10.81 lakhs for delays in completion of factory buildings were also not recovered.

(3)

- Although the enquiry committee pointed out at the technical deficiency and the architect accepted that their drawings was faulty and unsafe, due to which the roof slab of a portion of EF III collapsed in July 1983 and subsequently slab in seven rooms which were structurally found unsafe were dismantled and relaid, the work of preparation of drawings, designs and estimates for the three other buildings was also awarded to the same architect.

- Plant and machinery valuing Rs.88.45 lakhs were sold to a party of Calcutta and then obtained on lease for 5 years without even informing the Board. As compared to the monthly interest of Rs.1.11 lakhs payable in case of term loans, payment of monthly lease of Rs.2.36 lakhs would result in an extra expenditure of Rs.75 lakhs during the period of lease. Commercial production in respect of six project with foreign collaborations were scheduled to commence during April 1987 to January 1988, but the projects were still in progress (September 1988). The delay resulted in payment of Rs.3.89 lakhs towards commitment charges to financial institutions in respect of one project alone.

- Foreign drawings and designs for Rs.35.28 lakhs and plant and machinery for Rs. 52.89 lakhs imported

(4)

from a firm of Sweden for FDM systems were lying unutilised due to lack of orders. Plant and machinery for Rs.444.66 lakhs imported from a firm of France for EPABX systems project were also lying unutilised due to marketing problem arising due to obsolete technology.

- The firm of Lucknow, awarded the work of construction of a building for Rs.147.92 lakhs, left it incomplete and Rs.19.96 lakhs were still recoverable from the firm.

- Failure of the company to include certain items in import licence for Super Computers from U.S.A. resulted in an extra expenditure of Rs. 8.39 lakhs towards demurrage, fine, penalty etc. Further, super computers with landed cost of Rs.42.72 lakhs were sold for Rs. 18.66 lakhs which resulted in loss of Rs. 24.06 lakhs.

- The Company's capacity for production of TV sets was underutilised; quarterly production varied from 2078 to 11681 sets during 1983-84 to 1986-87. Had the company achieved even 90 % of the peaking performance in other quarters of the respective years it could have added another Rs.137.46 lakhs to its net income.

- Production of colour TV sets with remote control by the Company in 1986-87 proved a failure and 862 such sets had to be converted into different models resulting in loss of Rs. 5.41 lakhs. The moulding dies costing Rs.0.61 lakh and components for Rs. 11 lakhs were also lying unutilised.

- Plant and machinery for Rs.23.83 lakhs imported by the Capacitors Division in July 1983 was lying unutilised.

- The company incurred an extra expenditure of Rs. 19.9 lakhs on purchase of 10 imported computers from 2 firms of Delhi. further components of computers for Rs. 50.64 lakhs were lying as works in progress.

- Nine depth scribe recorders purchased for Rs.7.20 lakhs were converted from first generation to third generation at an extra cost of Rs. 5.27 lakhs during June 1987 to June 1988 on the ground of unsatisfactory performance of the loggers.

- Higher process loss of raw materials led to extra expenditure of Rs.17.94 lakhs.

- Payments of production linked incentives made on the basis of quarterly production of TV sets without adjusting shortfalls in other quarters resulted in excess payment of Rs. 16.44 lakhs.

- Over 4,000 TV sets purchased from other manufacturers were repaired by the Company at a cost of Rs. 42.77 lakhs instead of getting them repaired/replaced by their respective manufacturers.

- Non-provision of sufficient margin for overheads in selling prices of audio

products and selling of other products at prices which were less than the cost resulted in loss of Rs. 72.80 lakhs.

- Imported components for two-way radio systems purchased from a firm of Delhi on the basis of limited quotations for Rs. 68.25 lakhs could be sold for Rupees 4.39 lakhs resulting in loss of Rs.29.83 lakhs including overheads of the division. Similarly, sub-assemblies of EPABX purchased for Rs.54.97 lakhs were consumed in the finished goods sold for Rs.44.77 lakhs.

- Purchase of imported diodes from indigenous sources resulted in an extra expenditure of Rs. 9.92 lakhs as compared with the landed costs in case of their direct imports.

- There was an extra expenditure of Rs. 33.73 lakhs in the purchase of indigenous components on the basis of limited single offers due to not availing of the lower rates, undue revision of the agreed rates, etc.

- A test check in respect of 67688 TV sets purchased in 1986- 87 on negotiated rates revealed that margin for overheads was not available which resulted in a loss of Rs. 49.46 lakhs.

- Extra expenditure of Rs. 49.78 lakhs was made in uneconomical purchases of TV sets.

(7)

- The company subscribed Rs. 100 lakhs out of cash credit in the equity of its subsidiary, of which Rs. 12 lakhs only were utilised and Rs. 88 lakhs were invested by the subsidiary in term deposits, which resulted in loss of interest of Rs. 5.06 lakhs upto September 1988.

- The company had to pay interest of Rs.40.86 lakhs due to filing of incorrect income tax returns for 1981-82 and 1982-83 against which its appeal was pending.

- Extra excise duty of Rs.15.11 lakhs had to be paid (January 1984) by the company for failure to produce the requisite documents.

- Though there was delay by the seller of a building in giving its possession, the company did not recover interest of Rs. 13.34 lakhs from him.

1.1. Introduction

Uptron Video Limited was incorporated on 18th October 1979 as a subsidiary of Uttar Pradesh Electronics Corporation Limited (UPLC) mainly with a view to take over electronics factories at Allahabad and Lucknow from UPLC for manufacture of Television sets and other entertainment equipments. The factories were transferred by UPLC to the Company in April 1981 along with its marketing division which was responsible for marketing its products as also of its subsidiaries.

The name of the Company was changed with effect from 15th May 1981 as 'Uptron India Limited' as the word 'Video' in its original name was being confused by customers as synonymous with video cassette recorders.

From 1st July 1986 three other subsidiaries of UPLC viz. Uptron Capacitors Limited, Uptron Digital Systems Limited and Uptron Communication and Instruments Limited incorporated in March, May and November 1979 were absorbed by the Company. The main objects of the absorption were to have an impressive image, utilisation of scarce finance, greater mobility of manpower, centralised research and development (R&D) and flexibility of adjustments of profits and losses for income tax purposes.

1.2. Objectives

The main objects of the Company as set forth in the Memorandum of Association are (i) to carry on all kinds of business relating to manufacturing, assembly, installation, marketing and repairing of electronic equipments and systems including consultancy and transfer of know-how, (ii) to act generally as an industrial management and financial consultants to impart and take know-how, (iii) to finance electronic industrial units by way of loans, advances or capital and (iv) to establish and subsidise research laboratories and experimental workshops.

The present activities of the Company cover areas of production and marketing of TV sets, radios, two-in-ones and calculators (Consumer Electronics division), aluminium electrolytic capacitors (Capacitors division), computers, data entry systems, reservation systems and electronic private automatic branch exchange (Digitals systems division), ground water well loggers, electronic hour meters and digital inter-coms (Instruments division), two-way radio equipments and frequency digital multiplexing channelling equipments (Communication division), and mine operating systems and data acquisition and distributed control systems (Control Systems division).

1.3. Scope of Audit

The review of the working of the Company covers the aspects of funding structure, borrowing, completion and commissioning of projects, purchase of plant and machinery and of raw materials, import of foreign technology, research and development, production performance, consumption of raw materials, inventory control, sales performance, etc. in respect of all of its activities. Important points noticed during the test check conducted during April-October 1988 covering the transactions from 1983-84 to 1987-88 are set out in the succeeding paragraphs.

1.4. Organisational set-up

The management of the Company is vested in a Board of Directors. Article 76 of the Articles of Association of the Company stipulates that the number of Directors on the Board shall be twelve. The Company, however, did not have 12 directors at any time. As on 30th June 1988, there were only 9 directors including Managing Director and Executive Director (Technical); of these 8 directors including the Managing Director and the Chairman were nominated by the holding Company and one director by Industrial Finance Corporation of India.

In day-to-day activities, the Managing Director is assisted by the Executive Director (Technical), four General Managers, the Financial Controller and the Secretary at the headquarters. The Company has eight production units at Lucknow and one each at Jaunpur and Allahabad each headed by a General Manager/Works Manager and a central repair workshop at Lucknow headed by a Manager. The Company has also a Research and Development Department in its head office headed by a Senior Manager. There are five regional offices at Lucknow, Delhi, Bombay, Calcutta and Madras each headed by a Regional Manager. There are 28 sales and service centres throughout the country each under the charge of an Assistant Manager under the overall supervision of Regional Managers.

1.5. Funding

The authorised capital of the Company as on 30th June 1988 was Rs. 25 crores consisting of 2.5 crore shares of Rs. 10 each. The entire paid-up capital of Rs. 17.82 crores (as on 30th June 1988) was contributed by the holding Company.

In addition it had raised loans from Financial Institutions and banks from time to time and as on 30th June 1988 loans outstanding amounted to Rs. 13.56 crores (including interest of Rs.0.37 crore).

Further, it had also cash credit arrangements with five banks for a maximum of Rs. 38.45 crores, against which Rs.41.45 crores was outstanding as on 30th June 1988.

1.6. Financial position

The financial position of the Company at the end of each of the four years upto 1986-87 is given below:

	1983-84	1984-85
	(Rupees	in
	lakhs)	
(A) Liabilities		
1. Paid up capital (including advance against share capital)	376.99	543.99
2. Reserve and surplus:		
(i) Investment allowance reserve	28.03	31.64
(ii) Capital subsidy	0.11	0.11
(iii) Accumulated profits	235.68	299.13
3. Borrowings:		
(i) Term loans from Financial Institu- tions, banks and others	285.93	203.13
(ii) Term loans from Holding Company (U.P.Electronics Cor- poration Limited)	95.11	85.61
(iii) Cash credit from Banks	1086.28	1837.05

(13)

	1983-84	1984-85
(iv) Fixed deposits		
(a) From Public	--	-
(b) From staff	--	-
4. Current liabilities (including provisions)	1014.81	1314.58
Total	3122.94	4315.24

(B) Assets

1. (i) Gross block	632.15	772.74
(ii) Less: Depreciation	140.54	211.40
(iii) Net fixed assets	491.61	561.34
2. Capital works-in-progress	6.47	21.79
3. Investments	--	--
4. Current assets, loans and advances		
(i) Inventories	679.69	1686.19
(ii) Sundry debtors	870.51	784.94
(iii) Loans and advances		
(a) Staff	33.42	25.39
(b) Others	469.85	644.67
(iv) Cash and Bank Bal.	558.82	581.91
5. Miscellaneous expenses		
(a) Pre-operative expenditure pending capitalisation	1.54	1.29
(b) Deferred revenue expenditure (including preliminary expenses)	11.03	7.72

Total 'B' **3122.94** **4315.24**

(C) Capital employed	2089.09	2969.86
(D) Net worth	629.78	867.15

	1985-86 (Rupees lakhs)	1986-87 in lakhs)
(A). Liabilities		
1.	1049.75	1782.15
2.(i)	59.28	78.08
(ii)	0.11	0.21
(iii)	415.32	505.24
3. (i)	217.83	997.02
(ii)	36.00	36.00
(iii)	2017.88	2527.66
(iv)(a)	--	308.28
(b)	--	0.10
4.	1823.41	2467.08
Total	5619.58	8701.82
(B) Assets		
1. (i)	979.44	1381.69
(ii)	304.40	415.35
(iii)	675.04	966.34
2.	207.15	483.14
3.	--	--
4.(i)	1922.36	2531.81
(ii)	1558.32	2826.29
(iii) (a)	47.35	71.01
(b)	520.70	665.00
(iv)	515.58	781.80
5. Miscellaneous expenses		
(a)	138.99	212.67
(b)	34.09	163.86
Total 'B'	5619.58	8701.82

	1985-86	1986-87
(C) Capital employed	3415.94	5375.17
(D) Net worth	1490.37	2201.82

Note: 1. Capital employed represents net fixed assets (excluding capital work in progress) Plus working capital.

2. Net worth represents paid up capital plus reserves less intangible assets.

During 1985-86 and 1986-87, the company received equity of Rs. 595.15 lakhs from Government through the holding Company and obtained term loans of Rs. 786 lakhs (excluding repayment of Rs. 9 lakhs during 1986-87) from financial institutions for capital works, against which the capital expenditure incurred during the period amounted to Rs. 694.53 lakhs only. Thus, the balance amount of Rs. 684.04 lakhs was utilised as working capital.

1.7. Working results

The working results of the Company (including the absorbed units) for the four years upto 1986-87 are given below:

	1983-84	1984-85
	(Rupees in lakhs)	
(A) Expenses		
(i) Purchase	634.53	1153.36
(ii) Consumption of materials	1519.80	2643.57

	(16)		
(iii)	Personnel Expenses	323.61	483.77
(iv)	Administrative and other expenses	226.27	434.41
(v)	Selling and distribution expenses (including personnel expenses)	296.86	429.70
(vi)	Excise Duty and sales tax	535.10	953.45
(vii)	Interest	273.74	364.09
(viii)	Depreciation	54.68	72.10
	Total (A)	3864.59	6534.25
 (B) Income			
(i)	Sales including excise duty and sales tax	3324.09	5821.13
	Add: Closing stock	223.90	718.71
	Less: Opening stock	202.93	223.90
	Value of production	3345.06	6315.94
(ii)	Installation charges.	233.20	224.41
(iii)	Other income	359.96	227.15
	Total (B)	3938.22	6757.50
(C)	Working profit (B-A)	73.63	233.25
(D)	Investment allowance reserve	(-)9.75	(-)3.60
(E)	Prior year adjustments	(-)7.40	(+)26.05
(F)	NET PROFIT	54.68	203.60

(17)

	1985-86	1986-87
(A) Expenses	(Rupees in lakhs)	
(i)	1462.85	1706.58
(ii)	2410.69	3353.13
(iii)	589.76	737.04
(iv)	254.58	324.05
(v)	619.30	753.87
(vi)	1066.70	1351.17
(vii)	345.53	454.76
(viii)	89.06	112.47
Total (A)	6838.47	8793.07
(B) Income		
(i)	6458.00	8102.86
Add closing stock	*730.10	994.51
Less Opening stock	653.42	*730.10
Value of production	6534.68	8367.27
(ii)	43.67	196.24
(iii)	375.19	*422.18
Total (B)	6953.54	8985.69
(C) Working profit (B-A)	115.07	192.62
(D) Investment allowance reserve	(-)27.65	(-)18.80
(E) Prior year adjustments	(-)27.34	(-)17.78
(F) NET PROFIT	*60.08	156.04

Note: * Stands reduced by Rs.64.60 lakhs by which the closing stock at the end of 1985-86 was reduced by the Company in 1986-87 to change in basis of valuation.

The division-wise position of profits (+) and losses(-) for the four years upto 1986-87 is given below:

Division	1983-84	1984-85	1985-86	1986-87
	(Rupees in lakhs)			
Consumer Electronics	(+) 40.20	(+) 181.90	(+) 33.03	(-) 153.95
Capacitors division	--	--	--	(+) 4.53
Digital systems division	(+) 9.27	(+) 0.42	(+) 24.67	(+) 81.88
Instruments division	(+) 15.93	(+) 27.21	(+) 32.22	(+) 69.20
Communication division	(-) 8.92	(-) 5.93	(-) 29.84	(+) 94.26
Control systems division	(Created in 1986-87)			(+) 60.12
Total	(+) 56.48	(+) 203.60	(+) 60.08	(+) 156.04

Although the Company had been making profits from year to year and had accumulated profit of Rs.505.24 lakhs by the end of 1986-87, it had not declared any dividend so far (June 1988). The Management stated (May 1989) " the dividends, if any, declared by the Company are payable to holding Company. The holding company would have to pay taxes on this income resulting in funds going out of the business operations... Thus by avoiding the declaration of dividends, the company has been able to prevent funds from going out of business...."

1.8. Cash management

Capital receipts are collected by the head office. Revenue receipts through sales realisation at various sales and service centres are deposited in non-withdrawal collection accounts at the respective stations, from where remittances are made to cash credit accounts operated by the head office in a nationalised bank at Lucknow at regular intervals. Separate expense accounts are operated in the banks at various centres/units in which funds are provided by the head office. The position of borrowings (including cash credits and fixed deposits) received from public/institutions and cash and bank balances at the end of each of the four years upto 1986-87 is indicated below:

Particulars.	As on 30th June			
	1984	1985	1986	1987
	(Rupees in lakhs)			
Loans	381.04	288.74	253.83	1033.02
Cash credits	1086.28	1837.05	2017.88	2527.66
Deposits from public /employees	--	--	--	308.38
Cash and Bank balances.				
Cash in hand	14.12	25.49	16.87	14.31
Remittance in transit	56.23	60.69	39.19	30.95

(20)

Cheques and Bank drafts in hand	80.34	213.38	93.38	52.98
Balances in current/saving Bank accounts	386.97	282.11	366.14	683.56
Balance in fixed depo- sits	21.16	0.23	--	--
Total	558.82	581.90	515.58	781.80

A test check in audit revealed the following:

(i) As per instructions issued by the Company, the banks maintaining collection accounts at sales and service centres were required to remit balances in excess of Rs. 1,000 to the cash credit account at Lucknow by way of telegraphic transfers. A test check of collection accounts for the period from July 1987 to June 1988 operated by sales and service centres at Lucknow and Allahabad revealed that the balances upto Rs.21.66 lakhs and Rs.3.56 lakhs remained unremitted upto 10 and 8 days with the total delayed remittances amounting to Rs. 705.35 lakhs and Rs. 116.29 lakhs respectively. This resulted in avoidable payment of interest of Rs.0.63 lakh on cash credit.

The Management stated in May 1989 that the bank maintaining the collection account was crediting the cheques deposited with it, but not remitting the balance, as above, pending their encashment through the clearing. But the Company did not give details in support nor did it take this up with the banks.

(ii) A loan of Rs. 30 lakhs was obtained in March 1982 from Uttar Pradesh Financial Corporation, Kanpur at an interest of 18 per cent per annum (subject to rebate of 3 per cent per annum for timely repayment) for purchase of plant and machinery for manufacture of two-way radio systems. However, due to non-approval of the system by the customers, after spending Rs.17.37 lakhs on purchase of plant and machinery upto June 1983, no further purchase was made and the balance of Rs.12 lakhs was invested in term deposit in March 1983 with Syndicate Bank, Lucknow for 12 months, further extended by 6 months at 8/6 per cent interest per annum. The entire loan was repaid by March 1985 itself as against the last instalment due in September 1989. The term deposit was not extended after September 1984 and the bank refunded the deposit alongwith interest of Rs.1.32 lakhs in May and July 1985. The drawal of loan of Rs.12 lakhs in excess of requirement resulted in an avoidable interest burden of Rs.4.08 lakhs being the difference between

(22)

interest paid (Rs.5.40 lakhs) and interest earned on fixed deposit (Rs. 1.32 lakhs). The reasons for not repaying the balance of loan in March 1983 and for not extending the term deposit after September 1984 were neither on record nor explained.

(iii) A loan of Rs. 200 lakhs was obtained in December 1986 from Industrial Finance Corporation of India (IF CI) for the project for manufacture of electronic modules in the control systems Division at an interest of 14 per cent per annum. Out of the loan, Rs. 40 lakhs were transferred in February 1987 to Uptron Colour Picture Tubes Limited (CPT), another subsidiary of the holding company, on interest-free basis, which was refunded in December 1987. This resulted in unnecessary burden of interest of about Rs.4.50 lakhs (after allowing for commitment charges payable on the undrawn loan) on funds which were not used by the Company during March to December 1987. Further, due to drawal of funds far in advance of requirement, the project was burdened to this extent, which could have been avoided.

(iv) Uttar Pradesh State Industrial Development Corporation Limited allotted the Company in June 1986 a plot of 43,260 Sqm. at Chinhat (Lucknow) at Rs. 109.50 per sqm., which was changed to another plot of 41,164 sqm. in December 1986 at the same rate. Under the terms of allotment of December 1986, the company was required to deposit 25 per cent of the value of

plot immediately and the balance 75 per cent in 8 annual instalments due on 1st July each year. Interest at 18 per cent per annum (subject to rebate of 6 per cent for timely repayment) was payable six monthly in January and July each year. In July 1988, the Company paid Rs.6.47 lakhs towards first instalment of cost of plot (as against Rs. 4.23 lakhs) and Rs. 9.04 lakhs towards interest at 18 per cent. The reasons for excess payment of Rs.2.24 lakhs towards instalment and for not availing rebate of 6 per cent for timely payment of interest (Rs.3.01 lakhs) were not on record. The Company stated (November 1989) that they did not pay the instalment before taking possession of the land and that the transactions were between two State Government Undertakings. The reply is not convincing since the Company did not request USIDC to reschedule the instalments due to delay in giving possession of the land in order to avail rebate in interest.

(v) Despite the Company having adequate funds, it preferred to pay interest charges and wharfage charges on the grounds of shortage of funds, in the following cases:

(a) Capacitors Division did not retire the documents valuing Rs. 350 lakhs (approximately) in respect of imported raw materials within 180 days on the ground of shortage of funds and paid Rs.3.25 lakhs during July 1986 to June 1987 to the foreign suppliers as interest at 18 per cent per annum.

The management stated in May 1989 that the Capacitors Division was a separate Company upto the date of Central Government notification for absorption which was issued only in September 1987 and that Company did not have funds at the relevant time and preferred to pay interest than to pay customs duty and port charges. This indicates that purchases were made far in advance. In any case, Capacitors Division was effectively absorbed by the Company from July 1986 itself, when the Company had adequate liquidity.

(b) Capacitors Division, Digital Systems Division and Control systems Division paid Rs.3.12 lakhs, Rs.6.24 lakhs and Rs.3.84 lakhs during September 1986 to April 1988 towards wharfage/warehousing charges for not lifting the imported goods from Bombay port/Delhi Airport for 8 to 10 months, 2 to 6 months and 1 to 6 months respectively from the dates of their arrival on the ground of shortage of funds.

The Management stated in May 1989 that import in smaller lots was not viable and that goods were cleared from the warehouses as per production requirements to avoid locking up of funds on account of payment of customs duty. No detailed justification about the viability aspect was produced. The entire quantity (lot) purchased was also kept uncleared for long.

1.9. Setting up of factories of TV sets

1.9.1. Creation of additional capacities, etc.

In addition to Electronics Factory I (EF I) at Allahabad and Electronics Factory II (EF II) at Sarojini Nagar (Lucknow) for manufacturing black and white TV (BW TV) sets taken over in April 1981 from the holding company, the Company established four more factories as per details given below:

	Electronics Factory III (EF)III at Lucknow	Electronics Factory IV (EF IV) at Lucknow
Item of Production	Colour TV	Printed circuit Boards (PCB)
Licensed Capacity (Nos)	1 lakh	1.20 lakhs
Projected date of start of commercial production	July 1983	January 1986
Actual date of commercial production	June 1984	July 1986
	(Rupees in lakhs)	
Project cost (with date of sanction)	64.03 (Not available)	103.52
Actual cost	125.76	74.21

	(26)	
	Line output Transformer (LOT) Factory at Lucknow	Electronics Factory V (EF V) at Chandavak (Jaunpur)
Item of Production	Line Output Transformer (LOT)	Portable TV (PTV)
Licensed Capacity (Nos)	3 lakhs	0.60 lakh
Projected date of start of commercial production	July 1985	September 1985
Actual date of commercial Production	July 1987	March 1986 (in a hired building)
	(Rupees in lakhs)	
Project cost (with date of sanction)	46.54 (December 1984) revised to 80.42 (June 1985)	65.10 (June 1985) Revised to Rs.60 lakhs (March 1987)
Actual cost	97.88	Not available.

Reasons for delay in commissioning and for variations in actual cost with reference to projected cost were not analysed by the Company. However, as analysed by Audit, delays in commissioning the projects were mainly attributable to the delayed

completion of the factory buildings, while cost overruns were due to execution of additional /costlier items of works. The component-wise deviations in the cost are as detailed below:

Components	EF III		EF IV	
	Projec- ted cost	Actual cost	Projec- ted cost	Actual cost
(Rupees in lakhs)				
Land	2.20	4.93	--	-
Buildings including sanitary and fittings	31.00	77.98	30.00	43.40
Plant and Machinery	12.00	12.00	45.96	23.34
Other items	18.83	30.85	27.56	7.47
Total	64.03	125.76	103.52	74.21

Components	L.O.T.	
	Projected cost	Actual cost
(Rupees in lakhs)		
Land	==	==
Buildings including sanitary and electrical fittings	12.00	35.50
Plant and machinery	49.61	43.84
Other items	18.81	18.54
Total	80.42	97.88

1.9.2. Construction of buildings

The Company has not prescribed any procedure or financial limits for award of Civil works. The works of construction of all the four factories were awarded to Kay Jay Construction Co. of Kanpur. The table below indicates the details of basis of award of the works, scheduled and actual dates of completion, estimated and actual costs, etc. :

	EF III	LOT
Basis of award of work	Tenders	Negotiations (at 18 per cent above the rates of EF III)
Date of award of work	February 1983	February 1985
Scheduled date of completion	June 1983	June 1985
Actual date of completion	May 1985	November 1986
Value of contract (Rupees in lakhs)	28.79	Not mentioned
Actual cost (Rupees in lakhs)	52.38	10.93
Extra items completed (Rupees in lakhs)	9.29	2.23
Range of variation actuals paid for items in the contract with those estimated (Per cent)	103 to 1971	Not available

(29)

	EF IV	EF V
Basis of award of work	Negotiations (at 8 per cent above the rates for LOT)	Negotiations (at the rates for EF IV)
Date of award of work	July 1985	November 1986
Scheduled date of completion	November 1985	May 1987
Actual date of completion	November 1986	April 1988
Value of contract (Rupees in lakhs)	22.33	23.26
Actual cost (Rupees in lakhs)	23.38	25.94
Extra items completed (Rupees in lakhs)	0.83	5.21
Range of variation actuals paid for items in the contract with those estimated (per cent)	122 to 2740	9 to 2226

The following points were noticed:

1.9.2.1. The work of preparation of drawings, designs, estimates and tender documents of EF III building was awarded to Kochar and Associates, an architect firm of Lucknow on 1st February 1983, on the basis of quotations called for in July 1982 at a fee of

Rs. 0.42 lakh. The firm submitted estimates on 3rd February 1983 for construction of building for Rs. 30.41 lakhs. The variations between actual cost (Rs.52.38 lakhs) and estimated cost (Rs.30.41 lakhs) ranged from 103 to 1971 per cent for some of the items and execution of substantial extra items indicates that the work of drawings, designings, designing and estimation was not properly done by the architects.

It was observed that some portion of RB slab of Administrative block of CTV Factory (EF III) collapsed on 18th July 1983. The Manager (Projects), after visiting the site immediately suggested on 19th July 1983 for an enquiry leading to the cause of collapse by a Committee consisting of four members including one independent and well experienced Civil Engineer, from outside the Company.

In this connection following points were noticed:

(i) In the meeting held on 30th July 1983, in the Office of the Executive Engineer, PWD, Lucknow, who was also a member of the enquiry committee, the structural designer of the Architect (Kochar and Associates) informed that he had not taken the dead load specified in the structural design and the bill of quantities of 15 cm thick RB slab into consideration, and had actually designed for RBC slab. The slab design was, however, changed to RB slab without his knowledge. He, therefore,

agreed that 15 cm thick RB slab was not at all safe.

(ii) In another meeting held in the Office of the Executive Engineer, PWD on 1st August 1983, the Architect and his Structural Design Engineer accepted that their drawing was faulty and unsafe and requested for remedial measures. On the advice of the Executive Engineer, PWD, 21 cm thick RCC slab was decided to be laid in place of 15 cm thick RB slab.

(iii) On 4th October 1983, the General Manager (Projects and Administration) informed that as per enquiry committee (consisting of 5 officers of the Company) report, the reason for collapse of roof was partly due to under-design of the roof having span of more than 15 feet, and partly due to premature loading of roof before the normal setting time. He further pointed out that the Superintendent of Works, Departmental Building Construction Unit No.I, PWD, Lucknow, who was also consulted has also given his opinion that as per IS code normally for such large span, RB slabs were not recommended. He also checked the design calculations provided by the Architect and found the slab unsafe. On the basis of the report of the Superintendent of Works, Departmental Construction Unit, it was considered necessary to get all other designs thoroughly checked for their stability from a reputed and qualified independent Consultant. Accordingly Prasad Soil and Material Laboratory headed by a retired Chief Engineer, PWD

was asked to check (i) various slabs designs already constructed, (ii) determine the cause of failure of roof slab, (iii) suggest strengthening measures for the existing roof slabs.

(iv) Prasad Soil and Material Laboratory in their lengthy report, containing detailed calculations, and engineering exercises submitted in October 1983, opined that for a 5 meter span, a 6" (15 cm) thick RB slab was not safe. He, therefore, stated that 6" thick RB slab in 10 rooms was not structurally safe, and recommended for fresh RCC slabs in seven rooms. All the unsafe slabs were, therefore, dismantled and fresh RCC slabs were relaid. However, even after such an experience, the works of preparation of drawings, designs and estimates for the other three buildings viz. for LOT, EF IV and EF V were also awarded to the same Architect on the basis of negotiations as shown below:

Building	Months of awarding work to architect	Month in which civil works were awarded	Fee (Rupees in lakhs)
LOT	March 1985	February 1985	0.18
EF IV	August 1985	July 1985	0.66
EF V	November 1986	November 1986	0.43

It would appear from the above that the works in respect of LOT and EF IV factories were awarded after award of the civil works and therefore, the architects were not required to frame estimates for which fee was paid to them. It was also noticed that the architects were required to supply designs, drawings, etc. to the contractor as per schedule prescribed by the Company.

1.9.2.2. The works of construction of LOT, EF IV and EF V buildings were awarded to Kay Jay Construction Company on the basis of negotiations in order to save time. There were, however, substantial delays in completion of works. The Company, thus, lost the benefit of competitive offers which would have been available if tenders had been invited. In terms of the work orders, the contractor was liable to pay liquidated damages for delay in completion of the works at 1 per cent of the contract value per week subject to a maximum of 10 per cent in cases of EF III and LOT buildings, and 3 per cent per week subject to a maximum of 15 per cent of the contract value in cases of EF IV and EF V buildings. However, liquidated damages of Rs. 10.81 lakhs due for delayed completion of EF III (Rs.2.88 lakhs), LOT (Rs.1.09 lakhs), EF IV (Rs.3.25 lakhs) and EF V (Rs. 3.49 lakhs) buildings were not recovered from the contractor. As a result of delay in completion of buildings production activities of the factories were also delayed.

The Management stated in May 1989 that the extra period was required for increased scope of work and that the delay in execution being due to delay in deciding of scope of work by the Company, the contractor could not be faulted. However, it was noticed that the period of delay was more than the proportionate period required for additional works.

1.9.2.3. Variations in quantities

Reasons for wide variations in individual items of works were not on record. The variations in 6 items of the work for construction of EF III building test checked in Audit, are mentioned below:

	Unit	Contracted quantity	Executed quantity	Rate per unit (Rupees)
Reinforcement brick work(RB)	Cubic metres (cum)	568	585	670
Reinforcement cement concrete (RCC) in roof slabs and beams	cum	21	422	1040
Tar steel in plain work	Quintal	518	1035	610

Ist class		(35)		
brick work				
in 1:4 cem-				
ent mortar	cum	33	142	445
12 mm thick				
plaster in	Square			
l:4 cement	metres			
mortar in	(Sqm)	3324	6187	14.80
ceiling				
Hotbitumen				
on roof				
surface	Sqm	3696	3882	750

It was noticed that out of the executed quantities, 12 cum of RB collapsed while 73 cum of RB (including 500 sqm of 12 mm thick plaster and 86 quintals of steel work) and 27 cum of Ist class brickwork were got dismantled in July 1983 which resulted in loss of Rs. 1.38 lakhs to the Company. Further, 422 cum of RCC included 256 cum of RCC done in ducts, lintels, drain covers, etc. which was paid at the rate of Rs. 1,040 per cum applicable to RCC in slabs and beams (involving costly shuttering materials) instead of Rs. 850 per cum provided in the contract for RCC in other places. This resulted in excess payment of Rs. 0.49 lakh.

The Management stated in May 1989 that quantities of the works had varied on account of change in scope of work, RCC slab was substituted for RB slab due to technical reasons and 86 quintals of steel

recovered on dismantling of RB was reused in RCC. The reply is not acceptable as the contractor had been paid for the entire quantity of steel work (1,035 quintals without reduction therefrom of 86 quintals) at the full rate of Rs. 610 per quintal (including cost of steel). The Company has also not fixed responsibility for loss due to dismantling of works pointed out by the Enquiry Committee constituted by the Managing Director.

1.9.2.4. Execution of extra items

According to financial rules of State P.W.D, rates for extra items are required to be decided either on the basis of contract rates for the nearest item or PWD schedule of rates and in the absence thereof, on the basis of an analysis with reference to prevailing cost of labour and materials. There was nothing on record to show that either the Architects had finalised the rates after doing the above exercise and its correctness was checked by the Company or the Company had itself done the above exercise before accepting the rates finalised by the Architect. This deprived the Company of the benefit of competitive rates for extra items. For instance, extra items of cement concrete and brick tiles for Rs. 3.73 lakhs were executed over hot bitumen on roof surface in place of contracted items of line concrete and sand laying for which only Rs.1.74 lakhs would have been paid for EF III building, and extra items

of providing and fixing of aluminium doors and windows for Rs. 1.07 lakhs for EF III (Rs. 0.51 lakh) and LOT building (Rs.0.56 lakh) at Rs. 920 to Rs.1,846 per sqm were executed in place of providing and fixing of steel doors and windows which could have been done for only Rs. 0.30 lakh at Rs.376 to Rs. 444 per sqm provided in the agreement. Neither reasons for execution of costlier items nor any basis on which the rates were worked out were on record.

The Management stated in May 1989 that at its instance Aluminium doors and windows were provided to give a better and aesthetic look and cement concrete and brick tiles over hot bitumen were provided to take additional precautions against seepage/leakage through roof slab. These changes again reflect defective designing by Architects in the matter of roofing.

1.9.2.5 Item rates for LOT building were settled at 18 per cent over, and for EF IV and EF V by a further 8 per cent over the rates for EF III building on the main ground of increase in the market rates and steel and construction materials. The issue of the materials to the contractor was optional. But the entire requirement of steel and cement was met by the Company. This resulted in extra expenditure to the Company and unintended benefit to the contractor. Supply of steel alone was made at Rs.5,000 per tonne against purchase cost of Rs. 6,010 to Rs. 7962 per tonne involving

extra expenditure (unintended benefit to the contractor) of Rs. 3.34 lakhs.

While negotiating the item rates for LOT and EF IV/V buildings as above, rates for issue of steel (Rs.5,000 tonne) and cement (Rs.50 bags), settled for EF III, should also have been raised, at least correspondingly, by 18 per cent and further 8 per cent, which was not done, in which case the Company need not have issued steel and cement incurring extra expenditure as above.

For the LOT building, the rate of 18 per cent above the negotiated rate of EF III was approved as reasonable by the Technical Director in January 1985 on the basis of the Tender Committee's note dated 29th January 1985 to the effect that the rates obtained in tenders in December 1984 for construction of another building at Gomtinagar, Lucknow were higher by 41 per cent than the rates for EF III. This being factually far incorrect, the rates being higher by only 10.93 per cent and not 41 per cent, reasonableness of the rates settled for the above buildings is open to question. In fact, nearly half of the Gomtinagar building involved extra height and sheetpile foundation, which cost more, and in which event the rates for Gomtinagar building would work to substantially less than 10.93 per cent as against 18 per cent settled for the LOT and further 8 per cent settled for EF IV and V buildings.

For dispensing with the open tender system, while no particular reason was on

record in respect of the LOT building, change in the market situation from seller's to buyers' for TVs and lack of good contractors in Lucknow were quoted as the reasons in respect of EF IV and V buildings, which were, however, completed nearly a year behind schedule.

1.9.2.6. As per terms and conditions of the work orders, the works were to be completed as per State PWD specifications. It was, however, noticed that the item rates finalised during February 1985 to November 1986 for LOT, EF IV and EF V buildings were much higher than the PWD schedule of rates for the years 1985 and 1986. A comparison of rates for a few items executed by the contractor for Rs.4.86 lakhs, Rs. 13.99 lakhs and Rs. 11.91 lakhs revealed an extra expenditure of Rs. 0.97 lakh, Rs.3.56 lakhs and Rs.1.81 lakhs in respect of LOT, EF IV and EF V buildings respectively as per itemwise details given in Annexure A.

The Management stated in May 1989 that the average plinth area cost of construction of EF III (including R & D building), LOT and EF IV buildings was only Rs.115 (excluding cost of electrification and water supply) per square foot (sft) as against UP PWD plinth area rates of Rs.140 to Rs.160 per sft. The reply is not factually correct and the actual plinth area costs (including 20 per cent towards electrification and water supply in the absence of actual figures),

of EF III (including R & D buildings), LOT and EF IV buildings were Rs. 130, Rs. 197 and Rs. 193 per sft as against UP PWD plinth area rates (in respect of non-residential buildings) of Rs. 116 in 1983-84, Rs.126 in 1984-85 and Rs. 139 in 1985-86 when these works were awarded.

1.9.2.7. Undue financial aid to the contractor

The contractor was paid Rs.10.35 lakhs during the period from March 1983 to October 1987 as advances in respect of EF III (Rs.6.85 lakhs), LOT (Rs.0.66 lakh), EF IV (Rs.0.59 lakh) and EF V (Rs.2.25 lakhs) against the security of building materials brought to the site by the contractor, which included Rs.3.94 lakhs against the security of perishable items like earth, sand, lime and surkhi against which advances were not admissible under the provisions of the work orders. This amounted to allowing undue financial aid to the contractor. The reasons for paying advances against perishable items were neither on record nor were explained.

1.9.2.8. Short recovery for cement

The contracts for civil works of EF III, LOT and EF IV buildings provided use of cement according to norms stipulated therein (as per UP PWD Schedule of Rates) for RB work for which the contract did not stipulate any norm). In case of less consumption, recovery was required to be

effected at the issue rate, as the contract rates were inclusive of cost of cement to be consumed according to the prescribed norms.

Against the total requirement of 33,182 bags of cement (31,133 bags as per norms and 2,049 bags for RB work), the contractor was issued and used only 30,226 bags of cement. There was, thus, short consumption of 2,956 bags of cement for which recovery of Rs.1.92 lakhs was not effected from the contractor (March 1989).

The Management's contention (October 1989) of applying the CPWD norm is not apt since the contract stipulated a specific norm for use of cement.

1.9.3. Purchase of plant and machinery

1.9.3.1. The Company imported plant and machinery for Rs. 20.93 lakhs and Rs.8.32 lakhs for the LOT and EF IV factories respectively from Japan, Canada, and Ireland in addition to purchase of indigenous plant and machinery for Rs. 6.19 lakhs for LOT factory and for Rs. 11.01 lakhs for EF IV during June 1985 to June 1986. These plants and machinery after receipt were sold in June 1986 to Northern Leasings Limited of Calcutta (with office at Kanpur) on 'as is where is' basis for Rs.46.45 lakhs and were taken on lease from the same party through agreements executed in June 1986 by the Company for sale and lease. The lease deed provided for lease for nine years at monthly rental of Rs.1.24 lakhs

for five years with no rent payable thereafter.

Similarly, certain plant and machinery, testing equipments, moulds and dies and electric installations costing Rs.42 lakhs purchased for LOT (Rs.31.50 lakhs) and EF IV (Rs. 10.50 lakhs) during 1985-86 were sold to the above party in July 1986 on 'as is where is' basis and were taken on lease for nine years at a quarterly rental of Rs.3.36 lakhs for five years with no rent payable for the remaining four years.

In this connection following points were noticed in Audit:

(a) The project reports as approved by the Board of Directors in June 1985 for setting up the factories provided for purchase of the plant and machinery to be financed by long term loans at interest of 15 per cent per annum, but did not provide for selling and taking them on lease. Since the policy to run these factories with the machines taken on lease basis was a major deviation from that contemplated in the Project Report, the Company should have obtained approval of the Board/Government before implementing the change, which was not done. Further, justification or explanation for taking the decision to sell the machines and to take them on lease basis was neither available on record nor was furnished when called for. The financial and other implications involved and cost benefit analysis of owning the machinery

vis-a-vis, taking on lease, if any, made by the Company at the time of taking the decision were neither on record nor were furnished when called for.

(b) As against the total cost of the plant and machinery, both imported and indigenous, amounting to Rs. 88.45 lakhs, the amount payable towards rent for five years itself would work out to Rs.141.60 lakhs (of which Rs.66.20 lakhs had already been paid up to October 1988), still not having ownership of the plant and machinery.

(c) The lease rent was fixed on the basis of limited offers invited from three firms. No open tenders were, however, invited for the purpose. If the Company had taken loans even at 15 per cent per annum (as envisaged in the project reports and actually obtained for other projects) to meet the cost of the plant and machinery (Rs. 88.45 lakhs), the monthly interest would have been only Rs. 1.11 lakhs. Against the monthly interest of Rs. 1.11 lakhs, the monthly rental of Rs. 2.36 lakhs would result in an extra expenditure of Rs.75.00 lakhs during the period of five years.

The Management stated in May 1989 that net burden of interest, investment allowance and depreciation (after income tax) for a period of 10 years would amount to Rs. 926 per Rs.1,000 as against Rs.720 in case of lease rent. The reply is not convincing as the Company has added in the net

burden of Rs. 926, Rs.250 towards investment allowance which is not an expenditure and the net burden would amount to Rs.676 only. Moreover, in the case of taking plant and machinery on lease, the Company would not be having ownership rights and may have to acquire new machinery or extend lease agreement on further payment of lease rent.

(d) The Company did not consider its liability for infringement of import licence obtained for import of plant and machinery (unless obtained under Open General Licence) and for sales tax at 6 per cent (Rs.5.31 lakhs), apart from penalty and interest, on sale of the assets purchased from outside the State.

(e) The indigenous plant and machinery for EF IV valuing Rs.11.01 lakhs included plant and machinery valuing Rs.9.59 lakhs purchased by the Works Manager for EF III, during June to August 1985 on the basis of a single offer (May 1985) of Transmarketing (P) Ltd. of Bangalore without any approval of the competent authority - the Managing Director.

1.9.3.2. The Company obtained in August 1987 from a firm of South Korea a small size moulding die for HV bobbin at a cost of Rs. 2.09 lakhs. This die sustained a damage during commencement of production in December 1987 and was repaired in August 1988 by the supplier for Rs.1.90 lakhs,

amount almost equal to its original purchase cost.

The Management contended in October 1989 that such minor damages are common, which is not convincing.

The Company had not investigated then whether the damage was due to manufacturing defect of the die. As the Company had failed to provide for any performance guarantee in the purchase order, claim could not be lodged with the supplier.

1.9.3.3. LOT factory started trial production in September 1986 and took 10 months to stabilise commercial production as against two months envisaged in the project report. This has resulted in capitalisation of additional preoperative expenses of Rs.28.29 lakhs incurred during October 1986 to June 1987 besides Rs. 9.74 lakhs incurred up to September 1986.

The Management stated in October 1989 that this was the first indigenous development of its nature which caused the delay. This is indicative of unrealistic project formulation.

1.10. Project in progress

1.10.1. In furtherance of its objectives of promoting and developing electronic industry in the State, the Company had undertaken the following electronic projects:-

Serial Number	Name of collaborator/ supplier	Name of projects	Name of products	Licensed capacity per annum ₅
1	2	3	4	5
(1)	Hawker Siddley Dyamies Engineering Limited, England	Mine operating systems	Underground mine operating and control system, Process system including mineral preparation system	5 systems 15 systems
(2)	Leeds and Northrup Company, USA	Electronic Module including micro-process based control module	Recorders, indicators and other instruments	2000 numbers
			Data acquisition system and distributed control system	60 systems

(46)

1	2	3	4	5
(3)	L.M.Ericsson, Sweden	Frequency data multiplex system of Tele-Commu- nication (FDM)	FDM channel- ing groups	3000 groups
			FDM channel- ing bays	3000 groups
			Digital mul- tiplexing equipments (also called Pulse code modulation) system	500 terminals
			Repeaters	2500 Numbers
			Repeaters housing	750 Numbers

(47)

1	2	3	4	5
(4)	Fujitsu Limited Japan	Single and multiple access telecommunication system (MAS)	MAS	Turnover of Rs.3 crore
(5)	Jeumont Schnei- der, France	Electronic Private Automatic Branch Exchange (EPABX)	EPABX	50000 lines
(6)	Convergent Tech- nologies, USA	Super micro Computers	Super micro computers	--

The position of industrial licence, foreign collaboration, project cost, progress of the projects, etc., is indicated in Annexure B.

1.10.2. The Company could not establish commercial production in all the six projects within a period of 4 to 6 years from the dates of the letters of intent and 3 to 4 years from the dates of collaboration agreements with foreign firms. This has resulted in increase in costs of the projects. Besides, the delay in implementation of projects also resulted in payment of commitment charges on undrawn amounts of loans sanctioned by financial institutions which amounted to Rs. 3.89 lakhs for the period from February 1987 to April 1989 in the case of FDM project alone. Further due to slippage in completion, the Company will face stiff competition in selling / establishing its products in the market. Delay may also lead to obsolescence of the product and technology. In the case of FDM project, further orders have already been stopped by the Department of Telecommunications (DOT).

1.10.3. Mine operating systems (MINOS)

1.10.3.1. The Government of India (Department of Industrial Development) had approved in January 1983, Rs.25 lakhs for technical know-how (Rs.10 lakhs) and designs and drawings (Rs.15 lakhs) for MINOS project which was revised in June

1984 to ₹ 3.07 lakhs (Rs.55.64 lakhs) on a representation by the Company.

1.10.3.2. On the basis of negotiations by the General Manager (Control Systems Division) during November 1985 to May 1986 and by the Managing Director in October 1986 and February 1987 during their foreign visits to England, separate agreements were signed with two firms of UK in October 1986 and February 1987 for transfer of technology for completing items of MINOS project on payment of royalty at 5 per cent of the net invoice price. The agreements were approved by the Government of India in October 1986 and March 1987 and three officers of the Company were deputed abroad for training in 1987 at a cost of Rs.1.65 lakhs (approximately). The Company applied to the Government of India in November 1987 for approval of the phased manufacturing programme, which was subsequently revised in March 1988. Since the Company was not able to proceed with procurement of special tools and instruments, etc., as prescribed in the agreements with the UK firms, due to non-receipt of the approval of Government of India till the end of March 1988, the UK firms treated in April 1988 the agreements to have been terminated by the Company. Further the UK firms suggested that any further work on the collaboration should be abandoned until a more economically viable situation arises, since the market prices projected by the

Company for RM kits were uneconomical for both the parties. Further, during discussions with the Company in February 1988 in India, the UK firms demanded ₹ 66,000 towards training of Company engineers (₹ 16,000) and documentation charges (₹ 50,000), which were not provided for either in the agreements entered into with the UK firms in October 1986/February 1987 or in the approval, of the agreement, of the Government of India.

Thus due to delay in obtaining approval for manufacturing programme and consequential non-procurement of special tools, instruments, etc., before the due date prescribed in the agreement, the UK firms had treated the agreements to have been terminated (by the Company) demanding additional charges not provided in the agreement. The UK firms did not transfer the technology.

The Company had, therefore, been importing semi-knocked down (SKD) components from England on the basis of negotiations held by the GM (Control Systems Division) during his visit abroad in August 1987 and these are being assembled for sale.

1.10.4. Data Acquisition Systems (DAS)

1.10.4.1. The Company entered into a collaboration agreement in July 1985 with a firm of USA for transfer of technological know-how for manufacture of data acquisition and distributed control systems, recorders, indicators, etc. at a fee of U.S. \$ 7.58 lakhs (excluding income tax). The agreement was taken on record by the Government of India in January 1986 and the entire fee of Rs. 91.26 lakhs was paid during February 1986 to June 1988. It was noticed in audit that the supply of speedomax H indicators, 165 strip chart recorders and steampower IH 5800/C 3000 data acquisition systems and performance monitoring systems covered under the scope of the agreement were substituted by speedomax 1650, 2500 micro-processor based recorders and Max I based system respectively.

The General Manager (Control Systems Division) stated in May 1989 that the above changes were basically in model numbers of the products and were normal in case of electronic industry. Approval of Government of India for revising the scope of supply was, however, not obtained.

1.10.4.2. The project estimate envisaged procurement of testing equipments for Rs.62 lakhs. But the Company decided in July 1987 to procure testing equipments of higher calibration which are also required

for other divisions of the Company on lease basis on the ground that additional equity of Rs. 20 lakhs to meet the estimated cost of Rs. 82 lakhs for the changed equipment was not planned earlier. The terms offered in July 1987 by the lessor provided for payment of monthly rental of Rs. 18.50 per Rs. 1,000 of the cost of equipment. Cost of maintenance and insurance was to be borne by the Company. Accordingly Rs.62 lakhs out of term loans of Rs.541 lakhs sanctioned by IFCI, IDBI and banks in October 1986 were surrendered. The cost of the equipment amounted to Rs.75.01 lakhs which was increased to Rs. 78.90 lakhs to include interest of Rs. 3.89 lakhs (at 18 per cent per annum) charged by the lessor from the date of its procurement in December 1987 to 15th April 1988 from which date rental at Rs. 1.46 lakhs per month was charged by the lessor. The Company could have purchased the equipment for Rs.75.01 lakhs by meeting excess of Rs.13.01 lakhs out of provision of Rs. 58.35 lakhs in the project estimate towards contingencies. Had the Company purchased the equipment with term loans carrying interest at 14 per cent per annum, the annual interest burden would have amounted to Rs. 10.50 lakhs as against Rs.19 lakhs (including interest of Rs. 1.48 lakhs payable on cash credits required to meet the cost of monthly rental) in the case of lease. Thus, the lease would result in extra financial burden of Rs. 8.50 lakhs per annum besides not having ownership of the equipment.

The Management stated in May 1989 that net burden of interest, investment allowance and depreciation (after incometax) for a period of 10 years would amount to Rs.68.68 lakhs as against Rs. 63.67 lakhs in case of lease rent. The amount of Rs.68.68 lakhs, however, included Rs. 20.50 lakhs to wards investment allowance reserve and, thus, net burden in the case of loan would have amounted to Rs. 48.18 lakhs only.

1.10.5. Frequency Data Multiplex System(FDM)

The Company entered into a collaboration agreement with L.M. Ericsson, Sweden in February 1984, which was in force for five years from August 1985 when it was taken on record by Government of India. The project report for Rs.850 lakhs prepared in December 1986 envisaged commercial production from October 1987. Although Rs. 155.60 lakhs (including Rs.52.89 lakhs on imported plant and machinery) had been incurred on the fixed assets upto June 1988 and Rs. 35.28 lakhs on import of drawings and designs up to November 1986 in terms of collaboration agreement, the commercial production had not started till March 1987 and the Company had been dealing in only imported SKD items since June 1987. Thus, the entire investment of Rs.136.88 lakhs (excluding civil works) had been idle.

The Management stated in October 1989 that pending decision by DOT, the Company had decided not to spend further

on the project. It added that the amount invested had been recovered through profit on sale of SKD items. In any case, the fact of dead investment remains.

1.10.6. Single and Multiple Access Telecommunication System Project (MAS)

Without preparing the project estimate and feasibility report in respect of MAS, the Company entered into a collaboration agreement in July 1985 with Fujitsu Limited, Japan. One engineer was also trained abroad during September 1987 at a cost of Rs.1.53 lakhs. The Company placed order in September / October 1986 for supply of plant and machinery on Anritsu Corporation Japan for Rs. 7.12 lakhs. However, since production of MAS did not commence by the date the machinery was received in June 1987, the machinery was transferred to FDM project, where it was proposed to be used because of its common applicability nature, although no provision was made in the project report for FDM project for such machinery. The project estimate for MAS for Rs.526 lakhs was submitted to the Public Investment Board in November 1988 and their approval has not been received (September 1989).

1.10.7. Electronic Private Automatic Branch Exchange (EPABX)

1.10.7.1. The Company was required to select any one of the three parties of Belgium

France and Japan as finalised in February 1982 by a working group constituted by the Government of India, (Department of Electronics). The Company selected the firm of France, and entered into an agreement in April 1985 without conducting a proper study of the product. Plant and Machinery valuing Rs. 444.66 lakhs were imported during the period from January 1987 to June 1988. In the meantime, the Company started assembling EPABX after importing SKD items from the foreign firm. The Company faced marketing problems in selling the product. During a joint meeting with two other domestic licensees in November 1987, it was observed that marketing problems were as a result of obsolete technology. The project had not been commissioned so far(May 1989). Thus, machines costing Rs. 444.66 lakhs were uninstalled/uncommissioned till May 1989 since their procurement in 1987-88.

The Management stated in May 1989 that the Company had plans to enter into allied lines like Rural Automatic Exchanges in order to utilise the imported plant and machinery to the maximum possible extent. Further progress is awaited (August 1989)

1.10.7.2. Extra expenditure on purchase of land

The Board of Directors of erst-while Uptron Digital Systems Limited (UDSL) approved in March 1983 taking on lease a plot of 20254 sqm from Nagar Mahapalika

Lucknow at Gomtinagar for 80 years by paying a premium of Rs.25.06 lakhs.

The premium included cost of raising the level of the land by Nagar Mahapalika. UDSL, however, obtained in May and July 1984 refund of Rs. 3 lakhs from Nagar Mahapalika and undertook levelling work by itself which cost Rs. 4.39 lakhs, resulting in extra expenditure of Rs.1.39 lakhs to UDSL.

1.10.7.3. Construction of building at Gomtinagar

An Architect was appointed by the GM(Projects) in June 1984 at a fee of Rs.2.32 lakhs for preparation of estimates, designs, tender documents and for periodical supervision of work. Erstwhile Uptron Digital Systems Limited approved in June 1983 construction of a building (with covered area of 36,800 sq.ft.) at Gomtinagar (Lucknow) for MINOS and EPABX projects at an estimated cost of Rs. 73.76 lakhs subsequently revised to Rs.98 lakhs, Rs. 130 lakhs and Rs.206.67 lakhs in June 1984, September 1984 and December 1984 respectively. The basis on which the architect prepared the estimates were not made available to audit. In response to tender enquiry of November 1984 for the civil works estimated at Rs.128.26 lakhs, four tenders were received in December 1984. The tender of Kayjay Construction Co.,(A) of Kanpur for Rs.165 lakhs who had executed/were executing buildings of the Company at Sarojininagar was rejected

on the ground that the firm had not furnished requisite earnest money. The remaining three tenderers Bharat Builders (B), D.M. Brothers (C) and Vivek Constructors Private Limited (D) with the tendered value of Rs.156.04 lakhs, Rs. 150.42 lakhs and Rs.163.86 lakhs respectively were called for negotiations in January 1985, who reduced their tendered values to Rs.153.72 lakhs, Rs. 147.92 lakhs and Rs. 153.72 lakhs respectively. Accordingly an agreement was executed with firm 'C' for Rs.147.92 lakhs in February 1985.

In this connection the following points were noticed:

(a) Tenders and comparative statements were not signed by the officer of the Company who had opened the tenders. Comparative statements were not signed even by the persons who prepared and checked them and by the tenderers' representatives who were present at the time of opening of the tenders, the reasons for which were neither on record nor were intimated.

(b) The work was to be completed by May 1986, which was extended to July 1986 and again to January 1987 on the ground of additional works. The work was, however, left incomplete in April 1987 after executing contracted items for Rs.120.48 lakhs and extra items for Rs.25.71 lakhs. The left

over works were awarded to other agencies. The firm was, therefore, liable to a penalty of Rs.14.79 lakhs in terms of the agreement, which had not been levied.

(c) The completion report had not been finalised and the final bill had not been paid so far (March 1990). The value of work recorded in measurement books up to August 1988 amounted to Rs.146.19 lakhs (including extra items for Rs.25.71 lakhs) against which the contractor had already been paid Rs.95.28 lakhs up to March

1987 leaving a balance of Rs.53.61 lakhs payable to the contractor. However, it was noticed that a sum of Rs. 73.57 lakhs was still recoverable from the contractor towards cost of cement and steel (Rs.52.52 lakhs), cost of defective works (Rs.1.80 lakhs), cost of electricity, etc., (Rs.1.44 lakhs), income tax (Rs.3.02 lakhs) and penalty (Rs.14.79 lakhs) for delay in completion of the work. This indicated excess payments of Rs.19.96 lakhs to the contractor.

The Management stated in May 1989 that the party had gone to court for appointment of Arbitrator in terms of the contract. Further developments were awaited (August 1989).

(d) The contractor was paid Rs.25.90 lakhs for extra items at the rates finalised by the Architects without any

reference to PWD schedule of rates. In this connection it was noticed on test check that the contractor executed extra item of earth filling for Rs.6.423 cum at Rs.35 per cum against Rs.29 per cum allowed in March/April 1987 to another contractor for additional quantity of the same item of work during the same period of time which was subject to deduction of 15 per cent of the measured quantity for settlement. No such deduction was, however, made in case of firm 'C'. Thus, firm 'C' was paid Rs.0.66 lakh in excess. The Management had noted (May 1989) the point for recovery. Further developments were awaited (August 1989).

(e) Similarly, the contractor was paid Rs.1.07 lakhs for 3,192 sqm of extra item of 15 mm thick plaster in cement and sand in the ratio of 1:3 at Rs.33.51 per sqm. In this connection the computed rate for this item with reference to the item of 15 mm thick plaster in cement and sand in the ratio 1:5 provided in the contract at Rs.16 per sqm worked out to only Rs.22.63 per sqm (including cost of additional cement). This had resulted in extra payment of Rs.0.35 lakh.

The Management stated in May 1989 that the rate of Rs.33.51 had been derived from the rate of Rs.29.22 for 12 mm thick plaster with water proofing provided in the contract for EF IV building. The

different contracts and different items had, however, no bearing on the work.

1.10.8. Super computer project

1.10.8.1. The Company executed an agreement (February 1987) with a firm of USA for import of technology for manufacture of super computers for US \$ 3.00 lakhs and paid to the firm Rs. 13.10 lakhs towards a part of technical know-how fee and Rs.3.14 lakhs for training of officers during November-December 1987 without any approval by the Board of Directors to the project estimate for Rs.240 lakhs. The Public Investment Board (PIB) had observed that demand and supply of computers and prices of raw materials and computers had not been correctly assessed/determined by the holding Company (UPLC). The project was, however, cleared by PIB in March 1989 on an assurance by UPLC that there was no possibility of decrease in the projected selling prices of computers. Commercial production was reported to have started in early 1989, till which time the Company had been dealing in only imported SKD items.

1.10.8.2. Documents in respect of import of components of super computers for Rs.71.31 lakhs (CIF) from the firm of USA were retired during October 1987 to July 1988. In this connection, the following points were noticed:

(a) Customs authorities released during October 1987 to May 1988 consignments of five computers with software valuing Rs.27.08 lakhs (CIF) out of which four computers had landed cost of Rs.42.72 lakhs (including cost of soft-ware) were sold in June 1988 for Rs.18.66 lakhs thereby incurring a loss of Rs.24.06 lakhs.

The Management stated that this was done to honour the commitment made to the customers with a view to building up the market for the computers.

(b) A consignment valuing Rs.35.04 lakhs (CIF) was released from the customs authorities in October 1988. This included materials valuing Rs.0.78 lakh for which the Company had no import licence. As such, these materials had to be re-exported on payment of fine of Rs.0.19 lakh. Other materials valuing Rs.0.40 lakh were allowed to be redeemed on payment of fine of Rs.0.39 lakh besides 'personal penalty' of Rs.0.20 lakh under section 112(a) of the Customs Act. The import of items without import licence, thus resulted in an extra expenditure of Rs.8.39 lakhs towards fine and penalty (Rs.0.78 lakh), demurrage (Rs.6.03 lakhs) and loss of interest (Rs.1.58 lakhs) on account of their delayed release (at 18 per cent per annum for 3 months).

No responsibility for the loss of Rs.8.39 lakhs was fixed by the Company,

which was reportedly negotiating the matter with the supplier.

1.11. Production performance

1.11.1. Consumer electronics

1.11.1.1. Manufacture of TV sets was started in July 1975 at EF I, Allahabad with the technological know-how of Electronics Corporation of India Limited in their brand name of EC TV (51 cm black and white). The factory started manufacture of 51 cm black and while TV (B & W TV) in its own brand name "UPTRON" from August 1976. EF II at Sarojini Nagar (Lucknow) commenced production of UPTRON TV sets from September 1979. EF III, EF IV, EF V and LOT factories were subsequently set up which started commercial production during June 1984 to July 1987. Production of radios and two-in-ones was done through sub-contractors.

Though the Company had been determining the annual targets in budgets for preparation of budgeted Profit and Loss Account and Balance Sheet, production and sales budgets were not separately prepared. Since the production includes purchases, particularly in respect of TV sets, the annual targets of production fixed for each factory could not be ascertained.

However, the position of actual production vis-a-vis Licensed and installed capacities (on single shift basis) for

Manufacturing unit and items of manufacture	Licensed capacity on single shift basis/installed capacity on three shift basis	Actual Production (with percentage of actual production to installed capacity in brackets)			
		1983-84	1984-85	1985-86	1986-87
		(In Numbers)			
1	2	3	4	5	6
EF I (TV Sets)	<u>20000</u> 60000	26659 (133.3)	31002 (155)	19179 (95.9)	28968 (144.8)
EF II (TV Sets)	<u>25000</u> 75000	27336 (109.3)	32033 (128.1)	22991 (91.9)	28025 (112.1)
EF III (TV sets)	50000 upto 1984-85 100000 <u>from 1985-86</u> 21000 in 1983-84 77760 from 1984-85	4936 (70.5)	23290 (89.8)	20080 (77.4)	20326 (78.4)

four years upto 1986-87 is given below:

(64)

1	2	3	4	5	6
EF V (TV sets)	60000 18000 in 1985-86 15002 in 1986-87	--	--	5001 (83.3)	15002 (100)
Total (TV sets)	90000 for 1983-84 & 1984-85	58931 (113.3)	86325 (121.7)	67251 (87.2)	92321 (107.4)
	200000 for and 1986-87	1985-86			
	1,56,000 for 1983-84				
	2,12,760 for 1984-85 and 1985-86				
	2,57,766 for 1986-87				
				(in numbers)	
EF IV(PCB)	12000 Not applicable	--	--	--	60832*
LOT (LOT)	300000 300000	--	--	--	41746 (41.75)

* Includes 20507 produced through sub-contractors.

The break-up of the actual production of PTV, B&W TV and CTV is indicated below:-

	1983-84	1984-85	1985-86	1986-87
	(Numbers)			
<u>PTV</u>				
EF I	--	268	--	--
EF II	--	--	1142	4318
EF III	--	--	--	3040
EF V	--	--	5001	15002
Total	--	268	6143	22360
<u>B&W TV</u>				
EF I	26659	30734	19179	28968
EF II	26395	17865**	12914**	17733**
Total	53054	48599	32093	46701
<u>CTV</u>				
EF II	941	14168	8935	5974
EF III	4936	23290	20080	17286
Total	5877	37458	29015	23260

** Includes production of 6183, 3,870 and 115 sets through sub-contractors during 1984-85, 1985-86 and 1986-87 respectively.

1.11.1.2. In this connection the following points were noticed:

(a) EF III, which was exempted from Sales tax, did not achieve the level of production of 25,000 CTV sets envisaged in the project estimates. The shortfall in production of tax-exempt CTV sets in EF III was met from production of CTV sets in EF II (set up for production of B & W TV), and shortfall in production of B & W TV sets was met from purchasing TV sets from private parties. The Company had not analysed the reasons for not achieving the level of production by EF III so far.

(b) There were wide variations in month to month production of TV sets ranging (quarterly) from 2,097 to 11,681 (EF I), 2,078 to 8019 (EF II), 2,173 to 8,903 (EF III) and 2,797 to 5,004 (EF V) during 1983-84 to 1986-87 which indicated that production capacities of the factories were not fully utilised throughout the year. The highest quarterly level of production achieved in each year may be considered as the optimum level of production and had this optimum level of production been maintained throughout the year, the actual production would have increased substantially as indicated in the table below:

	1983-84	1984-85	1985-86	1986-87	Total
	(TV sets in number)				
<u>EF I</u>					
Optimum Production	38,176	46,724	37,512	42,896	1,65,308
Actual Production	26,659	31,002	19,179	28,968	1,05,808
Difference	11,517	15,722	18,333	13,928	59,500
<u>EF II</u>					
Optimum Production	34,564	32,076	31,312	29,884	1,27,836
Actual Production	27,336	25,850	19,121	27,910	1,00,217
Difference	7,228	6,226	12,191	1,974	27,619
<u>EF III</u>					
Optimum Production	4,936	31,804	28,444	35,612	1,00,796
Actual Production	4,936	23,290	20,080	20,326	68,632
Difference	(Ist Year)	8,514	8,364	15,286	32,164
<u>EF V</u>					
Optimum Production	--	--	5,001	20,016	25,017

Actual	5,001	15,002	20,003
Production					
Difference	--	--	Ist	5,014	5,014
			Year		
Total	77,676	110,604	102,269	128408	418957
Optimum					
Production					
Actual	58,931	80,142	63,381	92,206	2,94,660
Production					
Difference	18,475	30,462	38,888	36,202	1,24,297
Quantity	28,483	60,142	60,766	68,001	2,17,392
purchased					
from market					
for sale					

(i) Thus, out of 2,17,392 TV sets purchased during the 4 years from 1983-84 to 1986-87, 1,24,297 sets could have been produced in the Company's own factories.

The Management stated in October 1989 that assembly of the TV sets being a manual job, production through concerted efforts in a peaking quarter is not possible to be sustained throughout a year. During certain quarters/occasions, extra efforts were also put in by the trade towards

higher sales to earn annual incentives that necessitate special efforts for higher production which are also not sustainable over an extended period.

Even granting that simple arithmetical calculation to work out optimum capacity may not be a realistic guide, and hence scaling down the practical capability to 90 per cent of such optimum, the Company could have produced 3,87,536 instead of 2,94,660 sets actually produced.

Availability of men and machines in all the quarters remaining the same, wide variations in production as between different months could have been certainly reduced, if not altogether avoided.

The actual production in some quarters of the financial years 1983-84 to 1986-87 was even less than the normal targets of 6,600 (EF I), 6,000 (EF II) and 5,400 (EF III) TV sets.

(ii) The sets purchased (2,17,392) comprised the following:

- | | |
|--|----------|
| (A) Manufactured by the State Government | 81,448 |
| Undertakings, viz.,
Teletronics Ltd. and
Kumaon Television Ltd. | |
| (B) Common Models for which the Company itself had production facilities | 28,633 |
| (C) Models for which the Company did not have production facilities | 1,07,311 |

(A) While taking investment decisions on creation of production capacities in the Company, the capacities already available with these two State Government Companies would certainly have been considered and hence purchases from these two State Government Companies, cannot be a justifiable reason for underutilisation of the Company's own capacities.

(B) During 1986-87, out of purchases of 10,474 sets of common models, those of model UV 202/203 totalled 4,874 sets. Against the purchase price of Rs.1,812 per set, the variable manufacturing cost within EF II would have been Rs.1,664 only, i.e. Rs.148 less per set, as under:

	Rs.
Material cost as worked out by EF II	1,510
<u>ADD: 5.5 per cent for process rejection, freight inward, bank charges, insurance, inventory carrying, etc., as worked by the Company in May 1989</u>	84
Incentive to staff (Average incentive paid by EF II in 1986-87 to existing labour for extra production)	70
Total	1,664

The purchase of 4,874 sets in 1986-87 alone, thus, cost the Company extra expenditure of Rs.7.21 lakhs(net).

Taking the loss of net income due to purchase of sets at an average of Rs.148 per set, as worked out above, as a guide, the total loss of net income would work out to Rs.137.46 lakhs on 92,876 sets purchased/less produced (3,87,536 less 2,94,660) during the four years 1983-84 to 1986-87.

The Management stated in October 1989 that the direct production cost in EFI was Rs. 1,851 (and not Rs.1664) and, therefore, more than the procurement cost. In the absence of details in that respect, the Management's contention could not be scrutinised in Audit. While working out the direct production cost, as above, the Company had, however, added all non-variable costs (except depreciation) which was not apt. Only variable costs need have been reckoned for purpose of comparison.

Even if the Company's contention that it is more beneficial to purchase and sell than to produce and sell was to be accepted, it only points out to unrealistic forecasting, during project formulations, of its capacity to produce and sell with a profit in a competitive market, on the basis of which investment decisions were sought by the Management from the Company's Board and the Government.

(C) Portable TV sets numbered 1,02,439 out of 1,07,311 TV sets purchased in models where the Company did not reportedly have production facilities. EF I, II and III had, however, capacity to produce PTVs, as they did, from 1984-85 onwards, though in small quantities. It is not clear whether it was not possible to switch them over to produce PTVs of the required models with peripheral adjustments, especially since TV manufacture consists more of assembling work.

(c) **Failure of CTV sets with remote control**

The Company imported in May 1986 large moulding dies for front and back cover of CTV sets with remote control from a firm of South Korea for Rs.17.66 lakhs and purchased moulding dies for remote control hand sets for Rs.0.61 lakh and those for grill and window for Rs.0.99 lakh from Mutual Steel Industries Limited of Bombay in 1985-86. During 1986-87, 4,559 CTV sets with remote control of models CTV 701 of horizontal shape (1,914) and CTV 702 of vertical shape (2,645) were manufactured in EF II and EF III. Of these, 3,270 sets of models UV 701 (1,532) and UV 702 (1,738) were sold in 1986-87 after certain modifications suggested by R & D based on the problems encountered on the sets. Certain number of TV sets of these models were, however, returned by customers (the exact number

was not made available to Audit). The Company started converting them into ordinary models of CTV 606 and CTV 652 without remote control from July 1987 and 45 sets of model UV 701 and 8 sets of model UV 702 had been converted during July 1987 to June 1988 out of 386 and 476 sets returned by sales and service centres upto June 1988 respectively.

The conversion of UV 701 to UV 606 and of UV 702 to UV 652 involved respectively extra cost of Rs.1,197 and Rs.1,003 per set on additional materials (Rs. 313, Rs. 156) and labour (Rs.100), besides components costing Rs.784, Rs.747 removed from the sets were rendered not useful. The original manufacturing cost of CTV models UV 701 and UV 702 in 1986-87 amounted to Rs. 4,869 and Rs.4,929 which together with the additional costs of materials and labour at Rs. 413 and Rs.256 per set worked out to Rs. 5,282 and Rs.5,185 as against the original manufacturing cost of UV 606 and UV 652 amounting to Rs.4,331 and Rs.4,819 respectively. Thus, the conversion of 386 sets of UV 701 and 476 sets of UV 702 resulted in an extra expenditure of Rs.5.41 lakhs.

As the manufacture of CTV with remote control was not successful, the moulding dies valuing Rs.0.61 lakh and components valuing Rs. 11 lakhs (approximately) had been lying unutilised, while the moulding dies valuing Rs. 18.65 lakhs were being

used for production of non-remote control TV sets but, as stated by the Company in October 1989, would be used for another remote CTV model which is under pilot production.

1.11.2. Capacitors Division

1.11.2.1. Uptron Capacitors Limited (Subsidiary of UPLC) which was incorporated in March 1979 and absorbed with Uptron India Limited on 1st July 1986, set up a factory for manufacture of general purpose aluminium electrolytic capacitors with annual capacity of 60 million pieces. As per project report of September 1977, the project was to cost Rs.44.51 lakhs and commercial production was to commence from August 1979. The project report was revised time to time and as per the latest revised project report of December 1979, it was to be commissioned by May 1980 at a cost of Rs.99.90 lakhs. The project was, however, completed in July 1980 at a cost of Rs.142.32 lakhs (including cost of second hand plant obtained from Singapore for Rs.15.58 lakhs) and started commercial production from January 1981. Owing to delay in commissioning, the pre-operative expenses of Rs.50.23 lakhs incurred up to January 1981 had to be capitalised, as against Rs.25.10 lakhs envisaged in revised project report of December 1979.

The Management stated in May 1989 that the commercial production had been delayed on account of initial technical problems.

1.11.2.2. The Company imported manual and semi-manual machines valuing Rs.15.58 lakhs in July 1980 from Singapore and commenced commercial production in January 1981. The Company, however, decided in June 1981 full automation and accordingly 18 automatic machines valuing Rs.75.23 lakhs were imported during December 1981 to May 1985 and were commissioned during August 1982 to May 1985.

The following points were noticed:

(i) The feasibility report, if any prepared, was not made available to Audit.

(ii) The Company's decision for full automation came in just about six months after commencement of commercial production on manual and semi-automatic machines. Had this decision been taken initially, the import of manual and semi-automatic machines could have been avoided. Most of these machines (value not ascertainable) have been rendered surplus on introduction of full automation. The Company stated that these would serve as stand-by in case of breakdown of automatic machines and also to meet higher market demand for the product. This is indicative of lack of proper planning and detailed consideration of various alternatives before placing the orders for machinery.

The Management also stated in October 1989 that the manual plant provided opportunity to absorb the process technology

at low cost and training to engineers and supervisors was also covered in it without any separate payment.

1.11.2.3. For the purpose of making available the raw materials for the above project, the Company decided in December 1979 to create facility for forming aluminium foil (raw material) within the factory, and approved collaboration with a firm of Milan (Italy) for import of second hand plant for DM 10 lakhs (Rs.56.67 lakhs), on CIF basis and designs and drawings for DM 1.40 lakhs (Rs.5.70 lakhs) negotiated by the Chairman of the Company and Chief Executive of the unit during their visit in Europe in November 1980. Accordingly, second-hand plants were imported in July 1983 from Italy at a cost of Rs.91.01 lakhs after obtaining approval from Government of India in May 1982. Of these, machines valuing Rs.23.83 lakhs remained unutilised so far (September 1988). Meanwhile, formed foils continued to be imported from Japan; such imports during June 1987 to March 1988 alone amounted to Rs. 57.19 lakhs (including demurrage of Rs.3.57 lakhs).

The Management stated in May 1989 that the imported plants were utilised for forming of foils for high voltage capacitors, whereas the imported foils were used for low voltage capacitors. The project profile

put before the Board of the holding company in June 1981 had mentioned that foils for both types of capacitors would be produced.

It was also stated that the reason for some of the machines remaining unutilised was that the forming machines are required to be run as continuous process industry and unless there is a requirement of formed foil to meet further increased demand the utilisation of the machines cannot be fully done. The fact, however, remained that the requirement of raw material and the requirement of machines for forming this raw material were not properly assessed before importing the machines and machines costing Rs. 23.83 lakhs, representing about 25 per cent of the total machines imported had been lying unutilised for the last six years awaiting future demands for the raw material.

1.11.2.4. The details of projected, budgetted and actual production of capacitors during 1980-81 to 1986-87 are indicated below:

Year	Projected production	Budgetted production	Actual production	Percentage of Installed capacity of 60 million pieces	Projected production	Budgetted production
	(Number in millions)					
1980-81	26.00	--	--	--	--	--
1981-82	29.25	--	25.57	42.62	87.42	--
1982-83	48.75	--	33.97	56.62	69.69	--
1983-84	58.50	40.20	36.11	60.18	61.73	89.83
1984-85	58.50	45.38	37.31	62.18	63.78	82.22
1985-86	58.50	54.92	47.91	79.85	81.90	87.24
1986-87	58.50	54.84	59.65	99.42	101.97	108.77

The Company had not revised the capacity in spite of automation of the factory. It would appear from the above details that even after automation in May 1985 the unit could not achieve the capacity fixed for manual and semi-automatic second hand plant.

The lower productions were attributed (June 1984) by the Management to absenteeism among female workers during March to May 1984, unfavourable product-mix due to critical raw material position and more demand for bigger capacitors in the market, the automatic stitching and winding machines having different speeds for different sizes of capacitors, and considerable change in the technology imported from Italy in terms of capacitance gain, leakage current and mechanical strength for forming of foils due to delay in selecting the technology in November 1980 and arrival of plants in July 1983. This indicates unplanned import of machines and technology.

1.11.2.5. The industrial licence issued by the Government of India in September 1978 for manufacture of aluminium electrolytic capacitors provided for export of 50 per cent of the annual production for a period of 5 years. The project report prepared in December 1979 also envisaged export of the capacitors to the extent of 40.2 million pieces annually by December 1984 at 60 paise per piece. The Company,

however, failed to achieve these projected targets as indicated in the table given below:

Year	Number of capacitors exported (in mill- pieces)	Percent- age of exports to total produc- tion	Sales realisa- tions on exports (Rupees in lakhs)	Value per piece (Paise)
1981-82	3.46	13.54	23.19	66
1982-83	8.86	26.07	31.64	36
1983-84	8.69	24.05	32.50	37
1984-85	7.85	21.03	26.04	33
1985-86	5.83	12.11	13.81	24
1986-87	1.58	2.65	5.85	36

It was noticed in audit that poor quality of the capacitors and failure of the Company to adhere to delivery schedules were responsible for the lower achievements. During July to August 1985 alone, the Company failed to supply 7.15 lakh pieces of capacitors for US \$ 36,540 against orders (July 1984 to May 1985) of a firm of France which led to cancellation of the orders by the firm in October 1985.

About 29 lakhs of capacitors valuing US \$ 82,034 (approximately) were despatched to a firm of France during December 1984 to February 1985 in replacement of unsaleable capacitors as agreed to by the MD during his visit to France in January 1984. This also involved extra expenditure of Rs.1.19 lakhs on transshipment of capacitors.

The Management stated in October 1989 that manual plant, falling international prices and better average price in domestic market were responsible for lesser exports and lower sales realisations on exports, and that unsaleable capacitors returned by the firm of France were sold at higher rates in domestic market. The fact remains that valuable foreign exchange was not earned and breach of export commitment was involved.

1.11.3. Digital Systems Division

1.11.3.1. Uptron Digital Systems Limited (a Subsidiary of UPLC) which was incorporated in May 1979 and absorbed with the Company on 1st July 1986, set up a factory at a cost of Rs. 78.44 lakhs for manufacture of computers. The commercial production of computers was started from October 1980 against the target of February 1980 due to technical difficulties in the process of manufacture of proto-type of data entry systems.

1.11.3.2. No targets of production were specified in the annual budgets. The details of actual production vis-a-vis licenced capacity during 1983-84 to 1986-87 are indicated in the table below:-

Item	Licenced capacity
Intelligent terminal data entry systems (Air India/Indian Airlines reservation system)	300 systems
Key to disc data entry system	150 systems
Remote data telemetry logging system	15 systems
EPABX	20000 lines (50000 lines from 1986-87)
Mini computers/micro processor based system	Rs.6 crores (from 1985-86)
Cathode rays tubes data display terminals	2000 numbers from 1985-86

Actual production (with percentage of actual production to the licenced capacity in brackets)

1983-84	1984-85	1985-86	1986-87
216 (72)	177 (59)	156 (52)	136 (45)
112 (74.7)	160 (106.7)	133 (88.7)	158 (105.3)
13 (86.6)	15 (100)	24 (160)	Transferred to control systems division
48 (0.3)	2280 (11.4)	2304 (11.5)	7352 (14.7)
---	--	Rs.0.63 crores (10.5)	Rs.1.41 crores (23.5)
---	--	94 (4.7)	33 (1.6)

The Company attributed the shortfall in production to liberalisation of computer import policy by the Government of India.

1.11.3.3. The Company purchased during November-December 1984 imported components for 10 computers of model S-32 (32 bits) at Rs.3.73 lakhs each from Electro Sales Corporation and Electronic System of Delhi. No quotations/comparative statements in respect of these purchases were made available to Audit. Although no computer had been sold till November 1985, it imported 20 more computers at Rs.1.74 lakhs each from a firm of USA (which was not the manufacturer). Reasons for not importing all the 30 computers valuing Rs.72.09 lakhs from the manufacturers were not on record. As compared with the cost of imported computer (Rs.1.74 lakh per set) the purchase of 10 computers from the Delhi firms (at Rs.3.73 lakhs each) resulted in an extra expenditure of Rs.19.90 lakhs. In the absence of competitive rates obtained through open tenders and in view of the fact that later purchases were made at lower rates, the competitiveness of the rates paid to Delhi firms could not be ensured. For making all these computers saleable, additional parts valuing Rs.0.92 lakh per set were also required which were procured from time to time from other sources.

The Company could, however, sell only six of the first 10 and (none of the rest 20) computers for an aggregate value of Rs. 30.75 lakhs against aggregate cost of Rs.37.92 lakhs (including interest of Rs.10.02 lakhs)during May 1986 to June 1987 resulting in a loss of Rs.7.37 lakhs and used one computer costing Rs.2.85 lakhs for its own purpose. Further, components for 23 computers valuing Rs.50.64 lakhs were lying as work in progress (September 1988).

1.11.3.4. During 1981-82 and 1982-83, 101 computers (Code S-800) were produced, out of which 82 were sold for Rs.50.12 lakhs, of which six computers valuing Rs.4.41 lakhs were rejected by customers in 1983-84 and were lying as scrap (September 1988). 15 computers costing Rs.7.35 lakhs were utilised in 1983-84 for providing services to consumers within warranty period. The balance four computers (cost: Rs.1.96 lakhs) were converted into S-850 (conversion cost not available). After 1982-83, there was no production of these computers (S-800).

The Management stated in May 1989 that components of the computers returned by the customers were used as spares for servicing. No record was, however, maintained in respect of these components. The Management added in October 1989 that the requisite records would be maintained hereafter.

1.11.3.5. In 1983-84, 21 computers (Code S-750) were produced, out of which 17 were sold for Rs. 9.78 lakhs, and four costing Rs.1.37 lakhs were utilised in 1984-85 for providing service to consumers within warranty period. There was no production of these computers (S-750) after 1983-84.

1.11.3.6. During 1983-84 to 1986-87, 91 computers (S-1650) were produced, out of which 74 computers were sold for Rs.180.22 lakhs and 17 computers costing Rs.20.74 lakhs were lying in stock (September 1988). Materials valuing Rs. 20.06 lakhs were shown as works in progress although they were lying in stock (September 1988). There was no production of these computers after 1986-87.

The Management stated in May 1989 that due to change in Government Policy which put computers on Open General Licence, sale of S-1650 computers petered away.

1.11.4. Instruments Division

1.11.4.1. Uptron Communication and Instruments Limited, which was incorporated as a subsidiary of UPLC in November 1979 and absorbed with the Company on 1st July 1986, set up a factory at a cost of Rs.25.17 lakhs for manufacture of electronic ground water well loggers. The commercial production was started by the unit in February 1981

with the know-how purchased by the holding company in April 1980 for Rs.0.20 lakh from Electronics Trade and Technology Development Corporation Limited (ETTDC). The production of electronic hour meter and digital intercom instruments was also started by the unit from October 1981 and February 1983 respectively. The unit also took up in November 1982 assembly of current and mounting plates for lamp inverters on contract basis from Union Carbide India Limited, Lucknow (Everready Flash Light Company).

1.11.4.2. The details of licensed and installed capacities, targets as placed before the Company's board from year to year and actual production for four years upto 1986-87 are given below:

Licensed and installed capacities	Electronic loggers (Numbers)		Electronic hours meters		Digital Intercom (systems)		Lamp Inverters (Numbers)	
	Target	Actual	Target	Actual	Target	Actual	Target	Actual
	20		5000		750		Nil	
1983-84	2	7	500	8 210	254	3000	3530	
1984-85	7	5	Nil	117 400	301	2000	70	(89)
1985-86	6	8	Nil	Nil 270	441	4500	1427	
1986-87	4	1	Nil	Nil 600	746	Nil	Nil	

It would appear from the above that the installed capacities in respect of 3 of the 4 items were not fully utilised in any of the four years. Production of electronic hour meters was stopped in 1984-85. During 1981-82 to 1984-85, 421 meters were produced, of which 119 meters costing Rs.0.47 lakh were still lying in stock (September 1988).

The Management stated in October 1989 that this Division had consistently earned profits.

1.11.4.3. Upto 1986-87, 37 Electronic loggers were produced with 37 depth scriber recorders purchased from Digital Electronics Limited, Bombay (said to be the sole manufacturers in the country) for Rs.29.76 lakhs during January 1981 to June 1986. As the performance of electronic loggers supplied to Central Ground Water Board was not found satisfactory, nine depth-scriber recorders were got converted from first generation to third generation from the firm at a cost of Rs.5.27 lakhs during June 1987 to January 1988. No investigation was, however, carried out to ascertain whether original recorders purchased from the firm were defective.

The Management stated in May 1989 that the recorders with alternate current servo system had been purchased as per design of ETTDC, which had to be replaced by direct current system recorders due to frequent operational problems.

1.11.5. Communication Division

1.11.5.1. The unit was set up in May 1981 at a cost of Rs. 18.93 lakhs as a part of Uptron Communication and Instruments Limited for manufacture of two way radio trans-receivers of ultra high frequency in collaboration with a firm of Budapest (Hungary) who were required to transfer technology free of cost, and supply equipments and raw materials at stipulated prices in terms of agreement executed with the firm by the holding company in April 1981. Commercial production started from November 1982. As the performance of the trans-receivers supplied by the firm of Hungary and sold for Rs. 48.34 lakhs during 1982-83 and 1983-84 to U.P. Police Department was not found satisfactory, a sum of Rs. 4.83 lakhs has not been released by them (September 1988). Although the production of sets was discontinued in 1983-84, the Unit incurred Rs. 1.61 lakhs in February 1985 on travelling expenses of foreign technicians to India to improve performance of the trans-receivers. In terms of the agreement, it was the responsibility of the firm to make good any defect or damage occurring during a period of 12 months after the sale by the Unit to customers or 18 months after the date of bill of lading whichever was earlier. No action was taken to recover the amount from the firm.

The Management stated in May 1989 that the company experienced some technical

problems in the equipment due to temperate conditions prevailing in the Country.

1.11.5.2. The unit switched over to production of two-way radio transreceivers of high and very high frequency with the technical know-how obtained free of cost from a firm of Japan. Equipments valuing Rs.28.56 lakhs were imported from America and Japan in 1985-86 (Rs.16.69 lakhs) and 1986-87 (Rs.11.87 lakhs). The production commenced from January 1986 with imported SKD kits purchased from indigenous sources. No tenders/quotations or basis of selection of suppliers in respect of import of plant and machinery were made available to Audit.

The Management stated in May 1989 that the equipments were of proprietary nature and were purchased direct from the manufacturers. It was, however not clear whether similar equipments were not being manufactured by firms other than those from whom purchased.

1.11.5.3. The Project Report of May 1981 had envisaged for the first five years a production of 950 to 5000 sets with turnover of Rs.170.50 lakhs to Rs.887.50 lakhs against the licensed and installed capacity for turnover of Rs.300.00 lakhs. The Unit, however, failed to achieve not only projected but also licensed levels of turnover except in 1986-87 (physical targets not fixed) as indicated in the table given below:

(93)

	1983-84	1984-85	1985-86	1986-87
	(Rupees in lakhs)			
Licensed turnover	300	300	300	300
Projected turnover	170.50	177.50	568.00	887.50
Actual turnover (excluding excise duty and sales tax)	1.40	Nil	64.39	431.98

The shortfall in production upto 1985-86 was attributable to failure of two-way radio systems as mentioned in paragraph 1.11.5.1.

1.11.6. Consumption of raw materials

Consumption of raw materials was worked out in the accounts of the Company on the basis of opening stock plus purchases reduced by closing stock of raw materials, and thus, included process loss, wastages, damages, shortages, pilferage, etc. In this connection the following points were noticed:

(a) Except for stating that the universally adopted industry norm for process loss is 2 per cent, no separate norms for process loss for different categories of components were laid down. The extent of the actual

process loss, wastage, etc., of raw materials was neither worked out nor were reasons therefor analysed. A test check in Audit of some of the items of raw materials consumed during 1983-84 to 1986-87 for manufacture of TV sets indicated that the process loss, wastage, etc., ranged upto 26 per cent resulting in extra expenditure of Rs.17.94 lakhs as per details in Annexure 'C'. The Management stated in October 1989 that overall process loss was well within 2 per cent. But while working out the value of required materials for that purpose, the Company had adopted year-end costs of raw materials and not the weighted average thereof.

(b) Assembly of printed circuit boards was being got done fully by sub-contractors before establishment of EF IV, who had been allowed only 0.4 per cent process loss. The assembly of printed circuit boards in EF IV, however, involved process loss up to 22.58 per cent resulting in excess process loss of Rs. 1.34 lakhs in respect of the items valuing Rs.43.73 lakhs consumed in 1986-87. The Management stated in October 1989 that failures are more in PCB testing and set soaking which are also done in EF IV unlike sub-contractors who were required to only insert the components in PCB and solder them. It is not clear whether and why payment to sub-contractors was not contingent on successful PCB tests and soaking. In any case, the Company need to fix separate norm for process loss in PCB assembly, testing and soaking.

1.11.7. Payment of production linked incentive

The Board of Directors of the Company noted, approved and ratified in September 1982 the production linked incentive scheme implemented in EF I, Allahabad and EF II, Lucknow, which entitled all the concerned staff to an incentive upto 20 per cent of their wages and salaries for increased productivity depending upon percentage of excess over the annual targeted production. This was subsequently extended to other factories. Production incentive was, however, being paid on the basis of quarterly production with reference to quarterly targets.

The following points were noticed:

(i) As already mentioned in paragraph 1.11.1.1., no targets for production were specified in the annual budgets, in the absence of which it is not clear how and on what basis the quarterly targets for the purpose of production incentive were determined.

(ii) When called for by Audit, the Company had furnished the quarterly targets, actual production there-against and the production incentive paid thereagainst. The source and basis for these targets were not furnished by the Company. However, it was seen that these targets did not have

the approval of the Board. The Management stated in October 1989 that fixation of quarterly targets being an operational measure under an approval scheme, such approval was not needed.

(iii) It was seen that the quarterly targets furnished by the Company were much lower than the installed capacities. Reasons for pitching the targets so low resorting to local purchases from private parties were not on record. Having adequate unutilised installed capacities and having adequate demand, 33 to 49 per cent of which was met from local purchases, fixing low targets for production and payment of incentive on that basis was not justified.

(iv) It was, inter-alia, mentioned in the agenda paper submitted to the Board for its meeting held in September 1982 that to increase productivity of the factory and motivate the workers, the scheme for payment of incentive linked directly with increase in production over and above the yearly targets was proposed and that the payment of incentive was to be made quarterly, which was approved by the Board. Thus, the scheme was for payment of incentive with reference to yearly targets but to be paid quarterly, which means that while the incentive with reference to the quarterly targets may be paid quarterly, but the actual production in each year has to be finally linked to the annual targets and necessary adjustments to be made in respect

(97)

of the payments already made.

However, the Company was paying the incentive in the quarters in which actual production exceeded the targets, without, however, adjusting the shortfall in production in other quarters. Thus, payment was being made without linking annual production to annual targets, resulting in excess payment of Rs. 16.44 lakhs. The details are given below:

	Annual target	Actual production	Increase over target	Percentage of increase over target	Incentive payable for the increase	Incentive paid
	(Number of TV Sets)				(Rupees in lakhs)	
EF I, Allahabad						
1983-84	26400	26659	259	0.98	0.12	2.75
1984-85	26400	31002	4602	17.43	3.31	3.80
1985-86	26400	19179	--	--	--	1.39
1986-87	26400	28968	2568	9.73	1.68	3.45
EF II, Lucknow						
1983-84	24000	27336	3336	13.90	0.54	2.37
1984-85	24000	25850	1850	7.71	0.35	0.99
1985-86	24000	19121	--	--	--	0.86
1986-87	24000	27910	3910	16.29	0.66	2.77
EF III, Lucknow						
1984-85	21600	23290	1690	7.82	1.15	1.45
1985-86	21600	20080	--	--	--	2.08
1986-87	21600	20326	--	--	--	2.34
Total					7.81	24.25

The Management stated in May 1989 that the scheme was based on quarterly production in order to maintain uniformity in production. The reply is not convincing as the scheme specifically envisaged that payment under the scheme was linked directly with increase in production over and above the yearly targets. Regarding uniformity of production in all the quarters, it was seen that the quarterly production was never uniform and there were wide variations between one quarter and another quarter and between factory and factory as discussed in paragraph 1.11.1.2(b). Thus, the purpose of payment of incentive on quarterly basis was not at all served.

1.11.8. Costing

A mention was made in para 2.06 (b) of the Report of the Comptroller and Auditor General of India for the year 1980-81 (Commercial) that the Managing Director of the holding company had stated in a meeting held on 2nd January 1980 under the Chairmanship of the Chief Secretary to the Government of Uttar Pradesh for reviewing the working of the holding company that adoption of standard costing would be considered. However, only costing of Bill of Material was introduced in EF III during 1987-88. None of the other units of the Company had adopted any costing system. As a result there was ineffective cost control and unsound marketing policy. A test check in audit revealed the following points:

(99)

(i) The cost of production of TV sets of the same model varied from factory to factory as mentioned below:

	Raw material	Factory wages and salaries	Factory overheads	Total
(In rupees)				
<u>1985-86</u>				
B&W TV of Model UV 102				
EF I	1368	140	237	1745
EF II	1435	99	431	1965
<u>1985-86</u>				
CTV of model UV 602				
EF II	3630	99	431	4160
EF III	3490	131	433	4054
<u>1986-87</u>				
B&W TV of model UV 203				
EF I	1703	100	190	1993
EF II	1510	76	149	1735

(ii) The cost of products not only differed but also exceeded the purchase prices of Rs.1680 and Rs.1860 per set allowed to Teletronics Limited for models UV 102 and UV 203 in October 1987 and March 1987 respectively. The reasons for the variations and higher costs were not investigated.

The Management stated in May 1989 that different overheads, freight and octroi, etc., were responsible for varying costs. The wide variations in costs and that too in EF II and EF III located in the same building are neither fully accounted for by these factors nor were adequately explained by the Company.

1.12. Repair of consumer electronics

1.12.1. Repair of TV sets

Repairs of TV sets lying unsold due to defects or returned by customers due to major defects within warranty period were being done at the sales and service centres upto 1983-84. The Company, however, set up in 1984-85 a central workshop at Lucknow for repairs of major defects including remodelling of slow moving sets. Minor defects of TV sets including those of customers within warranty period continued to be attended through sales and service centres. The position of receipts, repairs and closing balance of defective TV sets in the workshop for 3 years upto 1986-87 is indicated below:

(101)

Rece- Rep- Clos- Total Average
ipts airs ing cost repair
bala- of ma- cost per
nce teri- set
als u- (Rupees)
sed for
repairs
(Rupees
in lakhs)

(Number of TV sets)

1984-85

PTV	146	9	137		
B&W TV	413	144	269		
CTV	135	23	112		
Total	694	176	518	6.33	3596

1985-86

PTV	538	407	268		
B&W TV	606	215	660		
CTV	570	321	361		
Total	1714	943	1289	8.96	950

1986-87

PTV	881	359	790		
B&W TV	1625	841	1444		
CTV	1023	405	979		
Total	3529	1605	3213	19.23	1198

In this connection following points were noticed:

(a) The cost of materials consumed for repairs was accounted for in the accounts of the Company on the basis of materials issued by TV factories to the workshop and no stores ledgers were maintained in the workshop. In the absence of numerical

records in the workshop, it could not be ensured that the materials charged off as consumption did not include shortages and obsolete/unserviceable/damaged items.

(b) The repair cost of Rs.3596 per set (excluding Rs.90 per set towards labour cost) in 1984-85 was very high as compared with the total cost of materials for manufacture of TV sets ranging from Rs. 1000 (PTV) to Rs.1600 (B&W TV) and Rs.3300 (CTV). Reasons for excessive cost of repairs have not been investigated.

(c) The defective sets repaired or awaiting repairs in the workshop included 2203 PTV, 1585 B&W TV and 489 CTV sets purchased from a number of parties, who were required to repair or replace the defective sets within a period of 15 months from the date of despatch by suppliers or 12 months from the date of sale by the Company to customers whichever was earlier, in terms of provisions of purchase orders. The reasons for not getting them repaired/replaced by the respective suppliers were not on record. The repairs of these 4277 sets involved an expenditure of Rs.42.77 lakhs (at the average rate of Rs.1000 per set).

The Management stated in May 1989 that the sets bought from suppliers were beyond warranty period. No records showing the dates of purchase and of development of defects were, however, available and in the absence of these details, basis for the Company to declare them as beyond warranty period is not clear.

1.12.2. Repairs of audio products

The Company had been producing audio products through sub contractors, who had guaranteed their satisfactory performance against manufacturing defects for a period of 12 months from the date of delivery of the products to the Company. The Company, however, incurred a sum of Rs. 1.69 lakhs in 1986-87 on repairs of 18083 two-band radios (Rs.1.55 lakhs) and 781 pocket radios (Rs.0.14 lakh) through the sub-contractors. No reasons for not getting them repaired/replaced by their original manufacturers at their cost were on record.

The Management stated in October 1989 that only those radios where labour charges were not levied were within the warranty period. But it is not clear why the Company had paid charges for spare parts also for such sets.

1.13. Sales and Services

1.13.1. Sales and Service net work

The sales and service net work comprises of 28 sales and services centres throughout the country under five regional offices viz. Central Region, Lucknow; Northern Region, Delhi; Western Region, Bombay; Eastern Region, Calcutta and Southern Region, Madras. These centres carry out marketing of Company's own products as well as those of co-subsidiaries as their sole selling agents and also render post-sales services. Consumer goods like TV sets, radios, etc. are mostly sold through dealers appointed by the Regional Managers.

1.13.2. Pricing policy

The Company did not lay down any pricing policy except that selling prices of two way radio systems settled in July 1987 with U.P. Police Department provided margin of 38.5 per cent of cost of materials for overheads and 15 per cent for profit. Margin for overheads and profits extended up to 196 per cent of the cost of materials in case of electronic well loggers (Proprietary items), whereas some products were sold even at less than the cost of materials. In terms of delegation of financial powers to the divisional incharges, all price approvals were required to be obtained from the MD, but no approvals were required to be obtained from the MD, but no approvals were available on the records test checked in Audit.

The Management stated in May 1989 that the Company, was operating in very highly competitive areas where pricing policies and marketing strategies had to be per force, flexible. Many a time approvals had, per force, to be given verbally. It was noticed that divisional incharges decided on selling prices at their levels.

1.13.3. Sales performance

The Company marginally failed to achieve targetted sales(including excise duty and sales tax) indicated in its annual budgets as mentioned below

(105)

	1983-84		1984-85	
	Target	Actual	Target	Actual
	(Rupees in lakhs)			
<u>Sales</u>				
Consumer electro-nics	2573.79	2371.93	4790.95	4676.78
Capacitors	306.50	311.64	417.60	423.60
Digital systems including control systems	774.31	516.92	855.50	574.38
Communication and instruments	111.44	123.60	170.86	146.37
Total	3766.04	3324.09	6234.91	5821.13
Other income (excluding agency commission from erst while co-subsidiaries)	22.40	309.71	47.36	109.94
Total	3788.44	3633.80	6282.27	5931.07

(106)

1985-86		1986-87	
Target	Actual	Target	Actual
	(Rupees in lakhs)		
5337.96	4815.26	5399.60	5404.70
586.50	528.28	612.50	643.70
1146.54	838.21	1868.85	1272.66
60.00	276.25	354.81	781.81
7131.00	6458.00	8235.76	8102.87
69.00	346.27	269.42	618.42
7200.00	6804.27	8505.18	8721.29

The actual number of TV sets sold (consumer electronics) during the four years upto 1986-87 was 0.88 lakh, 1.33 lakhs, 1.28 lakhs, and 1.65 lakhs against the targets of 0.80 lakh, 1.32 lakhs, 1.40 lakhs and 1.30 lakhs respectively. Despite the increase in the number of sets sold during 1983-84, 1984-85 and 1986-87, sale proceeds have not reached the targetted level reportedly due to lower unit price realisation due to stiff competition. Lower sales of CTV were also on account of problems of quality, marketing and after-sales service. The other factors, as mentioned in the Board meetings, were low productivity of workers and reduction in exports in Capacitors Division, delay in introduction of 16 byte computers in Digital Systems Division and failure of two-way radio systems in Communications Division.

1.13.4. Loss on sales

1.13.4.1. Loss on sale of TV sets

In 1986-87, 648 sets of CTV model UV 602 and 602A were sold at selling price of Rs.6000 per set subject to a discount of Rs. 700 per set, against the cost of sales amounting to Rs.6560 (including cost of production of Rs.4000, excise duty of Rs.1600 and management, financial, selling and distribution expenses of Rs.960). This resulted in loss of Rs. 8.16 lakhs.

The Management stated in May 1989 that it was a clearance sale under the approval of the Technical Director.

Under the delegation of powers, only MD was competent to approve the selling prices, which was not obtained (August 1989).

1.13.4.2. Loss on sale of audio products

The Company set up a separate Entertainment Electronic Sub-division in the head office in January 1982 for production and sale of audio products which was hitherto being done in EF 1, Allahabad since May 1978. The audio products like, radios, two-in-ones, tape recorders were assembled through sub-contractors with the Company's raw materials and were also purchased from private parties. The table below indicates the cost of sales and the sales realisation of audio products during 1983-84 to 1986-87:

	1983-84	1984-85	1985-86	1986-87
	(Rupees in lakhs)			
Raw materials consumed	13.42	23.36	16.91	8.18
Salaries & Wages	2.18	3.72	4.16	4.63
Overheads of the division	4.86	8.17	9.46	8.82
Cost of production	20.46	35.25	30.53	21.63

(109)

ADD: Open- ing stock of fini- shed goods	16.30	21.37	42.73	54.44
Purchases	27.50	46.90	39.24	78.91
LESS: closing stock	21.37	42.73	54.44	40.17
Cost of goods sold	42.89	60.79	58.06	114.81
Management financial, selling and distribution expenses at 15 <u>per</u> <u>cent</u> of sales	7.06	8.55	10.58	17.57
Total cost of sales	49.95	69.34	68.64	132.38
Sales	47.04	57.02	70.50	117.13
Profit(+)/ Loss(-)	(-)2.91	(-)12.32	(+)1.86	(-)15.25

It would appear from the above details that the Company incurred net loss of Rs.28.62 lakhs during 1983-84 to 1986-87. There was no system to analyse the reasons for the losses.

The Management stated (May 1989) that sale of audio products was primarily taken up to help establishment of small scale units. This does not justify that the Company should operate this activity at loss.

1.13.4.3. Loss on sale of control systems

The GM (Control Systems Division) executed agreements with customers for supply, installation and commissioning of mining operation and other control systems on the basis of tenders/offers submitted by him, without approval of the MD as required under delegation of financial powers relating to marketing of products. Neither job cards nor any costing records were maintained to record the total expenditure incurred by the Division for execution of agreements/orders. Terms and conditions in the agreements with customers did not fully safeguard the interests of the Company against price fluctuations, particularly due to change in exchange rate of foreign currencies, increase in or imposition of duties and taxes and other contingencies.

Few interesting cases noticed during testcheck of sale orders are discussed below:

(a) The Division received in December 1986 an order from Indian Rayon and Industries Limited (Rajshree White Cement) of Jodhpur for supply, installation and commissioning of micro-processor based

distributed control system for Rs.41.80 lakhs against the cost of Rs. 39.81 lakhs estimated by the division. The supplies were made in August 1987 against the due date of July 1987. Though no penalty was imposed by the customer for the delay and the contract value was increased by the customer to Rs.43.40 lakhs (including taxes) in August 1987 due to change in the engineering information by the customer, the actual cost of supply, installation and commissioning (including factory and marketing overheads at the rate of 30 per cent of materials) amounted to Rs.50.21 lakhs resulting in a loss of Rs.6.91 lakhs.

(b) The Control Systems Division received an order in November 1987 from Indian Iron and Steel Company Limited of Calcutta for supply, erection and commissioning of instrumentation and control systems at their works at Burnpur (West Bengal) for Rs. 47 lakhs to be completed by August 1988, against the offer of the division for Rs.53.85 lakhs (July 1987). The Company stated that it had accepted lower offer in order to gain entry into the business of steel industry and had obtained subsequently order for Rs.5 crores from Bokaro Steel on single quotation basis. The work was in progress (September 1988) and the Company became liable to pay liquidated damages of Rs.4.70 lakhs. The actual cost of the work was estimated by the division at Rs.43.41 lakhs excluding factory overheads and marketing expenses, which as per accounts of the division for 1986-87 worked

out to 30 per cent. Thus, the total cost amounted to Rs.56.43 lakhs, which would result in a loss of Rs.9.43 lakhs excluding liquidated damages.

The Management stated in May 1989 that in both the above cases, the actual costs included expenses on engineering, installation, etc. and further loading by 30 per cent for overheads was not required. Audit, however, considers that actual costs so worked out did not include other overheads which need be added for working out economics of the measure. The Division has also incurred overall loss of Rs.67.80 lakhs in 1987-88.

(c) The Control Systems Division's offer of July 1985 in response to the enquiry of December 1984 was accepted and an order was received in March 1986 from Singareni Collieries Company Limited (a Government of Andhra Pradesh Undertaking) for supply and commissioning of fire alarm and communications system for Rs.86.55 lakhs (reduced to Rs.86.38 lakhs in September 1986) to be completed by October 1986, subject to the condition that sales tax and excise duty which were not applicable would be absorbed by the vendor Company, if applicable in future, and variations due to change in the rates of customs duty and exchange rate would be borne by the customer.

The Company placed orders for supply of imported components on three parties of England in April and June 1986, against which supplies were completed during

February 1987 to November 1987. The Division completed the works by December 1987. The customer extended the date of completion upto August 1987 with a condition that variations in the rate of custom duty and exchange rate to be borne by them would be limited to the scheduled date of completion i.e. October 1986. Accordingly, Rs.13.30 lakhs were not paid by the customer on this account. As regards the components (transducers) received from England in November 1987 and supplied to the customer in December 1987 for Rs. 8.46 lakhs, the customer deducted penalty of Rs.0.75 lakh from its value released in March 1988. As per tour report of the GM in respect of visits to England, placed before the Board of Directors of the Company in November 1987, the party of England had agreed to reimburse any charges on account of interest (on extension of letters of credit opened in December 1986). etc. due to late delivery of transducers but no recovery on this account was effected (September 1988).

The Company did not claim central sales tax of Rs.3.67 lakhs as per the terms of the order. The Company, thus, short recovered Rs.4.42 lakhs due to late execution of the work (Rs.0.75 lakh) and acceptance of the defective terms (Rs.3.67 lakhs), in addition to Rs.13.30 lakhs towards increase in customs duty and variation in exchange rate.

The Management stated in May 1989 that the final decision of the customer was awaited.

1.13.4.4. Sales of printers

50 Dotmatrix printers (manufactured in Japan) were purchased by Digital Systems Division from a firm of Hongkong at the landed cost of Rs.5.11 lakhs in July 1986 when payments were made to the firm against letter of credit. The Printers were kept in bonded warehouse upto November 1986 when these were released for sale on payment of warehousing charges of Rs.1.58 lakhs. The selling price was fixed in July 1986 by the division at Rs. 9500 per printer (in addition to technical service of Rs.1500) against the actual cost of procurement at Rs.10,220 each. However, 38 printers were sold during March-June 1987 at Rs.5,000 to Rs. 8,455 and 12 at Rs. 9,500 each, the total sales realisations amounting to Rs.3.92 lakhs only. The Company, thus, suffered loss of Rs.1.19 lakhs, in addition to Rs.0.77 lakh being selling and distribution expenses at 15 per cent of the landed cost. Further, charges for technical services amounting to Rs.0.33 lakh were not billed in respect of 22 printers sold during May-June 1987, for which no reasons were on record.

It was further noticed that the Division had paid Rs.49.13 lakhs (FOB Japan) to the firm of Hongkong during July 1986 to September 1987 against letters of credit for import of 1859 printers and floppy drives (manufactured in Japan) which were kept in the bonded warehouses at Delhi and Lucknow for 2 to 26 months as they were not

required for immediate sale. Of these, 1,499 printers and drives had been released and 360 printers and drives valuing Rs.10.73 lakhs (FOB Japan) imported in March and September 1987 were still (May 1989) lying in the warehouses. Out of 1499, only 1099 printers were stated to have been sold by October 1989. The excessive imports, thus, resulted in an avoidable expenditure of Rs.7.50 lakhs towards interest, besides warehousing charges (not made available to Audit). Reasons for not importing the goods directly from the manufacturers were also not on record.

1.13.5. Selling and distribution expenses

1.13.5.1. The selling and distribution expenses exceeded their budgetted provisions although the actual sales fell short of the budgetted ones as indicated below:

1984-85 1985-86 1986-87
(Rupees in crores)

(a) Budgeted sales and other incomes (included commission on agency sales)	62.82	72.00	85.05
(b) Budgeted selling and distribution expenses (included incentives/quantity discounts)	4.55	6.90	8.25

Actual sales and other incomes relevant to (a)	59.31	68.04	87.21
Actual selling and distribution expenses	5.89	8.30	10.10*
Percentage of budgeted expenses to budgeted sales	7.2	9.6	9.7
Percentage of actual expenses to actual sales and other income	9.9	12.1	11.6*

Thus, the selling and distribution expenses had increased disproportionately.

The Management stated in October 1989 that due to stiff competition in the market, higher expenditure had to be incurred.

1.13.5.2. The details of variations in budgeted and actuals on dealer's commission, discount and incentives during 1984-85 to 1986-87 were as below:

* Excludes Rs.98.50 lakhs incurred on advertisement and treated as deferred revenue expenditure in 1986-87 and if included the percentage in 1986-87 would come to 12.7 instead of 11.6.

	Budgeted	Actuals
	(Rupees in lakhs)	
1984-85	18.02	52.48
1985-86	57.23	157.37
1986-87	81.20	142.23

In this connection the following points were noticed during test check in Audit:

(i) The Technical Director (Divisional Incharge of Consumer Electronics Division) and the Marketing Manager were empowered under the delegation of financial powers by the MD to authorise standard discounts after price approvals were given by the latter. But neither price approvals were obtained from the MD nor were any standard norms of discounts fixed by the Company.

(ii) The Marketing Manager had authorised in January 1986 the dealer's incentive to be allowed during January to June 1986 at Rs.30 to Rs.60 per set of PTV and Rs.30 to Rs. 125 per set for B&W TV depending upon sales of 30 to 120 and 90 to 360 sets of PTV and B&W TV respectively. But subsequently (September 1986) he allowed the incentive at the rates of Rs.100 and Rs.175 for 1475 sets of PTV and 720 sets of B&W TV lifted by 5 dealers of Calcutta for achieving more than 200 per cent of the dealer's targets during the above period

(January to June 1986). This resulted in an additional burden of Rs. 0.95 lakh. The increased rates of incentive were applied to the entire quantity of TV sets lifted by the dealers. This was not only beyond the power of the Technical Director but also beyond the margin of profit available on sales of TV sets by the Company.

(iii) No credit sales were permissible under the Company's sales policy. For the purpose of dealer's incentive, payments must be received from dealers by 10th of the following month, which was extended to 30th August 1986 in case of sales upto 30th June 1986 by the MD. The Area Sales Manager, New Delhi, however, paid dealer's incentive of Rs.5.76 lakhs to 43 dealers taking 6th October 1986 as the deadline stated by him to have been verbally approved by the MD.

(iv) A scheme for sale of CTV sets was introduced in March 1986 by the Company on the occasion of 10th anniversary of manufacturers of TV sets under which the customers having uptron TV sets were given 10th anniversary discount coupons for passing them on to new customers who were entitled to a discount of Rs.300 per CTV/ Rs.100 per B&W while the introducer would get a bearer gift cheque of Rs.101 each. No record of gift cheques purchased and distributed was kept. In this connection, a firm of Chartered Accountants of Lucknow, appointed by the Company to audit the transactions under this scheme, indicated in its

report of September 1987 that 27,500 gift cheques for Rs.27.78 lakhs had been purchased by the Company (based on the payments made by the Company), out of which 872 cheques for Rs. 0.88 lakh remained unaccounted for. The Management stated in October 1989 that the official responsible for the loss has since been demoted, but no further action for recovery of the amount was contemplated.

1.13.5.3. Advertisement and publicity

(i) The Company incurred an expenditure of Rs. 590.93 lakhs on advertisements during 1983-84 to 1986-87. A note on advertisement policy was presented to the Board of Directors of the holding company in June 1987, which, inter alia, laid emphasis on cost benefit ratio. Proposals for advertisement and publicity were not, however, initiated by the Management showing relative necessity, cost benefit ratio, effectiveness of the previous advertisements, etc. Instead estimates showing media, number of insertions, cost said to be based on the standard rates chargeable by the media concerned as submitted by advertising agencies were accepted without exploring or negotiating discounts over the standard rates. No campaign as such was designed.

A market survey to assess area-wise comparative gains from the different media through which publicity effort had

actually been put through in the last year or so would be useful in shaping the direction, trend and magnitude of publicity effort in future.

(ii) The Manager (Marketing Service) placed an order in March 1985 on an advertising agency, Ulka Advertising Private Limited of Delhi, for Uptron TV film screening in 558 theatres in South India for a total estimated cost of Rs. 10 lakhs on the basis of his discussion with the agency. But the agency awarded the work to another advertising agency, Blaze Advertising Private Limited of Delhi. On the basis of copies of three bills of the latter for Rs.8.04 lakhs, the Company paid Rs.9.58 lakhs to the former, inclusive of Rs.1.54 lakhs commission, during May 1985 to July 1985. It is not clear why the Company did not entrust the job direct to Blaze Advertising Private Limited, which could have saved Rs.1.54 lakhs.

1.13.6. Sundry debtors

According to the delegation of financial powers by the MD to the divisional-incharges, no credit was to be allowed to customers/dealers, and in case of its necessity, approval of the MD was required to be taken on case to case basis. It was observed in Audit that no such approval was obtained from the MD and sales were made on credit by the Sales and Service Centres.

The position of sundry debtors at the end of each of the four years upto 1986-87 is indicated in the table below:

Sundry debtors					
	Upto 6 months old	More than 6 months old	Total	Sales	Sundry debtors in terms of mon- th's sales
(Rupees in lakhs)					
1983-84	727.28	143.23	870.51	3324.09	3.14
1984-85	598.69	186.25	784.94	5821.13	1.62
1985-86	1109.14	449.18	1558.32	6458.00	2.90
1986-87	2309.62	516.57	2826.19	8102.86	4.19

The outstandings against sundry debtors even exceeded the limit of half month's sales envisaged in the project estimates for setting up electronic factories, which resulted in increase in interest burden of the Company. The Management stated in October 1989 that changed market conditions led to the increase.

The age-wise and public/private sectorwise breakup of the outstandings against sundry debtors has not been intimated by the Company. However, the outstandings of more than 6 months old had shown an increasing trend.

1.14. Material Management

1.14.1. The purchase procedure prescribed by the Managing Director of the holding company in February 1978 for purchase of raw materials and components, interalia, provided that proprietary items would be purchased on the basis of prevailing price list with the manufacturers or rates negotiated with them, and in case of items with alternative makes cost and delivery period would be considered, items of non-proprietary nature would be purchased after calling (minimum three) quotations, and approval by the purchase committee consisting of the Manager (Manufacturing), Deputy Manager (Research and Development), Assistant Manager (Research and Development), Assistant Manager (Materials) and Accounts Officer. No quotation would be invited for purchase of imported items from Government canalising agency, viz. Electronic Trade and Technology Development Corporation Limited (ETTDC) and all purchase orders exceeding Rs.50,000 would be routed through Accounts Officer. The Managing Director of the Company further supplemented the procedure in March 1987 by providing that as far as possible four suppliers should be identified for each item, a single supplier should not supply more than 50 per cent of the requirements and in case of deviations, the matter should be reported to him and purchases in excess of the budgeted provisions could be made only after obtaining his prior approval.

The Board of Directors empowered (March 1981 and January 1982) the Managing Director with all powers to do acts, things, deeds, necessary or incidental to exercising the power delegated to him or to take any step for business promotion or in the interest of the Company. The Managing Director, however, delegated powers to the divisional incharges from time to time, inter-alia, full powers to sanction purchase.

On a review of the powers delegated, the Board of Directors observed in March 1987 that these delegations were more than adequate and could result in overshooting of expenditure if the physical targets could not be achieved. The Board also advised that sufficient checks and controls should be suitably built into the system. The Management stated in October 1989 that certain checks were thereafter introduced.

1.14.2. Inventory control

1.14.2.1. The table below indicates the details of closing stock of raw materials, work-in-progress and finished goods held by the Company (including merged units) at the close of four years upto 1986-87:

(124)

1983-84 1984-85 1985-86 1986-87
(Rupees in lakhs)

Raw materials including those in transit	387.99	803.60	857.03	1032.97
Work-in Progress	87.02	189.08	234.51	453.51
Finished goods including those in transit	190.92	674.40	806.38	994.51
Total	665.93	1669.08	1897.92	2480.99
Consumption of raw materials	1519.83	2700.88	2452.02	3572.13
Sales excluding Excise duty and sales tax	2788.99	4867.68	5391.30	6751.69
Value equivalent to months' consumption				
Raw materials	3.06	3.57	4.19	3.47

Work-in-progress	0.70	0.84	1.14	1.52
Finished goods equivalent to months' sales	0.82	1.67	1.79	1.77

1.14.2.2. The following points deserve mention in this regard:

(i) Against the projected stock holding of raw materials equivalent to one month in case of indigenous items and three months in case of imported items as envisaged in the project reports for the various factories, the actual stock holding ranged between 3.06 and 4.19 months' requirement.

(ii) In case of work-in-progress the actual stock holding increased from 0.70 month's in 1983-84 to 1.52 months' consumption of raw materials during 1986-87 as compared to half months' holding envisaged in the project reports.

(iii) The actual stock holding of finished goods ranged between 0.82 month's and 1.79 months' sales as compared to half month's holding envisaged in the project reports. The Management's contention in October 1989 that the stocking levels

are within the banking norms is not relevant in the context of projected levels.

(iv) Capacitors Division which started trial and commercial production of Electrolytic Capacitors respectively in March 1980 and January 1981 had imported raw materials valuing Rs.85.40 lakhs during 1979 and 1980, out of which raw materials for Rs.20.33 lakhs only were utilised in 1980 leaving a balance of Rs.65.07 lakhs. The Company decided in March 1981 to dispose of the slow moving items at less than procurement cost upto 10 per cent. While items valuing Rs.12.27 lakhs including those valuing Rs.4.10 lakhs purchased in 1979 and 1980 were still held in stock (June 1988), the records relating to items disposed of/utilised were not made available to Audit.

The Management stated in October 1989 that the rest of the material has been utilised except for Rs.3.22 lakhs which would be utilised hereafter.

(v) The closing stock of raw materials included materials costing Rs.18.57 lakhs declared dormant, slow moving and obsolete by EF 1 Allahabad (Rs.9.09 lakhs), EF V, Chandavak (Rs.0.75 lakh), Instruments division (Rs.2.97 lakhs) and Communication division (Rs.5.76 lakhs). These were procured in 1983-84 and earlier

Details of such items for Digital Division and EF II and III were not available on record.

(vi) Finished products were not classified to segregate dormant, slow moving or unserviceable, except 1,415 sets of radios and tape recorders costing Rs.3.79 lakhs declared beyond economical repairs as on 30th June 1988.

(vii) The closing stock of finished goods at the end of June 1987 did not include the following:

(a) 212 TV sets costing Rs.5.45 lakhs were lost due to fire (Rs.5.09 lakhs) and theft (Rs.0.36 lakh) at Calcutta during 1986-87. The claim of Rs.5.09 lakhs was settled in February 1988 for Rs.2.62 lakhs only, while the claim of Rs.0.36 lakhs had not been settled.

(b) 67 TV sets and 191 calculators costing Rs. 2.33 lakhs and Rs.0.62 lakh respectively were found short/lost in transit in 1986-87 in respect of which the Management stated that investigation was done and disciplinary action taken, details of which are awaited (October 1989).

(viii) The closing stock of finished goods at the end of June 1987 included stocks costing Rs.9.55 lakhs with the owner of the hired premises

of the Sales and Service Centre, Cuttack, for which litigation was on.

(ix) 15,046 line output transformers for Rs. 7.59 lakhs were shown in store cards of EF II for 1983-84 and 1984-85 to have been transferred to Marketing division, but no accounts of the transformers were available with the latter at Sales and Service Centre, Lucknow.

(x) Priced stores ledgers were not maintained in order to exercise control over the accounts of receipts and issues recorded in store cards. The maximum, minimum and re-ordering levels for various items of inventory have also not been prescribed. The Management stated in October 1989 that this is being shown in the planning sheets and would be maintained hereafter in ledgers.

1.14.3. Purchase of imported components

The Company imported components amounting to Rs. 181.15 lakhs, Rs.243.30 lakhs, Rs. 570.52 lakhs and Rs.1,244.53 lakhs during the years 1983-84 to 1986-87 respectively, in addition to purchase of imported components through indigenous sources (year-wise details of which were not available). No global tenders were invited and imported components were purchased either on the basis of negotiations with foreign suppliers/their Indian agents or rates quoted by indigenous importers.

The Management stated in May 1989 that the size of imports by the Company did not justify invitation of global tenders which involved substantial cost.

1.14.3.1. Components of two-way radio systems

On the basis of limited quotations, Communication Division purchased imported kits/components for two-way radio systems from Electro Sales Corporation New Delhi for Rs.78.29 lakhs in January 1987 and for Rs.47.24 lakhs in December 1987 as decided by the purchase committee consisting of the Director incharge/Officer-incharge, Project Manager and Senior Manager (Communication). Reasons for not associating Accounts Officer with the Committee as per prescribed purchase procedure, were not on record. It was also noticed that the quotations of Varuna Electronics and Electro Sales Corporation, New Delhi, which had offered their rates on 8th July 1987 and 22nd August 1987 on the basis of which purchases of Rs. 47.24 lakhs were made, contained the same telephone numbers and they were associates.

Neither reasons for not importing the materials directly from foreign suppliers nor comparative cost in case of direct imports were on record. However, the cost of kits consumed in two-way radio systems, which were sold for Rs. Rs.64.39 lakhs (excluding excise duty

and sales tax for Rs.11.35 lakhs) during February to June 1986 amounted to Rs.68.25 lakhs. This resulted in loss of Rs.29.83 lakhs including overheads of the division.

The Management stated in October 1989 that this was done to expedite entry into this line.

1.14.3.2. Sub-assemblies of EPABX

On the basis of a single quotation (August 1986) of Varuna Electronics, Delhi, the Digital Systems Division purchased imported sub-assemblies of EPABX for Rs.56.54 lakhs during October-November 1986 without examining the margin available to the Company on the sales of the products. It was noticed that during November 1986 to March 1987, the Company sold finished products for Rs.44.77 lakhs in which sub-assemblies for Rs. 54.97 lakhs were consumed. The Company, thus could not recover even the cost of raw materials valuing Rs.10.20 lakhs, besides overheads.

The Management stated in May 1989 that orders from customers had been received on the basis of development of indigenous exchange at very low cost which faced reliability problems and, therefore, 10 imported exchanges were purchased to expedite the reverse engineering process and in 1987, gross profit of Rs.157.46 lakhs on a turnover

of Rs.286.46 lakhs was made. The audited accounts of the Division, however, disclosed a loss of Rs. 86.02 lakhs during 1987-88.

1.14.3.3. Colour Picture Tube (CPT)

After CPT was brought under OGL from March 1985, EF III at Lucknow placed an order in July 1985 on a firm of France for supply of 4,000 CPT (with 29.5 mm neck) on the ground that the landed cost of these directly imported CPTs would amount to Rs. 1,487.50 each against Rs.1,709.24 (ex-Bombay) and Rs.1,735.24 (ex-Delhi) each payable against supplies by ETTDC. 3,977 tubes valuing Rs.34.37 lakhs (CIF) arrived at Bombay port on 18th October 1985 were, however, kept in bonded warehouse at Delhi from 5th November 1985 to 15th February 1986 and 2,000 tubes were purchased from ETTDC at Rs.1,615 each during November/December 1985 incurring an extra expenditure of Rs.3.44 lakhs as compared to landed cost of Rs. 1,443 per tube, besides extra warehouse charge of Rs.0.32 lakh and locking up of materials costing Rs.34.37 lakhs for four months involving loss of interest of Rs.2.06 lakhs (at 18 per cent per annum).

The Management stated in May 1989 that due to introduction of new model, picture tubes of 22.5 mm neck were purchased from ETTDC. It added in October 1989 that in July 1985, it

could not foresee the actual requirement three months hence. It was further noticed that in the orders placed on ETTDC, the size of neck was not indicated. The Company had also not maintained accounts with reference to different neck sizes of CPT, in the absence of which consumption of these tubes could not be checked, particularly in view of the changes in the designs.

1.14.3.4. Diodes

Bill of materials for manufacture of TV sets provided for use of imported diodes (with code numbers BA 157 and BA 159) of West Germany. It was, however, noticed that EF I, II and III ordered 7.01 lakhs B & W and 4.40 lakhs CTV diodes of foreign/indigenous makes valuing Rs.19.05 lakhs from three firms of Delhi and one firm of Bombay during July 1983 to August 1985 at Rs.1.35 to Rs.2.50 each, while only 0.69 lakh diodes valuing Rs. 0.55 lakh were purchased from ETTDC during September and December 1984 at Rs.0.80 each. Reasons for not procuring diodes from foreign suppliers indicated in the bill of material or for not making purchases from ETTDC were not on record. The purchase of imported diodes from indigenous sources involved an extra expenditure of Rs.9.92 lakhs as compared to the rate of Rs. 0.80 each at which these were supplied by ETTDC.

The Management stated in May 1989 that the quantity of diodes allocated to the Company in licence in April 1984 (8 lakhs) and January 1985 (12.60 lakhs) was not sufficient to meet the total requirements, and that diodes of the make the Company needed (ITT, West Germany/CSF Thompson) were not available with ETTDC. ETTDC letter of 1st June 1985 did, however, indicate availability of Thompson make diode. It was also noticed that the Company obtained import licence for 'CTV diodes' (comprising various types of diodes) only and did not explore possibility of obtaining others from ETTDC which had been making them available at lower cost.

1.14.4. Purchase of indigenous components

1.14.4.1. Wooden cabinets

(a) The purchase committee in EF 1 approved in April 1983 the rate of Rs.320 per wooden cabinet for 20" wooden black and white TV sets of model UV 202 on the basis of a single quotation of March 1983 of a firm of Delhi. The rate was, however, increased to Rs.330 from June 1984, and to Rs.338 from July 1984 on the ground of increase in the cost of raw materials. The factory placed orders on three parties of Delhi in March/April 1984 for supply of 1,600 cabinets at Rs.320 each. One party, however, did not supply any cabinet against the orders for 1,000 cabinets, while the

other two parties supplied only 330 cabinets against the orders for total 600 cabinets. The shortfalls were met by purchases of cabinets at the higher rates of Rs.330 and Rs.338 each from other parties. But the Company could not recover liquidated damages by way of forfeiting earnest money/security deposit or otherwise in the absence of such terms in purchase orders.

(b) The benefit of Modified Value Added Tax (MODVAT) was available in respect of wooden cabinets from March 1986 under which suppliers of cabinets were entitled to the set-off of the excise duty paid on raw materials against the excise duty charged from the Company, provided they furnished excise gate passes. The Company was also entitled to the set-off of the excise duty paid to the cabinet suppliers against the excise duty payable on TV sets. This would have resulted in reduction of cost of manufacture of cabinets by Rs.9.47 each as assessed by EF II, Lucknow in May 1987. But the benefits could not be availed of as the cabinet suppliers were not asked to quote their rates excluding excise duty and to enclose excise gate passes in respect of excise duty. The EF II, Lucknow, however, reduced the rate for supply of wooden cabinets for TV model UV 102 from Rs. 105 to Rs. 99 with effect from July 1987 on this account. Had the benefits of MODVAT

been availed of from March 1986 itself, EF II could have saved Rs. 2.20 lakhs in respect of 36,600 cabinets (at Rs.6 per cabinet) purchased during March 1986 to June 1987, and EF III could have saved Rs.0.75 lakh in respect of 12,475 cabinets purchased during July 1986 to June 1987.

1.14.4.2. Plastic Component for cabinets of black and white TV sets

(a) On the basis of quotations collected personally by the Manager (R and D) from three firms of Bombay on 23rd February 1984, the purchase committee consisting of the Manager (R and D), Joint Manager (R&D) and Deputy Manager (R&D) (reasons for not associating Financial Controller not available on record) accepted in March 1984 the lowest rates of Rs.2.85 lakhs for development of moulding dies and Rs.88.70 per set (excluding charges for spray painting to be decided later on) for supply of plastic components comprising front mask, grill and back cover (made of HIP) for cabinets for portable TV sets, according to the specified designs. The rate of Rs.88.70 per set was based on the gross weight of 1,760 gms (net weight not specified) and was variable with the change in the weight and price of raw materials as agreed in April 1984. Accordingly, an order was placed in April 1984 with Garware Plastics and Polyester Ltd. Bombay for development of moulding dies which were to remain the property of the Company.

property of the Company. It was, however, seen that before start of supplies, the rate of Rs. 88.70 was increased to Rs.127.80 (including Rs. 15 for spray painting and Rs.4.35 for packing charges) on the basis of gross weight of 1,831 grams (net weight 1,530 grams), thus, providing a margin of rejection at 19.7 per cent. The Company has not prescribed any standard weight and norms for rejections so far (August 1989). It was, however, noticed that Bright Brothers Limited, Bombay in its quotation of June 1986 for supply of plastic components for colour TV sets had provided a margin of only 5 per cent towards such process rejection. Thus, abnormally higher rejection (19.7 per cent) over and above 5 per cent offered by Bombay firm resulted in loss of Rs. 3.37 lakhs in respect of 33,000 sets purchased during November 1985 to November 1987.

The Management stated in October 1989 that the moulding dies (costing Rs.2.85 lakhs) were suitable for being loaded on a 400 ton machine of Garware and could not have with-stood loading on high pressure 1200 ton machine with Bright Brothers without reduction in life of the mould. The fact, however, remains that rejection at 19.7 per cent allowed to Garwares was far higher.

The Manager (R&D) asked Garware Plastics and Polysters Limitd in June 1986

to return the moulding dies for moulding of components at Delhi on the ground of price difference (not specified). The firm, however, did not return the dies, but agreed in June 1986 to price reduction from July 1986 by Rs. 15 per set (including Rs. 8.11 towards MODVAT benefit). The components were included under MODVAT scheme from 1st March 1986, and accordingly the firm charged excise duty at 15 per cent (adalorem) for the supplies made from this date. As the firm became entitled to set-off the excise duty paid on raw materials, the Company should have ascertained the actual cost of raw materials excluding set-off for excise duty and reduced the rates of the components (based on the cost of raw materials at Rs.35.90 per kg.) with effect from 1st March 1986. This was, however not done and the rate was reduced by Rs. 8.11 per set from July 1986. In this connection it was noticed that the cost of raw materials quoted (June 1986) by Bright Brothers Limited of Bombay at Rs.28.75 per kg was based on passing only 50 per cent MODVAT benefits in its offer for supply of similar components for CTV sets. Based on reduction in cost of raw materials to Rs.28.75 per kg alone, the rate of Rs.127.80 was required to be reduced at least by Rs.16.60 per set on account of MODVAT benefits as against the actual reduction by Rs.8.11 per set. This resulted in extra expenditure of Rs.1.10 lakhs in respect of 13,000 sets purchased during July 1986

to February 1987 (details of quantity supplied during March-June 1986 were not available).

The Management stated in May 1989 that the latter firm had wrongly quoted the price of Rs.28.75 per kg and the price of coloured HIP was Rs.35.90 per kg which after MODVAT benefits worked out to Rs.31.06 per kg. The supplier's prices for the finished product needed were, however, based on use of HIP and not coloured HIP, nor was colour and shade specified for the finished product, and the Company should have availed of the lower offer.

(b) On the basis of a single offer of July 1982 of Mutual Steel Industries of Bombay, moulding dies for fabrication of plastic cabinets for black and white TV sets of models TV 102 and UV 103 were developed for Rs. 2.50 lakhs and plastic front mask, grill and back covers for TV cabinet for Rs. 1 crore (approximately) were purchased from the firm for EF I and EF II during October 1983 to June 1988. The front mask was of the same design for both the models. The firm, however, charged Rs. 67.55 per piece of front mask for model UV 103 as against Rs.62.91 for model UV 102 for which no reasons were on record. This resulted in extra expenditure of Rs. 1.30 lakhs in respect of 28,000 sets of front mask for model UV 103 purchased during August 1984 to June 1988.

The Management stated in May 1989 that front mask for model UV 103 attracted higher painting charges. The drawings of front masks of both the models were, however, the same and no orders for carrying out different types of paintings were on record.

Further, the Company neither recorded actual weight of fabricated components nor standardised norm of process rejection for the purpose of actual requirement of raw materials. The firm was paid for front masks on the basis of gross weight of 885 gms per piece against the actual weight of 685 gms. Only in July 1988 the Company reached a compromised settlement for the gross weight of 750 gms for supplies during October 1983 to June 1985 and 705 gms (net weight remaining, the same) for supplies during July 1985 to June 1988, as a result of which Rs. 6.58 lakhs (approximately) became recoverable from the firm. Recovery was made in December 1988. Thus, delayed settlement on the weight of front mask not only resulted in loss of interest on excess payment of Rs. 6.58 lakhs but also short recovery of Rs. 1.05 lakhs (approximately) on the basis of 750 gms per piece as against 705 gms accepted from July 1985.

The Management stated in May 1989 that introduction of Conveyor System for material handling from July 1985 facilitated reduction of 45 grams and hence payment

for supplies prior to that date was made on the weight of 750 grams.

1.14.4.3. Plastic components for cabinets of CTV sets

EF II and EF III placed orders for supply of plastic components of colour TV sets of models UV 503, UV 602 and UV 603 for Rs. 98.62 lakhs on firm (a) (Rs.14 lakhs), (b) (Rs.3 lakhs), (c) (Rs.42.01 lakhs) and (d) (Rs.39.61 lakhs) of Delhi during December 1983 to June 1986 on the basis of their individual offers as accepted by the Manager (R&D). A test check in audit revealed the following points:

(i) Reasons for not inviting comparative offers through open tenders and for not seeking approval of the purchase committee were not on record.

(ii) No analysis of comparative rates (either original or revised) based on weight of components, rejections/wastage, cost of raw materials and margin for overheads and profit even in respect of these four firms from time to time was prepared.

(iii) The purchase included 17,274 back covers for UV 503 at Rs.68 each during December 1983 to September 1984, and 3,000 back covers at Rs.75 each in October 1984 from firm 'a', and 5,750 back covers for the same model at Rs.40 each during April

1985 to March 1986, and 2,000 back covers at Rs. 35 each during April to June 1986 from firm 'b'. Reasons for the variations were also not analysed.

(iv) Firm 'd' was allowed the rate of Rs. 156 for front mask and grill (Rs. 116) made of ABS and back cover (Rs.40) made of PP for 4,500 sets of model UV 603 in December 1984 which was increased to Rs. 163 by the Manager (R&D) in March 1985 for 14,800 sets.

The rate of Rs. 156 per set was revised to Rs. 163 per set on the ground of increase in the cost of raw material for front mask and grill (Rs.6.30), decrease in the cost of raw material for back cover (Rs.2) and increase in the cost of packing (Rs.2.70). For the purpose of revision of the rate, weight of front mask with grill was considered at 1,000 gms and that of back cover as 400 gms as against the actual weight of 860 gms and 900 gms respectively. This resulted in increase of the rate for front mask with grill by Rs.6.30 in place of Rs. 5.60 and decrease in the rate of back cover by Rs. 2 in place of Rs.4.50 per set. The firm was, thus, paid Rs.0.50 lakh extra in respect of 14,800 sets purchased at the rate of Rs. 163 per set.

1.14.4.4. Purchase of multi-channel tuners

EF II, Lucknow purchased multi-

channel tuners for black and white TV sets at different rates from different firms on the basis of their individual offers instead of inviting competitive offers through open tenders as per details given below:

Firm	Month of order	Quantity (Number)	Rate	Actual supplies Period	Number
M.S.Chawala & Co., Delhi	Sept-ember 1983	24,000	Rs.90 upto Novem-ber 1983	Octo-ber to Novem-ber 1983	6185
				December 1983 to February 1984	13471
Suchitra Elec-tronics Cor-poration, Hyderabad	February 1984	500	Rs.78	February 1984	489
Himtron Solan(HP)	March 1984	3000	Rs.78	April to June 1984	2992
Pratap Elect-ronics, New Delhi	May 1984	500	Rs.86	June 1984	500

As compared with the lowest available rate of Rs.78 each, purchase of 6,185 tuners at Rs.90 and 13,971 tuners

at Rs.86 resulted in an extra expenditure of Rs. 1.86 lakhs.

The Management stated in May 1989 that the samples of only the Delhi firm were approved by the Company's R&D. No records to show that R & D had tested samples of some other firms also and then approved the samples of Delhi firm before placing the order on it in September 1983 were available.

1.14.4.5. Picture tubes for black and white TV sets

The GM (Manufacturing) reached a memorandum of understanding in January 1986 with Teletubes Electronics and Samtel India Limited of Delhi under which 90 per cent of the total requirements of 20" black and white picture tubes and 100 per cent of 14" black and white picture tubes was to be supplied during January 1986 to December 1986 by them at Rs. 385 and Rs. 260 per tube (plus central sales tax) respectively. The understanding did not contain any clause stipulating liquidated damages for failure of supplies. The firms supplied only 16,400 tubes of 20" and 3,900 tubes of 14" at the agreed rates and the Company had to purchase 23,260 tubes of 20" and 16,300 tubes of 14" from these firms and other sources at higher rates of Rs.390 to Rs. 435 for 20" tubes and Rs. 275 to Rs. 290 for 14" tubes. This resulted in

an extra expenditure of Rs.10.04 lakhs including Rs. 5.34 lakhs in respect of 12,500 tubes of 20" (Rs.3.87 lakhs) and 8,300 tubes of 14" (Rs.1.47 lakhs) purchased from these firms at the higher rates of Rs.415 to Rs. 435 and Rs. 275 to Rs. 290 per tube respectively.

The Management stated in May 1989 that the memorandum of understanding did not have any legal binding on the parties and added that in view of uncertainty about the price trends it did not want to bind itself also on the purchase.

1.14.4.6. Wound transformers

Requirements of materials were not ascertained properly, and purchase orders were placed in piecemeal. Based on the lowest offer of Samrat Group of Lucknow for supply of wound transformers (Code TR 710) at Rs.14 each, EF III purchased in May 1985 only 1,000 transformers from the firm. Subsequently, during July 1985 to December 1985, 25,498 transformers of the same specification were purchased from the same firm and Auto Services of Lucknow at negotiated rates of Rs. 19.50 to Rs.21.15 each. Reasons for negotiating with these two firms only, and not with the 3 others which had supplied the item earlier were not on record.

Further, had the purchase orders

been placed for the total requirements in May 1985 itself, an extra expenditure of Rs. 1.65 lakhs on the purchases at higher rates could have been avoided.

The Management stated in October 1989 that the May 1985 order was a trial order and the Company did not want to risk purchase of higher quantity initially.

1.14.4.7. Purchase of deflection components

EF II purchased in January 1984, 13,500 LOT, 8,500 deflection yokes and 9,500 linearity coils (constituting deflection components of 20" black and white TV sets) at Rs. 41, Rs.36 and Rs.5 each respectively from Suchitra Electronics Corporation Limited, Hyderabad on the basis of discussion held by the GM of the Company with the firm on 22nd December 1983. These rates were revised to Rs. 48, Rs.40 and Rs.6 with effect from 1st November 1984 after negotiations with the firm and 72,650 LOT, 38,800 deflection yokes and 59,000 linearity coils were purchased at the increased rates during November 1984 to September 1985. Competitive offers were not invited from the firms of Ghaziabad and Ranchi, from whom these items had been purchased at Rs.41.80 /Rs.39, Rs. 35/Rs.36 and Rs.5/Rs.4.50 during May to November 1984 on the ground that supplies by the former were found (September 1984) to be defective till it changed the design

in September 1985 and that the latter had limited capacity. Offers were also not invited from Modern Garments, Delhi on the ground that its deflection components were approved by the Company's R&D for a trial order only though, in September 1984, Advance Electronics, Delhi, supplying 20" B&W TV sets to the Company, was permitted by R&D to purchase/use these components for as much as 1,000 numbers. Since the value of the purchases was sizeable, amounting to Rs. 53.93 lakhs during November 1984 to September 1985, recourse to inviting competitive offers was desirable.

1.14.4.8. Printed circuit boards

EF II purchased printed circuit boards (PCBs) of different types for Rs.34.26 lakhs during September 1984 to April 1985 from 11 parties on the basis of their individual offers received from time to time instead of inviting competitive rates. The unit rates varied from Rs.27.65 to Rs. 40.42 for main PCB, Rs.18.55 to Rs.27.65 for tuner PCB, Rs.13.50 to Rs.17.50 for Chrome PCB and Rs.9.50 to Rs.16 for Cathode rays tubes PCB. Non-availing of the competitive offers resulted in an extra expenditure of Rs.7.03 lakhs as compared with the lowest accepted rates for each type of PCB.

The Management stated in May 1989 that there was shortage of PCBs all over the country, and rates of suppliers of PCBs differed on account of their different sizes, overheads and facilities. The Company, however, did not take the benefit of competitive rates by inviting at least limited short term competitive offers, if not open tenders.

1.14.4.9. Purchase of cables

In response to a quotation enquiry for supply of cables, six quotations were received in September 1987. The lowest acceptable offer of Gystal Cable Industries of Calcutta for Rs.20.31 lakhs was valid upto 30th October 1987 which was got extended upto 15th November 1987. Control Systems Division, however, placed an order on the firm on 23rd November 1987 which was not accepted by the firm due to increase in prices of copper. The revised offer of the firm for Rs.22.67 lakhs received in January 1988 was accepted by the division and order was placed in April 1988. Thus, the delay in placement of the order resulted in an extra expenditure of Rs.2.36 lakhs.

The Management stated in May 1989 that a letter of intent was issued on 14th November 1987. The letter was, however, despatched (under registered cover) on 17th November 1987 and was, therefore, not binding on the party.

1.14.5. Purchase of consumer electronic products

1.14.5.1. The table below indicates the details of consumer electronic products manufactured by the Company in its own factories as well as those purchased from other manufacturers during 1983-84 to 1986-87:

Particulars	1983-84	1984-85	1985-86	1986-87
	(Numbers)			
Production				
TV sets	58,931	86,325	67,251	92,321
Radios including two-in-ones	7,662	16,571	16,202	11,260
Purchases				
TV sets	28,483	60,142	60,766	68,001
Radios- including two-in-ones	15,067	22,238	11,728	12,537
Calculators	10,657	8,709	8,438	6,155
Percentage of purchase to production:				
TV Sets	48.33	69.67	90.36	73.66
Radios etc.	96.65	134.20	72.39	111.34

A test check in Audit of the products purchased from outside revealed the following points:

1.14.5.2. The Company had not laid down any policy or procedure for purchase of TV sets for sale. According to a report of December 1985 of the Technical Director of the Company, the production of TV sets had to be curtailed to 40 per cent of the capacity, as there was fall in sales with accumulation of 28,000 TV sets worth Rs.9.18 crores in stock due to entry of over 200 manufacturers in the market, availability of foreign brands in completely knocked down (CKD)/semi knocked down (SKD) kits, failure of components particularly integrated circuits caused by failures of LOT, and quality problems. The Company, however, continued to purchase black and white TV sets from private parties, which were of the some models and design as of own production as discussed in the succeeding paragraphs.

The Management stated in May 1989 that the Company had a well defined purchase committee which, at the time of deciding prices of various purchases, considered the standard material cost of the products and margins available on their sale, and that most of the TV sets were purchased from the sources enjoying sales tax exemption which lowered overhead cost per set and contributed to profits. It was, however, observed in audit that neither any guidelines fixing norms of margins for overheads and profits were issued by the

Company nor were such margins recorded in the minutes of the purchase committee. As regards overheads and profits, the percentage of overheads to sales continued to increase and the Company suffered losses on sale of purchased TV sets as discussed in succeeding paragraph (1.14.5.4)

1.14.5.3. Purchases were made in excess of the budgetted provisions as indicated below:

	1983-84	1984-85	1985-86	1986-87
	(Rupees in lakhs)			
Budgetted	624.43	925.51	761.59	1209.17
Actual	634.53	1153.36	1462.85	1486.70
Excess	10.10	227.85	701.26	277.53
Percentage of excess to the budgetted provisions	1.62	24.62	92.08	22.95

In terms of delegation of financial powers by MD, purchases in excess of the budgetted provisions required his prior approval. There was no record to show that such approval was obtained. Further, the bought out items meant for resale were required to be procured from suppliers approved by the Managing Director. But such approvals were neither referred to in the purchase committees' decisions nor were available in the records shown to Audit.

1.14.5.4. While negotiating the rates for purchases of TV Sets, no cost analysis of the rates offered was available with the Company's Management to serve as a guide for that purpose. On the basis of the accounts of the Company's related Divisions, the management, financial, selling and distribution overheads relating to consumer electronics varied from 15.30 to 18.06 per cent of sales and other income during 1983-84 to 1986-87. However, on the basis of the average of such expenses allocated to different divisions proportionate to their sales, the percentage varied from 15.0 per cent to 17.3 per cent as mentioned below:

	1983-84	1984-85	1985-86	1986-87
	(Rupees in lakhs)			
(a) Sales and other income	3633.80	5931.07	6804.27	8721.29
(b) <u>Less</u> Sales Tax	203.16	376.62	487.43	513.70
(c) Net sales and other Income	3430.64	5554.45	6316.84	8207.59
(d) Management, financial, selling and distribution expenses (excluding incentive and				

(152)

	discount).	496.92	856.36	901.14	1113.44*
(e)	Percentage of (d) to (c)	14.5	15.4	14.3	13.6
(f)	Sales and other income relating to consumer electronics (net of taxes)	2558.33	4411.79	4615.92	5209.92
(g)	Incentive and discount (Other than trade discount) on consumer electronics	14.02	52.48	136.82	142.23
(h)	Percentage of (g) to (f)	0.5	1.2	3.0	2.7
(i)	Total of percentage in (e) and (h) applicable to consumer electronics	15.0	16.6	17.3	16.3

* Excludes Rs.158.04 lakhs incurred during 1986-87 on R&D (Rs.59.54 lakhs) and advertisement (Rs.98.50 lakhs) but treated as deferred revenue expenditure which if included under item (d), the percentages for 1986-87 would increase to 15.5 in item (c) and 18.2 in (i).

Name of Supplier Model of TV sets	Average Selling price (net of taxes)	Average purchase price	Over-heads and incentive (16.3 per cent of sales)	Total cost of sales (c+d)	Profit(+) /Loss(-) per set (b-e)	Number purchased	Total profit (+)/ Loss(-) (Rupees in lakhs)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
(Rupees)							
Abisha Electronics, Lucknow							
UV 050	1633	1346	266	1612	(+)21	5905	(+)1.24
UV 053	1705	1474	278	1752	(-)47	4140	(-)1.95
Alps Electronics, Lucknow							
UV 102	2317	2177	378	2555	(-)238	1450	(-)3.45
UV 202/203	2682	2214	437	2651	(+)31	3755	(+)1.16

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Calcom Electronics, Delhi							
UV 001	1464	1222	239	1461	(+) 3	1440	(+)0.04
UV 051/52	1601	1348	261	1609	(-) 8	21932	(-)1.75
UV 506Z	7509	6497	1224	7721	(-)212	10	(-)0.02
UV 590Z	8787	7613	1432	9045	(-)258	554	(-)1.43
Rachna Electronics, Delhi							
UV 051	1601	1318	261	1579	(+) 22	722	(+)0.16
Niharika Electronics, Delhi							
UV 203	2805	2183	457	2640	(+)165	1119	(+)1.85
Disco Electronics, Delhi							
UV 506Z	7509	8187	1224	9411	(-)1902	25	(-)0.48
UV 700	9550	8243	1557	9800	(-)250	495	(-)1.24

DA 120	3220	8593	7081	2800	(-320)	427	(-1) 59
DA 2092	1205	8181	1337	3473	(-1303)	32	1-10 48

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
-----	-----	-----	-----	-----	-----	-----	-----

**Creative
Electronics,
Delhi**

UV 700	9550	8701	1557	10258	(-708)	360	(-)2.55
--------	------	------	------	-------	--------	-----	---------

Total						41,907	(-) 8.42(Net Loss)
--------------	--	--	--	--	--	---------------	---

(156)

Thus, the Company suffered a loss of Rs.12.87 lakhs in respect of 9 models while a profit of only Rs.4.45 lakhs was earned in respect of the 4 remaining models.

(II) Purchases from State Government Undertakings (25,781 sets)							
Name of supplier	Average selling price (Net of taxes)	Average purchase price	Over-heads and incentives (at 16.3 per cent of sales)	Total cost of sales (c+d)	Profit(+)/Loss(-) per set	Number purchased	Total Profit(+)/Loss(-) (Rupees in lakhs)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
(Rupees)							
Teletronix Limited							
UV 202	2617	2352	427	2779	(-)162	15840	(-)25.66
UV 203	2805	2495	457	2952	(-)147	2206	(-) 3.24
Kumaon Television Ltd.							
UV 202	2617	2360	427	2787	(-)170	6835	(-)11.62
UV 203	2805	2406	457	2863	(-) 58	900	(-) 0.52
TOTAL						25,781	(-)41.04

Thus, the Company suffered loss of Rs. 41.04 lakhs in respect of both the models of TV sets purchased from the two Undertakings.

As mentioned earlier, the Company had unutilised capacity for manufacture of these sets in its own factories where it could have produced them at Rs.2,064 per set (inclusive of Excise Duty of Rs.400) whereas it paid Rs.2352/2,495 per set.

In any event, the Company had projected full utilisation of its own capacity in this year viz. 1986-87.

1.14.5.5. Purchase of UV 700

The Company received in June 1985 an offer from New Delhi office of Mitsubishi Corporation of Japan for supply of components of colour TV of Toshiba model for 36,000 yen (Rs.1,800) each for core type with remote control and 30,300 yen (Rs.1,515) each for core type without remote control on FOB (Japan) basis. No action was taken on the offer on the ground that it was the first quote and could probably be negotiated further. The General Manager (Manufacturing) during his visit to Japan in July 1985 negotiated with the firm the prices of only few components of CTV (including CPT) for 19,577 yen reduced to 18,344 yen. Reasons for not negotiating for all the components, and for not taking further action were not on record. The Company, however, purchased

300 colour TV sets (Model UV 604) of core type without remote control (Toshiba Component) from a firm of Delhi in March 1986 at Rs.6,200 each, and 4,500 colour TV sets (model UV 700) of core type with remote control (Toshiba component) from two firms of Delhi at Rs. 6,285 to Rs.6,700 each during January 1986 to December 1986. As compared with the total cost of sets offered by Japan firm amounting to Rs.5,680 and Rs.5,080 per set respectively for core type with remote control and without remote control including customs duty, freight etc. (110 per cent), cost of CPT (Rs.1,410), cost of cabinet (Rs.230) and assembly, etc., charges (Rs.260) applicable in case of direct imports, the purchase from the firms of Delhi involved an extra expenditure of Rs.36.72 lakhs

The Management stated in May/October 1989 that the total costs in case of direct imports amounted to Rs.7,645 and Rs.7,010 including cost of CPT (Rs.1,700), premium for getting import licence (Rs.900) and conversion charges, interest on inventory and overheads, etc. (Rs.775).

The reply of the management is not tenable for the following reasons:

(i) No analysis of rates was done before placing the orders.

(ii) The rate of Rs.1,700 per CPT was stated to be based on rates of ETTDC. But the Company had purchased CPT from ETTDC at Rs.1,495 to 1,640 during March-June 1986, and from Hitachi, Singapore at

Rs.1,410 in February/June 1986.

(iii) The rate of Rs. 900 per set towards premium for import licence was stated to be based on an offer for its sale received by the Company. But the Company itself could have arranged to obtain it direct; its contention that its policy was not to manufacture on designs of foreign manufacturers is not relevant since the issue was one of direct import vis-a-vis purchase of imported set as it did in this case.

(iv) The break-up of conversion charge component in Rs.775 was not intimated by the Company, except to say that in its own factory EF III, it was over Rs.1,000 (17.5 per cent of the cost of raw materials). However, as per the rates quoted by a Ghaziabad firm, the conversion charges were only Rs. 100, and adding to it Rs.160 towards carton, etc., as stated by the Company, the cost could have been only Rs. 260 instead of Rs. 775.

1.14.5.6. Purchase of UV 202 and UV 203

(a) Three firms of Delhi and two firms of Meerut were given orders by the GM (Marketing) for supply of 30,400 TV sets of model UV 202 (20" Black and White) for Rs.542 lakhs (approximately) and 1,400 colour TV sets of model UV 700 for Rs.95.20 lakhs during October 1983 to April 1985 without approval of the purchase committee.

(b) The GM (Marketing) placed orders for supply of 20" black and white TV sets of models UV 202 and UV 203 (having same selling price on Alps Electronics (P) Limited Lucknow and Niharika Electronics (P) Limited NOIDA (Ghaziabad) and Teletronics Limited, Bhimtal and Kumaon Television Limited, Bhimtal (Nainital) (both State Government Undertakings) as given below:

Name of Supplier	Model	Period	Number	Rate (Rupees per set)	Remarks
Firm of Lucknow	UV 202	March 1986 to May 1987	1200	1910	Ex works excluding excise duty (Sales tax exempted from February 1987)
		January 1987 to May 1987	2300	1810	-do-
		June 1987 to May 1988	1800	1850	-do-
Firm of NOIDA	UV 202/	April	2500	1910	-do-

		1987			
	UV 203	May 1987 to June 1987		1850	-do-
	-do-	Septem- ber 1987 to Nov- ember 1987	1500	1925	-do- (at Ja- llundar godown of the Comp- any)
Teletronics Limited Bhimtal	UV 202	Decem- ber 1986 to June 1987	7500	1810	Excise duty and sales tax extra
	UV 203	Decem- ber 1986 to June 1987		1860	
	-do-	July 1987 to June 1988	6315	1860	
Kumaon Televi- sion Ltd Bhimtal	UV 202	Decem- ber 1986 to June 1987	7500	2030	Exclud- ing exc- ise duty (Salestax exemp- ted)

UV 203	December 1986		2080
	to June 1987		
-do-	July 1987 to	10104	2080
	June 1988		

The firm of Lucknow (managed by an ex-employee of the Company) which was earlier assembling such TV sets on labour rate of Rs.90 per set in EF II offered to supply TV sets with its own materials as it was not getting raw materials from the Company. Had the Company arranged raw materials which were costing Rs.1,510 per set in Ef II in 1986-87 and 1987-88, the cost of manufacture of such TV sets by the Company through the firm would have amounted to Rs.1,714 per set (including 5.55 per cent towards overheads as calculated by the Company in May 1989 and Rs.30 towards outward freight). This would have resulted in saving of Rs. 7.01 lakhs in respect of 5,300 TV sets of models UV 202/203 purchased from the firm at Rs.1,910 (1200) Rs.1,810 (2,300) and Rs.1,850 (1,800) during March 1986 to May 1988.

The Management stated in May 1989 that the benefit of sales tax (Rs.316 per set) was available as the firm was exempted from sales tax. But EF III was also entitled to sales tax exemption. The Company's contention (October 1989) that cost of material in EF III being Rs.1,670 per set it was not beneficial to do so, needs examination as to why the cost should be that high in EF III against Rs. 1,510

in EF II.

(c) As against the rates of Rs.1,810 and Rs.1,860 per set allowed to Teletronics Limited, the rates of Rs.2,030 and Rs.2,080 per set were allowed to Kumaon Television Limited (a subsidiary of the former) on the ground that it was exempted from payment of sales tax. These rates were higher than even Rs. 1,910 allowed to the firm of Lucknow which was also exempt from Sales tax resulting in an extra expenditure of Rs. 9.00 lakhs on 7,500 purchased during December 1986 to June 1987. The rate of Rs. 2,080 was reduced by the Company to Rs. 1,860 per set in May 1988 with retrospective effect from July 1987. The excess payment of Rs. 22.23 lakhs thus made to Kumaon Television Limited at Rs.220 per set in respect of 10,104 sets purchased from them from July 1987 to June 1988 had not been recovered so far (September 1988). As Kumaon Television Limited did not agree to the price reduction, the Company incurred an extra expenditure of Rs.25.50 lakhs due to allowing higher rates. The Management stated (November 1989) that Kumaon Television Limited was a sister concern and that having been located in a hill area its cost of production was higher. The reply of the Company, however, not relevant in the context of its commercial operations.

1.14.5.7. Purchase of PTV

During July 1986 to June 1988

(records for prior period not made available to Audit), the GM (Marketing) purchased on the basis of negotiations, 40,000 PTV sets for Rs. 486.55 lakhs at Rs.1,150 to Rs.1,250 ex-works at Delhi (excluding excise duty and sale tax) and at Rs. 1,275 to Rs.1,310 ex-works at Vasai near Bombay (excluding excise duty and sales tax) from Calcom Electronics (P) Ltd. Delhi. As against these rates, the GM (Marketing) also purchased 41,000 PTV sets for Rs.500.50 lakhs at Rs.1,225 to Rs. 1,250 each (excluding excise duty and sales tax) from Abhisha Electronics (P) Ltd., Lucknow (managed by an ex-employee of the Company) during August 1985 to June 1988, on the basis of negotiations held by the Technical Director in June 1985 and endorsed by the purchase committee in August 1985. The firm of Lucknow availed sales tax exemption from February 1987. A test check in Audit revealed the following points:

(a) The sets were guaranteed for satisfactory performance against any manufacturing defect for a period of one year from the date of sale by the Company to customers or 15 months from the date of despatch by the firms to the Company whichever was earlier. The records made available to Audit did not indicate any case of free repairs/replacements by the suppliers. The firm of Delhi was, however, asked in January 1987 by the GM (Marketing) to carry out repairs to 1,000 PTV sets supplied by them and lying defective in different offices. The Service Executive of the Company at Sales and Service Centre at Calcutta also

informed the Technical Director in November 1987 that failure rate of PTV sets supplied by the Delhi firm had become too high mainly on account of failure of LOT, main transformer and detector, which were of indigenous make instead of imported ones as envisaged at the time of placing purchase orders. It was noticed in Audit that 233 PTV sets were repaired by the firm in August 1987 at company's cost amounting to Rs. 1.79 lakhs.

The failure/defects in the case of PTV sets purchased from the firm of Lucknow as reported by the Area Sales Manager, Lucknow was 24.5 per cent in November 1987 and 18 to 36 per cent in February 1988. The repair of these PTV sets was done by the Company (cost not intimated). Reasons for not claiming the same from suppliers were, however, not intimated.

The Management stated in May 1989 that 223 sets were beyond warranty period. No records showing the dates of purchases and of development of defects were, however, available.

(b) The rate of Rs. 1,250 per PTV set allowed to the firms of Delhi and Lucknow was based on the prices of plastic cabinets and multi-channel tuners at Rs.125 and Rs.92 each, which stood reduced to Rs. 113 and Rs. 78 each respectively from

June 1986 to November 1987. However, the rate of the Delhi firm was reduced to Rs.1,200 from December 1986 and Rs. 1,150 from April 1987, while the rate of the Lucknow firm was reduced to Rs.1,225 only from December 1987. Thus, this involved extra expenditure of Rs. 4.25 lakhs in respect of 17,000 sets purchased during June 1986 to November 1987 at Rs.25 per set.

The Management stated in May 1989 that the party refused to accept reduction of prices as it was asking for price increase due to effect of budget levies on its cost of production and, therefore, the question of extra expenditure does not arise.

1.15. Manpower analysis

The position of manpower at the end of each of the four years upto 1986-87 in different units was as under:-

	June 1984	June 1985	June 1986	June 1987
Head Office, Regional Offices and SSCs	696	890	1351	1428
Capacitors Division	575	580	549	532
Digital Systems Division	270	319	281	334
Instruments Division	63	75	62	81
Communication Division	10	9	18	58
EF I	140	159	164	146
EF II	134	160	140	121

EF III	103	150	144	127
EF IV	--	--	61	138
EF V	--	--	42	58
LOT	--	3	23	38
Total	1991	2345	2835	3061

The Company had neither laid down any norms for deployment of manpower for different units nor had sanctioned the strength of the staff required from time to time. No work study to assess excesses/shortages of manpower in different units was also conducted.

In this connection the following points also deserve mention:

(i) The actual manpower in Instruments Division ranged between 63 and 81, against 91 * proposed at the time of application for licences, but the actual production was less than 50 percent of the licenced capacity as mentioned in para 1.11.4.2.

(ii) The project estimate for Ef III provided for manpower of 133 for annual production of 25,000 CTV sets but the actual manpower in 1984-85 and 1985-86 was 150

* Excludes Lamp Invertors Production Line which was added later.

and 144 for production of 23,290 and 20,080 TV sets respectively. The Management stated in October 1989 that manpower includes quality assurance personnel, common for all the TV units.

(iii) The project estimate for EF IV provided for manpower of 168 for annual production of 1.20 lakh PCBs, but actual manpower was 138 in 1986-87 for production of only 0.40 lakh PCBs (excluding 0.21 lakh of PCBs produced through sub-contractors).

(iv) Though the installed capacities and annual targets of production of TV sets for the purpose of payment of production linked incentive to staff remained the same for EF I, EF II, and EF III during the 4 years from 1983-84 to 1986-87, the total manpowers in these factories varied from 377 in 1983-84 to 394 in 1986-87, with increase to 469 in 1984-85 and 448 in 1985-86.

The Management stated in May 1989 that manpower deployment for various projects was regulated on the basis of provisions in the project reports, and for other services as per annual manpower budgets approved by the Board. The project reports, however, did not provide for manpower to be deployed at different stages of production while the annual budgets only for the year 1985-86 provided for the additional manpower.

1.16. Research and development

The research and development activities were being managed by the holding company upto March 1986, when they were taken over by the Company. The position of capital and revenue expenditure (as brought out in the agenda for the meeting of June 1987 of the Board of Directors of the Company) incurred on research and development activities is shown below:

Division	Upto 1983-84		1984-85		1985-86	
	Capital	Revenue	Capital	Revenue	Capital	Revenue
Consumer Electronics	43.00	19.20	5.83	20.41	6.42	23.29
Copmputer	27.27	45.90	3.36	12.49	--	13.82
Total	70.27	65.10	9.19	32.90	6.42	36.11

(Rupees in lakhs)

The total strength of persons engaged in the research and development activity was 170 in June 1987. The research and development department had four groups viz., product design group for developing new products, mechanical design and production engineering for generating assembly design vendor development group for establishing bulk supplies of components, and documentation group for processing in a standard format and passing it on to production units. In this connection periodical reports on the performance of various groups were not prepared on a regular basis in order to evaluate the performance of the department and to

see that the expenditure incurred was actually beneficial to the Company.

1.17. Other points of interest

1.17.1. Formation of a subsidiary

The Company promoted a subsidiary in the name of Uptron leasing Limited with a view to improve sales of equipments and other consumer-durable manufactured by the Company. It was also envisaged that leasing as compared to other means of financing was economical, that it could raise public deposits upto 10 times of its own funds, and that the rate of depreciation on leased equipments could go upto 50 per cent of its own cost. The subsidiary company was incorporated on 5th January 1988 with an authorised capital of Rs.100 lakhs against which the Company subscribed Rs.100 lakhs in March 1988 out of cash credits carrying interest at 16.5 per cent per annum. The subsidiary retained Rs. 10 lakhs for preliminary expenses and construction of building and invested Rs. 90 lakhs in term deposits with bank for 3 months earning an interest of 5 per cent per annum, which was further extended by 3 months. An amount of Rs.2 lakhs was taken as loan from the bank against the security of term deposits, in May 1988. Thus, the release of Rs.100 lakhs in March 1988 out of cash credit, while the subsidiary needed only Rs.12 lakhs upto September 1988 was not justified and resulted in an extra burden of interest of Rs.5.06 lakhs (on Rs.88 lakhs at 11.5 per

cent per annum from March to September 1988).

The Management stated in May 1989 that the funds invested in the leasing company were out of internal accruals. This was not factually correct as the amount was drawn out of cash credit with Punjab National Bank, Nishatganj, (Lucknow) on 30th March 1988.

1.17.2. Extra remuneration to Managing Director

The Board had approved in June 1982 payment of performance linked remuneration to the MD at 1 per cent of net profit subject to a maximum of Rs. Rs.12,000 per annum provided that the Company not only achieves the targets of production and sales but also earns a profit. The Company did earn profits. It was, however, noticed in Audit that production targets were not specified in the annual budgets of the Company while, as mentioned earlier, sales targets were not achieved, though marginally, except in 1986-87 when they were achieved. He was paid Rs.0.48 lakh at Rs.12,000 per annum for the years 1983-84 1984-85, 1985-86 and 1986-87 from July 1985 to April 1988.

The Board of Directors in their meeting held on 30th March 1989 took note of marginal difference in achievement of value-wise targets of sales and held that payments made to the MD were thus perfectly in order.

According to the communication of June 1977 from the State's Chief Secretary, any Government undertaking introducing any new facility for its employees is necessarily required to consult the Bureau of State Enterprises. However, the Director General, Bureau of State Enterprises, Uttar Pradesh informed in December 1989 that the Bureau had not been consulted by the Company before granting the above facility.

1.17.3. Rejected insurance claims

(a) Four claims aggregating Rs.1.72 lakhs lodged by EF III with National Insurance Company Limited, Lucknow during September 1984 to March 1985 on account of transit losses of goods shipped/despatched by a firm of Japan in June 1983 (Rs.0.85 lakh) and by ETTDC, Bombay in July 1984 to February 1985 (Rs.0.87 lakh) were rejected during November - December 1987 by the insurer on the ground that the first claim for Rs. 0.85 lakh was lodged after expiry of 6 months from the date of shipment/despatch, while requisite documents in respect of the subsequent claim for Rs.0.87 lakh were not furnished by the Company. Thus, the Company suffered loss of Rs.1.72 lakhs. Responsibility for the loss has not been fixed so far (September 1988).

The Management stated in October 1989 that the Store Officer responsible for the loss had since resigned and the issue was being followed up.

(b) Instruments Division asked an American supplier in October 1986 to replace two natural gamma probes received in August 1986 with damaged photomultiplier tubes; and also lodged in November 1986 a claim with Indian Air Lines (Cargo Services) Lucknow for Rs. 2.28 lakhs being the landed cost of the items. These were rejected by the American supplier in November 1986 on the ground that the goods were packed in good condition, and by the Indian Air Lines on the ground that no damage was observed at the time of delivery. The unit, then, lodged a claim for Rs.0.86 lakh being the landed cost of the damaged tubes with National Insurance Company Limited in December 1986 which was also rejected in October 1987 on the ground that the delivery was taken on clean receipt. The Company, however, did not again ask the supplier for replacement/refund of cost of the equipment and, thus, suffered a loss of Rs.0.86 lakh in foreign exchange.

1.17.4. Avoidable payment of interest on income tax

The Company paid (June 1986 to October 1987) Rs.40.86 lakhs as interest on delayed payments of income tax for its accounting year ended on 30th June 1982 (Rs. 9.62 lakhs) and year ended on 30th June 1983 (Rs.31.24 lakhs) and it had shown losses in its income tax returns by consider-

ing contingent liabilities towards excise duty and sale tax and inadmissible expenses including excessive expenditure on advertisement, dealers incentive, running and maintenance of vehicles and previous years expenses which were disallowed (February 1986 and February 1987) by income tax authorities.

Thus, the delay in deposit of income tax due to filing of incorrect income tax returns resulted in avoidable expenditure of Rs.40.86 lakhs on payment of interest.

The Management stated in October 1989 that an appeal filed by it was pending.

1.17.5. Extra payment of excise duty

EF II, Lucknow had declared during June to August 1980 the basic prices of 20" B&W TV of Urvashi model and Amrit Delux model at Rs.1,800 and Rs.2,250 per set on which excise duty was chargeable at 10 per cent and 25 per cent (advalorem) respectively. Sale of 5019 sets of Urvashi model and 500 sets of Amrit Deluxe Model were, however, made upto March 1981 at the declared prices plus Rs. 60 and Rs.100 per set respectively towards freight, insurance, octroi, etc. As the Company could not furnish proof of the actual freight paid in reply to show cause notice of December 1981 from excise authorities, the latter revised in December 1983 the assessable

value to Rs.1857 and Rs.2345.50 per set after allowing Rs.3 and Rs.4.50 towards octroi charges, and assessed additional excise duty of Rs.15.11 lakhs at uniform rate of 25 per cent advalorem applicable to TV sets with assessable value of more than Rs. 1800. The Company deposited Rs. 15.11 lakhs in Allahabad treasury in January 1984 and filed an appeal in November 1983 before the Collector, Central Excise, New Delhi which was pending disposal (October 1989).

1.17.6. Extra payment of sales tax

While assessing sale tax for 1982-83 and 1983-84, the sales tax authorities in respect of Capacitors Division indicated in August 1987 that the Company charged from customers sale tax at 10 per cent instead of 12 per cent for new products and 7 per cent instead of 8 per cent for unserviceable materials and charged concessional rate of 4 per cent (against normal rate of 12 per cent) against defective forms C and D of Central Sales Tax Act and form 3D of State Sales Tax Act. In addition, the sales returns from customers were accepted after the prescribed period of 6 months, and cancellations of sales transactions in the subsequent years were shown without documentary proof to the satisfaction of sales tax authorities. Accordingly, the sales tax authorities assessed additional sales tax of Rs.1.72 lakhs (including interest

of Rs. 0.23 lakh) for 1982-83, which was paid during August 1987 to November 1987 in full satisfaction of the demand. For the assessment year 1983-84, the Company paid Rs. 0.84 lakh (25 per cent of assessed amount of Rs.2.10 lakhs) and filed in December 1987 an appeal to the Deputy Commissioner (Appeal) Sales Tax, Lucknow, which was still pending (September 1988).

1.17.7. Purchase of office buildings at Bombay.

The sales and service centre at Bombay with 24 executives and 50 supporting staff including space for godown and servicing was located in two hired buildings with built up area of 4,100 square feet (carpet area of 3,000 square feet) at an annual rent of Rs.5.54 lakhs. As the two buildings were away from each other and the area was not sufficient to meet the requirement (5,000 sft.) for anticipated increase in sales, the Company approved in June 1985 acquisition of 6,950 square feet space on ground floor of a building at Bandra Kurla Commercial Complex, Bombay on lease for 80 years from Madhava United Hotels (International) Limited, Bombay for Rs.83.40 lakhs at Rs. 1,200 per square foot (excluding brokerage at 2 per cent and stamp duty at 15 per cent to be borne by the Company). In this connection the following points were observed:

(i) The Board of Directors also approved in June 1987 purchase of an existing hired building (with an area of 890 square feet) at Nariman Point, Bombay for Rs.15.49 lakhs from another party of Bombay on the ground of necessity of having some space in that area. Thus, the total area of both the buildings (distance between the two not available on record) was 7,840 sft. against the requirement of 5,000 sft. while the sales and other income at Bombay had decreased from Rs.538.77 lakhs in 1985-86 to Rs. 470 lakhs in 1986-87. The Management stated in October 1989 that it intends disposing of the hired building.

(ii) The former firm which had been paid an advance of Rs.41.70 lakhs in June 1985 towards 50 per cent of the total value was liable to pay interest on the advance at 24 per cent per annum if the possession of the space complete in all respects was not given by 30th November 1985. The possession of the space was actually given in August 1986, but interest of Rs.13.34 lakhs of one year from June 1985 was not recovered from the firm.

The Management stated in May 1989 that if the recovery of the interest charges for delayed possession had been insisted upon, the matter would have gone to the Small Causes Court, where it might have taken six years.

(iii) The possession was taken in August 1986 but furnishing etc. was not completed upto June 1987 with the result that the hired buildings had to be retained at annual rent of Rs.5.54 lakhs.

The above matters were reported to Government in March 1989, their replies have not been received (October 1989).

CHAPTER II

Teletronix Limited

HILL DEVELOPMENT DEPARTMENT

HIGHLIGHT'S

Although the paid-up capital of the Company as on 30th June 1988 amounted to Rs. 133.21 lakhs, it had not appointed a full time qualified Secretary, though required under the provisions of Section 383-A of the Companies Act. 1956.

The installed capacity of production of 10,000 colour TV sets was never utilised, while capacity utilisation for production of B/W TV sets decreased from 94 per cent in 1984-85 to 27 per cent in 1987-88 due to severe competition in the market, higher cost of production, total dependence for marketing on Uptron India Limited (UIL) technical problems etc.

There was no costing system in the Company. An analysis in Audit revealed that unit cost of a TV set was more than the selling price resulting in loss of Rs.69.92 lakhs during the years 1983-84, 1986-87 and 1987-88. As against permissible process loss of 2 per cent, actual process

loss ranged from 5.7 to 10.9 per cent, resulting in a loss of Rs. 64.50 lakhs in five years up to 1987-88, while the process loss of 0.4 to 8.0 per cent in respect of three major components, in respect of which there should not have been any loss/rejection in process, resulted in a loss of Rs.10.09 lakhs reasons for which were not analysed.

The stock of raw materials was equivalent to 0.80 to 6.27 months' consumption during five years upto 1987-88 as against the norm of one month's consumption. Inventory included obsolete, unserviceable and damaged stock worth Rs.4.27 lakhs revalued at Rs. 0.22 lakh during 1985-86 without any investigation.

The Company was manufacturing TV sets for supply to UIL and Printed Card Assembly for supply to Indian Telephone Industries Limited, Rae Bareli. Although the agreement entered into in August 1977 with U.P. Electronics Corporation Limited/UIL for manufacture and supply of TV sets expired in August, 1982, fresh agreement was executed and marketing arrangements were continued with UIL on verbal discussions from time to time. Taking advantage of this situation, UIL arbitrarily made frequent changes in procurement rates, payment terms, mode of deliveries, etc. of TV sets to suit their (UIL) interests only resulting in cash losses, in three instances alone, such cash losses aggregated Rs.32.08 lakhs during the years 1986-87 to 1987-88.

The loan amount of Rs. 10 lakhs obtained from State Government at concessional rate of interest for purchase of raw materials to be made available to persons trained under the 'Scheme of training to youth under self employment' was utilised by the Company for meeting its working capital requirements.

Out of grant of Rs.44.42 lakhs received in 1985-86 from Government for establishment of Industrial Training Centre, the Company incurred an expenditure of Rs.15.92 lakhs on training of 64 persons upto 1987-88 without establishing Industrial Training Centre. The balance amount was irregularly used for meeting working capital requirements, defeating the very purpose of the Scheme.

The Company had been reducing its production from year to year in view of its inability to compete in the market and it had also no long term plans for either making the project viable or for diversification. Further, the Company had not developed its own infrastructure for marketing its products, even after about 10 years of operation and thus had been solely depending upon UIL for marketing, which had been making unilateral changes in the prices and terms of marketing more to the advantage of UIL than to the Company. In view of the above, there is apparently a need for consideration regarding the continuance of the Company.

2.1. Introduction

With a view to removing the economic and social backwardness of Kumaon hills in particular and to develop electronic industry in hill areas in general, Teletronix Limited was incorporated on 24th November 1973 with its registered office at Bhimtal (District Nainital) as a subsidiary of Hill Development Corporation Limited (now renamed as Kumaon Mandal Vikas Nigam Limited).

The Company had also floated a subsidiary in the name of Kumaon Television Limited (KUMTEL) at Bhimtal on 29th August 1984 and held 66.5 per cent (Rs.11.50 lakhs) of its paid-up capital of Rs.17.29 lakhs as on 30th June 1988.

2.2. Objectives

The main objects of the Company are to manufacture and sell, interalia, televisions, receivers, television cameras, desk calculators, semi-conductor devices and various equipments used for telecommunications, refrigeration and air-conditioning.

The Company had, however, confined its activities mainly to production, procurement and sale of televisions, radio sets, two-in-ones, calculators, printed card assembly (PCA), and printed circuit board (PCB) assemblies.

2.3. Scope of Audit

Aspects relating, in main, to finances, inventory control, purchase and consumption of raw materials, capacity utilisation, cost control, manpower and training in the Company over the last five years were reviewed in Audit conducted during October/November 1988. Important points noticed are discussed in the succeeding paragraphs.

2.4. Organisational set-up

The management of the Company is vested in a Board of Directors consisting of seven directors including the Chairman and the Managing Director. The Chairman, the Managing Director and three directors are nominated by the holding Company, one by members of the Company in Annual General Meeting and one by Uttar Pradesh Electronics Corporation Limited (UPLC). The Managing Director is assisted, in day to day management, by a General Manager, a Senior Production Manager and a Senior Accounts Officer.

Although the paid-up capital of the Company exceeded Rs.25 lakhs as early as in 1982-83 and amounted to Rs.133.21 lakhs as on 30th June 1988, a full time qualified Secretary has not been appointed thereby contravening the provisions of Section 383-A of the Companies Act, 1956.

2.5. Funding

2.5.1. Capital structure.

The initial authorised capital of Rs. 10 lakhs of the Company was increased from time to time to Rs.150 lakhs as on 30th June 1988. While increasing the authorised capital, the State Government decided in March 1985 that the paid-up capital of the Company may be contributed by the holding Company, UPLCs and the public in the ratio of 80:15:5. The paid-up capital of Rs. 133.21 lakhs (including Rs. 0.06 lakh towards forfeited shares) as on 30th June 1988 was, however, in the ratio of 82:6:16.9:0.5 by the holding Company (Rs.110 lakhs) UPLC (Rs.22.50 lakhs) and public (Rs.0.65 lakh) respectively.

2.5.2. Borrowings

The Company had obtained term loans of Rs.46.06 lakhs from UPLC and Nainital Bank Limited from time to time upto 30th June 1988 for its working capital, construction of buildings and purchase of machinery, of which Rs.6.74 lakhs (including interest of Rs.0.30 lakh) was outstanding as on that date. In addition, the Company had availed cash credit facility to the extent of Rs. 40 lakhs from the bank, of which Rs. 16.79 lakhs was outstanding as on 30th June 1988.

2.6. Production performance

The production of battery chargers, battery eliminators and radio sets taken up from January 1976 was discontinued from 1984-85. The production of black and white television sets(TV sets) with brand name of 'UPTRON' as per drawings and specifications of Uptron India Limited (UIL) was taken up in August 1977. Although the Company had created in 1985-86 capacities for producing 10,000 colour TV sets, it has not so far produced any colour TV sets. The production of printed card assemblies (PCA) was taken up in 1985-86 on a limited scale for supply to the Indian Telephone Industries Limited (ITI), Rae Bareli while production of Printed Circuit Board assemblies was taken up in 1987-88.

2.6.1. Capacity Utilisation

The Table below indicates the details of licensed installed capacities and actual production of TV sets, PCA and radio sets during the five years upto 1987-88:

Year	Installed capacity				Actual Production Percentage					
	(Licensed capacity in brackets)				Col-	B/W TV	PCA	Colo-	B/W	PCA
					our			ur	TV	
	Colo-	B/W	TV	PCA	TV					
ur	TV									
1983-84	--	15000	--	--	11373	--	--	75	--	
		(5000)								
1984-85	--	20000	--	--	198731	--	--	94	--	
		(5000)								
1985-86	10000	25000	5000	--	24871	1567	--	100	31	
	(20000)	(20000)	(Nil)							
Ist April 1985 to 30th June 1986)										
1986-87	10000	25000	5000	--	16203	4664	--	65	93	
	(20000)	(20000)	(2200)							
(July 1986 to June 1987)										
1987-88	10000	25000	5000	--	6714	3846	--	27	77	
	(20000)	(20000)	(2200)							

In this connection, the following points deserve mention:

(i) The capacity utilisation of black and white TVs, the main product of the Company, has come down from 100 per cent in 1985-86 to just 27 per cent in 1987-88. There being no other major product taken up by the Company during this period, the capacities installed for production of TV sets were largely lying idle.

The decrease in production was attributed (January 1989) by the Management to severe competition, technical problems and total dependence for marketing of products on UIL only.

It was further seen that during the nine months period from July 1988 to March 1989, the production of B/W TVs had further gone down to 4217 (production in twelve months would work out to 5623). The Company had, thus, been reducing its production from year to year in view of its inability to compete in the market and it had also no long term plans for either making the project viable or for diversification. Further, the Company had not developed its own infrastructure for marketing its products even after about 10 years of operation, and thus had been solely depending upon UIL for marketing, which had been making unilateral changes in the prices and terms of marketing more to the advantage

of UIL than to the Company (as discussed in paragraph No. 2.8.2. supra). In view of the above, there is apparently a need for consideration regarding the continuance of the Company.

(ii) Despite decrease in actual production of TV sets from 24,871 in 1985-86 to just 6714 in 1987-88, there has been increase in the manpower from 133 as on 30th June 1986 to 149 as on 30th June 1988.

(iii) The actual production of 11,373 and 18,731 black and white TV sets during 1983-84 and 1984-85 was much in excess of the Licensed capacity of 5,000 TV sets.

2.6.2. Targets and achievements

The targets and actual production of TV sets during the five years upto 1987-88 were as under:

Year	Target	Actual Production (In numbers)	Percent- age
1983-84	10,000	11,373	113
1984-85	24,000	18,731	78
1985-86	30,000	24,871	83
1986-87	24,000	16,203	68
1987-88	12,000	6,714	56

Apart from fall in relation to the installed capacity, as mentioned earlier,

production as compared to targets continued to fall over the last three years despite lowering down the targets from 30,000 in 1985-86 to 12,000 in 1987-88.

The Management stated (November 1988) that the targets of production were reduced due to lower requirement given by UIL the sole purchaser, owing to general slump in the electronics market and availability of sales tax exemption to new units. It was, however, noticed that UIL had pointed out in May 1988 that the quality of sets manufactured by the Company had deteriorated. Action taken for improvement in quality was not on record.

2.6.3. Cost of production

The Company did not follow any costing system in order to ascertain the cost of production of various products at various stages. The internal auditors of the Company in their report of October 1986 reiterated in their subsequent reports also stressed upon the need to introduce a system of costing to work out the unit cost of the products. No action had, however, been taken by the Management in this regard (April 1989).

The details of unit cost of production, cost of sales, sales realisation and margin on cost of sales during the five years upto 1987-88, as worked out by Audit, on the basis of financial accounts, are detailed below:

	1983-84	1984-85	1985-86	1986-87	1987-88
	(Cost per TV sets in Rupees)				
Raw materials consumed	1571	1505	1528	1584	1633
Salaries and wages	114	92	122	132	426
Other overheads	114	102	101	240	362
Cost of production	1799	1699	1751	1956	2421
Selling and distribution overheads	14	26	27	39	35
Cost of sales	1813	1725	1778	1995	2456
Selling price	1800	1800	1910	1810	1860
Margin	(-)13	(+)75	(+)132	(-)185	(-)596
TV sets sold in numbers	11194	18805	24641	16418	6733
Profit(+)/Loss(-)(Rupees in lakhs)	(-) 1.45	(+) 14.10	(+) 32.53	(-) 30.37	(-) 38.10

The unit cost of sales of a TV set was more than the selling price during the years 1983-84, 1986-87 and 1987-88 by Rs.13, Rs.185 and Rs.596 resulting in losses of Rs.1.45 lakhs, Rs. 30.37 lakhs and Rs.38.10 lakhs respectively. While the sales price was almost constant during this period (except in 1985-86), the cost of sales has been on the increase year after year. The increase in cost of sales was, inter-alia, due to (a) decrease in production from year to year, coupled with increase in salaries and wages and administrative expenses, (b) excess consumption of raw material and heavy rejections. The Company, not having any say in fixation of sales price, which is controlled and regulated by UIL, did not make any attempt to reduce its cost of production to match the sales price.

2.6.4. Excess consumption of raw material

(a) The bills of material prepared by the Management from time to time provided for process loss of two per cent of raw materials in the process of production of TV sets. The actual process loss, however, ranged between 5.7 and 10.9 per cent and the excess process loss amounted to Rs. 64.50 lakhs in the five years upto 1987-88. The details are given below:

	1983-84	1984-85	1985-86	1986-87	1987-88
(i) Number of TV sets produced	11373	18731	24871	16203	6714
(ii) Raw materials required to be consumed as per bills of material (Rupees in lakhs)	161.09	266.10	352.68	236.70	103.69
(iii) Actual consumption (Rupees in lakhs)	178.67	282.08	380.13	256.64	109.63
(iv) Process loss (Rupees in lakhs)	17.58	15.98	27.45	19.94	5.94
(v) Value of permissible loss (2 per cent of item (ii) (Rupees in lakhs)	3.22	5.32	7.05	4.73	2.07

	1983-84	1984-85	1985-86	1986-87	1987-88
(vi) Value of excess- ive loss (iv-v)	14.36	10.66	20.40	15.21	3.87
(vii) Per- centage of pro- cess loss (iv) to (iii)	10.9	6.0	7.8	8.4	5.7

(b) In respect of three major components of TV sets, viz. cabinets, picture tubes and tuners the quality and the fitness are tested at the time of receipt in the stores and any rejections are returned at that stage itself. Thus only the accepted components are sent on line for assembly and therefore, there should not be any losses due to rejections during process. An analysis of such line rejections of these components during 1983-84 to 1987-88 made in audit disclosed that rejections in these item ranged from 0.4 to 8.0 per cent. This resulted in loss of Rs.10.09 lakhs during these years as detailed below:

Item	Percentage of rejections	Value of loss (Rupees in lakhs)
Cabinet	0.0 to 1.6	0.35
Picture tube	0.4 to 5.0	6.32
Tuners	0.4 to 8.00	3.42

10.09

Circumstances under which these components faced rejection/loss in process were not explained by the Company.

2.7. Inventory control

The table below indicates value of raw materials, work-in-progress and finished goods at the close of the five years upto 1987-88:

Year	Raw materials	Work in progress	Loose tools
1	2	3	4
(Rupees in lakhs)			
1983-84	29.51	6.66	0.03
1984-85	43.69	7.22	0.13
1985-86	26.21	14.79	-
1986-87	30.12	20.83	-
1987-88	59.91	20.14	-

Finished goods	Closing stock of raw materials in terms of month's consumption	Work in Process in terms of production	Closing stock of finished goods in terms of months' sale
5	6	7	8
(Rupees in lakhs)			
1983-84	8.06	2.00	0.34
1984-85	12.14	1.86	0.18
1985-86	42.34	0.80	0.24
1986-87	53.62	1.37	0.51
1987-88	66.12	6.27	1.02

The following points deserve mention in this regard:

(a) Against the norm of stock holding of raw materials equivalent to one month adopted by the Management, actual stock holding increased from 0.80 month's consumption in 1985-86 to 1.37 months' in 1986-87 and further to 6.27 months' in 1987-88, mainly because of decreased production of TV sets.

(b) In the case of work-in-progress the actual stock holding increased from 0.18 months' in 1984-85 to 1.02 months' in 1987-88 and similarly the closing stock of finished goods increased from 0.3 months' sales in 1984-85 to 2.59 months' in 1987-88.

The closing stock of raw materials also included obsolete, unserviceable and damaged stores. The value of obsolete and damaged stores as on 31st March 1985 aggregated Rs. 4.27 lakhs. This was revalued at Rs. 0.22 lakh in 1985-86 without conducting any investigation.

The Management attributed (November 1988) the increase in stock holding of raw material and non-adherence of norms of stock holding to-

- Central Government's decision decision to postpone installation of TV transmission towers in hill areas which resulted in reduction of production programme and

- factory being in remote area, critical components had to be stocked in excess to enable smooth production and the need to stock for six months requirements of imported components.

2.8. Sales performance

2.8.1. The Company had confined its activities mainly to manufacturing 51 cms B/W TV sets for supply to UIL and production of PCA for supply to ITI, Rae Bareli. Besides, the Company had taken over dealership in June 1983 for marketing of 'UPTRON' TV sets and other electronic goods of UIL which was converted into distributorship contract in March 1987. In addition, the Company also opened in June 1983 its sales and service centres (SSC) at Bhimtal, Almora and Ranikhet for executing direct sale of electronic goods of 'Uptron' make as also its own products to customers.

The table below indicates the details of party-wise sales of Company's products as well as sales of 'Uptron' make items through SSCs during the years 1983-84 to 1987-88:

	1983-84	1984-85	1985-86
	(Rupees in lakhs)		
	(1)	(2)	(3)
(a) Sales of			
Company's			
products to-			
- UIL (TV	248.96	453.33	622.97
sets)	(11194)	(18805)	(24641)

	(199)		
- ITI(PCA)	--	--	3.11 (1383)
- Others (PCB)	--	--	--
(b) Sales of items on dealersh- ip basis			
- TV sets	2.18 (80)	25.24 (1047)	61.63 (1912)
- Radios and Two in-ones	1.33 (2296)	3.12 (1073)	2.78 (775)
- Calcul- ators	0.27 (Not avail- able)	0.48 (Not avail- able)	1.32 (223)
- Misc.items	0.40	1.88	4.88
(c) Sale of scrap and other mis- cellaneous items	--	--	0.83
Total	253.14	484.05	697.52
	(Figures in brackets indicate quantity in numbers)		

	1986-87	1987-88
	(Rupees in lakhs)	
(a) Sales of Company's products to- UIL (TV sets)	400.64 (16418)	171.89 (6733)

(200)

- ITI (PCA)	7.94 (4666)	8.89 (4010)
- Others (PCB)	--	3.46 (480)

(b) Sales of items
on dealership
basis

- TV sets	51.45 (1276)	109.88 (2963)
- Radios and Two- in-ones	3.59 (859)	2.88 (531)
- Calculators	1.16 (189)	0.62 (167)
- Misc. items	5.26	7.90

(c) Sale of scrap
and other misce-
llaneous items

0.72	0.35
------	------

Total	470.76	305.96
-------	--------	--------

(Figures in brackets indicate quantity
in numbers)

The sales have been continuously declining after 1985-86. Sales in 1986-87 and 1987-88 declined by 16 and 45 per cent respectively as compared to sales in 1985-86.

The Management attributed (November 1988) the fall in sales to competitive prices of products of new units which enjoyed the benefit of sales tax exemption.

2.8.2. The Company entered into an agreement in August 1977 with UPLC, according to which the Company was to manufacture TV sets and supply its entire production to UPLC for marketing for a period of five years or till supply of 15,000 sets, whichever was earlier. Later, when UIL was incorporated in May 1981 as a subsidiary of UPLC and marketing activities of UPLC were entrusted to UIL the Company was supplying its products to UIL for marketing. Although the agreement expired in August 1982, (by which time 6088 TV sets only were supplied to UPLC/UIL) revised agreement was not executed by the Management and marketing arrangements were continued on verbal discussions and mutual consent from time to time. The agreement also stipulated, inter alia, that the Company shall not sell its products to others except with the permission of UPLC and that the question of putting Teletronix label on the sets would be subject to negotiations when the sale of TV sets is fully established in the market and if Teletronix finds it advantageous to do their own marketing. However, since the sale of TV sets was not fully established in the market, the question of putting its own label on the TV sets was not negotiated with UPLC/UIL. Further, having not developed its own infrastructure for marketing its products even after more than 10 years of commencement of commercial production, the Company has been wholly depending upon UPLC/UIL for marketing.

Taking advantage of the Company's dependency on it, UIL made frequent changes in the procurement prices of TV sets (sometimes with retrospective effect), payment terms and modes of delivery etc. and the Company had to accept to these changes per force. These changes made by UIL appear to be more in its interest, although heavy competition also contributed to a small extent, than in the interest of the Company with the result, the realisations on sales were far less than the costs of operation leading to continued cash losses and steep fall in production in the later years. Had the Company developed its own marketing infrastructure, the situation would not have been this bad.

Few instances of arbitrary changes made by UIL resulting in the Company sustaining a cash loss of Rs. 32.08 lakhs during 1986-87 and 1987-88 are discussed below:

(a) The unit sale price of TV sets of UV 202(S) model was fixed in November 1984 by UIL for supplies during 1985-86 and onwards at Rs.1910 plus excise duty, sales tax, freight and transit insurance, etc. which was reduced in September 1986 to Rs.1810 plus other charges from 10th September 1986. The increase in the price to Rs.1860 per set from April 1987 was with reference to substitution of manufacturing of model UV 202(S) by model UV 203(S), the production cost of which was more by Rs.50 per set. The Company was thus, put to a cash loss of Rs.100 per set in its basic price

which amounted to Rs. 20.33 lakhs on 20,238 Tv sets [UV 202(S): 11,546 sets and UV 203(S): 8,782 sets] supplied during September 1986 to June 1988.

(b) Freight and transit insurance charges, on transportation of TV sets were reimbursed to the Company upto November 1986. This was, however, stopped by UIL in March 1987 retrospectively from December 1986 without assigning any reason. There was also no record to show whether the Company protested against this decision. Thus, the Company had to bear extra financial burden to the extent of Rs.11.45 lakhs on account of freight (Rs.10.05 lakhs) and transit insurance (Rs.1.40 lakhs) against supplies made during the period December 1986 to June 1988.

(c) As agreed upon, hundies were being raised for a credit period of 90 days from February 1986 on which interest for first 30 days was borne by UIL. This was stopped from September 1987. It was noticed that in case of nine hundies amounting to Rs. 20.59 lakhs raised during September 1987 to June 1988, interest for first 30 days amounting to Rs.0.30 lakh was also borne by the Company.

2.8.3. Sundry debtors

The position of sundry debtors at the close of five years upto 1987-88 and sales during these years is indicated below:

Year	Sales	Sundry Debtors	Sundry debtors in terms of months sale
(Rupees in lakhs)			
1983-84	253.14	32.68	1.55
1984-85	484.05	34.41	0.85
1985-86	697.52	152.41	2.62
1986-87	470.76	100.49	2.56
1987-88	305.96	53.30	2.09

There was no system of obtaining confirmation of debts from the debtors.

Sundry debtors of Rs.53.30 lakhs as on 30th June 1988 included debtors amounting to Rs.31.38 lakhs pertaining to trading activities, which included debtors of Rs.0.27 lakh for more than 3 years, Rs.0.71 lakh for 2 to 3 years and Rs.7.85 lakhs for 1 to 2 years old.

Sundry debtors as on 30th June 1988 included Rs.2.30 lakhs due from two dealers of Bageshwar and Almora as against security of Rs.0.10 lakh obtained from time to time by the Company. The dealers had disputed the quantities of TV sets received by them against those shown to have been issued by the Company.

No action either to reconcile the position or to recover the dues was taken by the Management so far (April 1989).

2.9. Transport arrangements

2.9.1. As per terms and conditions of the agreement executed with UIL in August 1977, the Company had to deliver the goods at such places and in such manner as desired by UIL. For this, the Company made arrangements for transportation of TV sets on quotation basis upto May 1983. In June 1983 it entered into an agreement with Sethi Goods Carrier and transporter ('S') of Haldwani for transportation of full truck load of 90 TV sets for the destinations intimated by UIL on single quotation basis. This agreement was initially for one year but was extended in May 1984 for further two years i.e. up to May 1986. On the basis of rates offered in September 1985, the Management approved in October 1985 the rates of Nagpal Traders, Haldwani ('N') for ten destinations outside the State which included Bombay, Nagpur and Pune as these were lowest and most favourable to the Company. However, the entire transportation work for all the destinations was got done through transporter 'S' at higher rates without indicating any reasons. This resulted in an extra expenditure of Rs.0.99 lakh on transportation of TV sets during November 1985 to March 1987.

The Management stated (November 1988) that though it was not recorded on files but factual position was that the transporter 'N' was not having transport business and they were not ready for entering into

agreement for all destinations.

It was, however, noticed that transporter 'N' had already done transportation work during July 1985 to September 1985 for various destinations and there were no complaints about the work done by them.

2.9.2. In September 1986, the Company requested Prakash Roadways ('P') of Ghaziabad to quote its rates for transportation from UP-Delhi border to 10 destinations outside the State (the consignments were to be handed over to 'P' at Delhi-UP border). No action on the rates quoted in December 1986 was, however, taken upto March 1987. But the work was awarded in April 1987 to another transporter for no justifiable reasons resulting in extra expenditure of Rs. 0.98 lakh in respect of the consignments transported during April 1987 to June 1988.

10. Manpower analysis

No work study to assess the requirement of manpower was done by the Company so far. The number of employees at the end of the five years upto 30th June 1988 and percentage of salary and wages to total production and turnover per employee per month during these years were as under:

	Y E A R				
	1983-84	1984-85	1985-86	1986-87	1987-88
Number of employees at the close of the year	100	107	133	137	149
Turnover (Rupees in lakhs)	253.15	484.05	696.69	470.03	305.61
Turnover per emp- loyee per month (Rupees)	21,095	37,698	34,921	28,590	17,092
Value of produc- tion (Rupees in lakhs)	206.34	357.58	537.62	388.82	292.40
Expenditure on salary and wages (Rupees in lakhs)	13.25	17.56	30.87	21.89	29.22
Percentage of salary and wages to value of production.	6.4	4.9	5.7	5.6	10.0

The cost of salaries and wages to total production increased from 4.9 per cent in 1984-85 to 10 per cent in 1987-88, while the turnover per employee per month also declined from Rs. 37,698 in 1984-85 to Rs.17,092 in 1987-88. This was mainly because of steady increase in man-power from year to year (100 in 1983-84 to 149 in 1987-88), while the production has been curtailed drastically in 1986-87 and 1987-88 due to fall in sales prices and demand.

2.11. Internal audit

In compliance with the requirement of Section 227 of the Companies Act, 1956, the Company had availed of the services of S.N.Kapoor and Associates, a firm of Chartered Accountants of Lucknow for internal audit of the Company upto 1982-83. From 1983-84 onwards, the assignment was transferred to UIL (Internal Audit Wing), but the services rendered were not found very satisfactory as observed by the Board of Directors in August 1984. Therefore, another firm of Chartered Accountants of Bareilly-Gupta Tondon & Co., - was engaged in November 1984 as Internal Auditors of the Company for the year 1984-85 and subsequently for three years upto 1987-88 at a consolidated remuneration of Rs.5500 for 1984-85 and at the rate of Rs.7500 per annum for the years 1985-86 to 1987-88.

In this connection the following points were noticed:

(1) The statutory auditors of the Company in their report on the accounts for the year 1986-87 observed that the internal audit system was not commensurate with the size of the Company and nature of business and needed to be strengthened. Although the Board of Directors of the Company also resolved earlier, in March 1985, to set up an Internal Audit Wing of its own and authorised the Managing Director to take necessary action accordingly; no progress in this regard was made (April 1989).

(2) Internal Audit reports submitted to Management from time to time emphasized the need for setting up of a cost centre to ascertain the financial position of the Company at various stages and to justify the efficiency and work generated in different departments. This has also not been done.

The Management stated (November 1988) that the cost centre and Internal Audit wing could not be established as establishment of these would involve expenditure. However, costing was being done by the accounts department as and when required.

2.12. Implementation of schemes-

2.12.1. Training to youth under self employment scheme

The State Government had laid emphasis on development of the hills but the main hurdle faced by the newly set up enterprises

was lack of trained man-power and non-availability of job workers. Therefore, with a view to provide adequate practical training to local persons to enable them to start their own tiny enterprises, the Company proposed in January 1980 to Government for setting up of an Electronic Industrial Training Centre at Bhimtal at a cost of Rs.1.37 lakhs. The project report envisaged that the Company, besides production of TV sets and other equipments, had diversification plans to set up production of radios and electro-mechanical relays, of which substantial works could be off-loaded to tiny units.

As against the anticipated expenditure of Rs.1.37 lakhs on the scheme, Government released a grant of Rs.0.96 lakh in November 1980 towards the cost of test equipment, loose tools and fixtures (Rs.0.66 lakh) and raw materials, salaries and wages, stipends, etc. (Rs.0.30 lakh). The entire amount of grant was utilised by the Company during 1981-82 and 1982-83 on purchase of training equipments (Rs.0.55 lakh) and payment of stipend to 44 trainees (Rs.0.41 lakh).

In addition to the above, Government sanctioned a loan of Rs. 10 lakhs in March 1981, at a concessional rate of interest of 9 per cent, repayable in 10 yearly instalments.

The following points deserve mention in this regard.

(i) Existence of testing equipment, loose tools and fixtures (Rs.0.55 lakh) purchased out of grant could not be verified as no record thereof was maintained by the Company.

(ii) As regards the utilisation of the loan of Rs.10 lakhs obtained from Government for the purchase of raw materials to be made available to the trained persons, it was noticed that the Company did not have any information regarding the establishment of tiny industries by the trained persons and did not ascertain their requirement of working capital, if any. Instead of refunding the loan amount to the Government, when the purpose for which it was drawn was not served, the Company utilised the loan amount to meet its working capital requirements. Although the funds had been diverted for some other purpose, the Company had been only repaying the loan as per the terms and conditions of sanction.

(iii) Utilisation certificate in respect of even the grant of Rs. 0.96 lakh which was utilised for the purpose for which the grant was received, has not been sent to Government so far (March 1989).

2.12.2. Establishment of Industrial training centre under self employment scheme

For development of electronic indus-

tries in hill areas and to promote self employment to maximum number of persons with a minimum capital investment, the State Government, in consultation with UPLC, decided in March 1985 to set up a training centre and hostel for the trainees at Bhimtal. The scheme sponsored by the holding Company and implemented by the Company envisaged imparting of training to the persons having qualifications of High School, ITI Certificate and Polytechnic diploma for one year on payment of stipend of Rs.200, Rs.300 and Rs.400 per month per trainee respectively.

For implementation of the above scheme Government sanctioned a grant of Rs.49.76 lakhs in March 1985, of which a sum of Rs.44.42 lakhs was drawn by the Company during November 1985 to June 1986.

The table below indicates the details of expenditure to be incurred as per expenditure plan prepared by the Company and submitted in April 1985 to the State Government and actual expenditure incurred thereagainst (as per audited accounts kept separately for each year upto 1987-88) upto 30th June 1988.

Items	Expenditure proposed as per plan	Actual expenditure incurred upto 30th June 1988
	(Rupees in lakhs)	
Purchase of land	0.40	Nil

(213)

Construction of hostels,	12.24	Nil
Construction of training building	18.59	Nil
Margin money for raw material	6.60	1.32
Instruments for training	6.40	6.33
Salaries to staff	0.66	2.71
Stipend to trainees	3.52	1.92
Other expenses	1.35	3.64
Total	49.76	15.92

The Company trained 64 persons in four batches upto 30th June 1988 on payment of stipend of Rs.1.92 lakhs. Of these, 32 persons were employed, 10 persons were under employment and in respect of the remaining 22 persons no information was available with the Company.

The following points deserve mention:

(i) A sum of Rs. 44.42 lakhs was drawn in 1985-86, against which expenditure of Rs.15.92 lakhs only was incurred during 1985-86 (Rs.3.40 lakhs), 1986-87 (Rs.7.58 lakhs) and 1987-88 (Rs.4.94 lakhs). The balance amount of Rs.28.50 lakhs was irregularly utilised by the Company for meeting its working capital requirements, defeating the very purpose of the scheme.

(ii) As against provision of Rs.31.23 lakhs for the purpose of purchase of land and construction of office buildings and hostels in the expenditure plan, no expenditure was incurred so far (April 1989).

(iii) As against provision of salaries to staff amounting to Rs.0.66 lakh, an expenditure of Rs.2.71 lakhs was incurred up to 1987-88 on this account. There was an abnormal increase during 1987-88 (Rs.1.68 lakhs) as compared to that in 1986-87 (Rs.0.55 lakh) and in 1985-86 (Rs.0.48 lakh).

(iv) The Company purchased one photostat copier machine, not envisaged in the expenditure plan, valuing Rs.1.45 lakhs from Modi Zerox Limited of Delhi in November 1985 and a recurring expenditure of Rs.14,000 per year was being incurred on its maintenance.

The Management stated(November 1988) that to provide course material to trainees it was felt necessary to purchase photostat machine for the training purposes.

In the absence of any register maintained to record the work done on the machine and in view of the fact that the machine had been installed in the office of the Company, instead of in the office of the Training Centre, it could not be checked whether there was justification for purchase of machine for the purpose of the centre and whether the machine was being exclusively used for the work relating to the centre.

(v) Utilisation certificate in respect of grants utilised have not been submitted to Government so far (April 1989).

2.13. Financial position

The financial position of the Company at the end of the five years upto 1987-88 is summarised below:

	1983-84	1984-85	1985-86
	(Rupees in lakhs)		
A. Liabilities:			
Paid-up capital	33.95	48.21	95.71
Reserve and Surplus	2.46	7.05	21.50
Borrowings	51.64	41.10	70.67
Current liabilities and provisions	28.14	48.97	157.49
Total	116.19	145.33	345.37
B. Assets			
Gross block	12.83	27.05	33.28
Less-Depreciation	5.87	9.25	13.05
Net fixed assets	6.96	17.80	20.23
Capital work in progress	--	--	2.48
Investments	--	--	2.30
Current assets			
loans and advances	84.34	127.46	320.23
Miscellaneous expenditure	0.01	0.07	0.13
Accumulated losses	24.88	--	-
Total	116.19	145.33	345.37
C. Capital employed	63.16	96.29	182.97
D. Net worth	11.52	55.19	117.08

	1986-87 (Rupees lakhs)	1987-88 in
A. Liabilities:		
Paid-up capital	121.21	133.21
Reserve and surplus	23.34	24.56
Borrowings	67.41	23.54
Current liabilities 'and provisions	95.90	185.58
Total	307.86	366.89
B. Assets:		
Gross block	45.01	62.13
Less- Depreciation	20.36	24.63
Net fixed assets	24.65	37.50
Capital work in progress	6.47	0.18
Investments	11.50	11.50
Current assets loans and advances	265.13	317.60
Miscellaneous expenditure	0.11	0.11
Accumulated losses	--	--
Total	307.86	366.89
C. Capital employed	193.88	169.52
D. Net worth	144.44	157.67

- Note: (i) Capital employed represents net fixed assets plus working capital.
- (ii) Networth represents paid-up capital plus reserves and surplus less intangible assets.

2.14. Working results

The working results of the Company for the five years upto 1987-88 are summarised under the borad heads, as under:

	1983-84	1984-85	1985-86
	(Rupees in lakhs)		
Expenses			
Purchase of finished goods	4.47	41.58	90.38
Consumption of raw materials	179.59	286.53	400.51
Office and Administrative expenses	17.25	23.15	42.06
Excise Duty and Sales tax	47.59	94.94	143.67
Selling and distribution expenses	2.36	7.62	12.76
Interest	5.03	6.32	4.66
Depreciation and Investment allowance reserve	4.02	4.12	4.51
Total	260.31	464.26	698.55
Income			
Sales	253.14	484.05	697.52
<u>Add: Closing stock</u>	<u>14.73</u>	<u>19.36</u>	<u>57.13</u>
(including work in progress)			
<u>Less: Opening stock</u>	<u>11.69</u>	<u>14.73</u>	<u>19.36</u>
(Including work in progress)			

(218)

Value of business	256.18	488.68	735.29
Other income	.5.85	9.13	9.92
Total	262.03	497.81	745.21
Working profit(+)/ Loss (-)	+ 1.72	+ 33.55	+ 46.66
Prior period adjustments	3.28	0.03	0.07
Profit(+)/Loss(-) before tax	- 1.56	+ 33.52	+ 46.59
Income tax	--	4.55	23.29
Profit(+)/Loss(-) after tax	-1.56	+28.97	+23.30
Accumulated pro- fit(+)/Loss(-)	-24.88	+0.10	+2.13

	1986-87	1987-88
	(Rupees lakhs)	in lakhs)
Expenses		
Purchase of finished goods	69.62	128.00
Consumption of raw materials	267.91	116.12
Office and Administrative expenses	30.84	39.19
Excise Duty and Sales tax	97.32	49.91
Selling and distribution expenses	12.90	8.90
Interest	20.46	9.09
Depreciation and Investment allowance reserve	6.41	4.27
Total	505.46	355.48

Income

Sales	470.76	305.97
<u>Add:</u> Closing stock (including work in progress)	74.45	86.25
<u>Less:</u> Opening stock (including work-in progress)	57.13	74.45
Value of business	488.08	317.77
Other income	22.38	37.84
Total	510.46	355.61

Working profit(+)/ Loss(-)	+ 5.00	+ 0.13
Prior period adjustments	1.11	--
<u>Profit(+)/Loss(-)</u> before tax	+ 3.89	+ 0.13
Income tax	2.04	--
<u>Profit(+)/Loss(-)</u> after tax	+ 1.85	+ 0.13
Accumulated profit(+)/ Loss(-)	+ 3.48	+ 3.61

Note: Due to change in accounting period duration of 1985-86 year was for 15 months from 1st April 1985 to 30th June 1986.

It would appear from the above that the accumulated loss of the Company up to the year 1983-84 amounting to Rs.24.88 lakhs was wiped out by the profits in the

subsequent year. The main reasons for making abnormal profits during 1984-85 and 1985-86 as analysed by Audit were higher production of TV sets, and increase in sales price during the period.

The profits of Rs.1.85 lakhs made in 1986-87 were after taking the following credits into accounts:

(a) Inclusion of Rs. 2 lakhs on account of freight outward in sales for the period from 1st December 1986 to 31st January 1987 which was not payable by UIL.

(b) Transfer of expenditure of Rs.8.11 lakhs to KUMTEL during 1986-87 on account of common expenditure incurred on salaries and allowances (Rs.7.03 lakhs) and vehicle, telephone expenses and other expenses (Rs.1.08 lakhs) which was arbitrary and without a rational basis. The total expenditure on salaries and wages of KUMTEL during 1986-87 with this transfer amounted to Rs.10.34 lakhs as against the actual expenditure of Rs.6.48 lakhs during 1987-88.

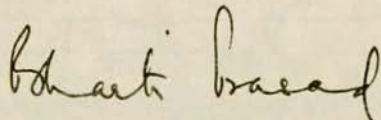
(c) Claiming of interest of Rs.5 lakhs on the amount of Rs. 50 lakhs advanced to KUMTEL during 1986-87 against purchase of TV sets.

However, when compared to the profits of Rs.18.64 lakhs (proportionate for 12 months) earned during 1985-86, the Company earned only nominal profits of Rs.1.85 lakhs and Rs.0.13 lakh during 1986-87 and 1987-88 respectively, mainly due to fall

(221)

in production, reduction in sales price and increase in overheads.

Further a credit of Rs.42.89 lakhs taken in profit and loss account during 1983-84 to 1987-88 on account of 'Excise MODVAT' which included MODVAT benefits obtained at 10 to 15 per cent against actual excise duty paid at 5 to 10 per cent on purchase of material from small scale units.

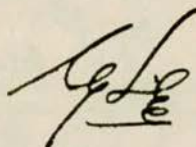


(Bharti Prasad)
Accountant General(Audit)-II
Uttar Pradesh

Lucknow:

Dated:

Countersigned



(C.G. Somiah)
Comptroller and Auditor
General of India

New Delhi

Dated:

Annexure 'A'

Details of extra expenditure on construction of buildings.

(Referred to in paragraph 1.9.2.6 Page 39)

S. No.	Item of work	Unit	Executed quantity	Rate, as per agreement
1	2	3	4	5

(LOT FACTORY)

1.	E.W. in excavation	M3	533.22	7.57
2.	Providing & laying lime concrete in foundation 16:32:100 (4 Cm gauge)	M3	79.19	271.61
3.	P/L DPC. 25 M.M. Thick with CC: 1:1½:3	M2	61.42	32.95
4.	RCC 1:2:4 in Lintels	M3	4.84	1057.22
5.	RCC 1:2:4 roof in slabs & columns	M3	119.63	1214.93
6.	RCC 1:2:4 in lighter beams	M3	7.69	1133.15
7.	RCC 1:2:4 in Heavier Beams	M3	20.03	1121.47
8.	RCC 1:2:4 in Raft foundation	M3	61.93	984.21

	Amount	UP PWD rate with effect from 5.12.84 for Lucknow	Amount	Difference (Col.6 - Col. 8)
	6	7	8	9
1.	4036.48	5.50	2932.71	1103.77
2.	21508.80	260.00	20589.40	919.40
3.	2023.79	24.00	1474.08	549.71
4.	5116.94	775.00	3751.00	1365.9
5.	145342.07	900.00	107667.00	37675.0
6.	8713.92	975.00	7497.75	1216.17
7.	22463.04	1040.00	20831.20	1631.84
8.	60925.12	725.00	44899.25	16025.87

(224)

	6	7	8	9
9.	18896.47	350.00	18263.00	633.47
10.	139914.70	370.00	116616.60	23298.10
11.	--	--	--	--
12.	14015.16	420.00	11323.20	2691.9
13.	6546.59	5800.00	5417.20	1129.39
14.	3619.30	53.00	2524.92	1094.38
15.	19373.27	9.75	16325.79	3047.48
16.	13075.90	11.25	8508.04	4567.86
	485571.55		388621.14	96950.41

(225)

1	2	3	4	5
9.	Ist class brick work in 1:3 white lime and surkhi in super structure	M3	52.18	362.14
10.	Ist class brick work 1:6 Cement and sand in fou- ndation and pli- nth.	M3	315.18	443.92
11.	-do- in super structure	M3	--	443.92
12.	-do- 1:4 in Cement and sand in super stru- cture	M3	26.96	519.85
13.	S/F Indian Sal wood Chaukhats	M3	0.934	7009.20
14.	Sand filling in plinth	M3	47.64	75.93
15.	12 M.M.Plaster in 1:6 on walls	M2	1674.44	11.57
16.	-do- 1:4(Ceil- ing)	M2	756.27	17.29
	Total			

1	2	3	4'	5
(E.E. IV)				
1.	E.W. in excavation	M3	2802.18	8.18
2.	Providing & laying Lime concrete foundation. 16:32:100 (40 M guage)	M3	186.75	293.34
3.	P/L DPC 25mm. thick with CC 1:1½:3	M2	118.89	35.59
4.	RCC 1:2:4 in LINTELS	M3	13.70	1141.80
5.	-do- in roof slabs and columns	M3	322.31	1312.12
6.	-do- in Lighter beams	M3	4.89	1223.80
7.	-do- in Heavier Beams	M3	136.02	1211.19
8.	-do- in raft foundation	M3	166.08	1062.95
9.	Ist class brick work in 1:3 white lime and Surkhi in super structure	M3	--	391.11
10.	Ist class brick work 1:6 Cement and sand in foundation & Plinth	M3	398.73	479.43

	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1.	22921.83	5.50	15411.90	7509.93
2.	54781.25	260.00	48555.00	6226.25
3.	4231.30	24.00	2853.36	1377.94
4.	15642.66	775.00	10617.50	5025.16
5.	422909.39	900.00	290079.00	132830.39
6.	5984.38	975.00	4767.75	1216.63
7.	164746.06	1040.00	141460.80	23285.26
8.	176534.73	725.00	120408.00	56126.73
9.	--	350.00	--	--
10.	191163.12	370.00	147530.10	43633.02

1	2	3	4	5
11.	-do- in super structure	M3	404.03	479.43
12.	-do- 1:4 in cement and sand in super structure	M3	90.59	561.44
13.	S/F Indian Sal wood chaukhats	M3	0.862	7569.94
14.	Sand filling in plinth	M3	117.47	82.00
15.	12 mm plaster in 1:6 on walls	M2	3088.60	12.50
16.	-do- 1:4 (Ceiling)	M2	2197.47	18.67
Total				

(229)

	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
11.	193704.10	390.00	157571.70	36132.40
12.	50860.85	420.00	38047.80	12813.05
13.	6525.29	5800.00	4999.60	1525.69
14.	9632.54	53.00	6225.91	3406.63
15.	38607.50	9.75	30113.85	8493.65
16.	41026.76	11.25	24721.54	16305.22
	1399271.76		1043363.81	

1	2	3	4	5
(E.F.V.)				
1.	E.W. in excavation	M3	1747.27	8.18
2.	P/L Lime concrete in foundation	M3	184.43	293.34
3.	P/L DPC 25mm thick with CC 1:2:4	M2	188.14	35.59
4.	RCC 1:2:4 in raft foundation	M3	134.27	1062.95
5.	-do- in Lintels	M3	7.71	1141.80
6.	-do- in roof slabs and columns	M3	194.07	1312.12
7.	1st class brick work in 1:6 in (Cement and sand) foundation and plinth	M3	570.96	479.43
8.	-do- 1:6 in super structure	M3	525.23	479.43
9.	-do- 1:4 cement and sand in super structure	M3	46.26	561.44
10.	Sand filling in plinth	M3	58.89	82.00
11.	12mm Plaster in 1:6 on walls (10 mm in Lucknow schedule)	M2	1707.02	12.50

(231)

	6	7	8	9
1.	14292.67	6.50 (Eff- ective from Ist June 1986)	11357.25	3935.42
2.	54100.70	292.00	53853.56	247.14
3.	6695.90	34.00	6396.76	299.14
4.	142722.30	1031.00	138432.37	4289.93
5.	8803.28	987.00	7609.77	1193.51
6.	254643.13	1065.00	206684.55	47958.58
7.	273735.35	406.00	231809.76	41925.59
8.	251811.02	432.00	226899.36	24911.66
9.	25972.21	476.00	22019.76	3952.45
10.	4828.98	60.00	3533.40	1295.58
11.	21337.75	11.00	18777.22	2560.53

1	2	3	4	5
12.	12 mm Plaster in 1:4 on (Ceiling) (10 mm in Luck- now schedule)	M2	1082.31	18.67
13.	-do- 1:3 with neat finish (10 mm in Luck- now schedule)	M2	51.21	34.49
14.	40mm thick marble chips flooring with base concrete	M2	828,13	132.47
Total				

(233)

6	7	8	9
---	---	---	---

12. 20206.73 13.00 14070.03 6136.70

13. 1766.23 14.00 716.94 49.29

14. 109702.36 81.00 67078.53 42623.83

1190618.61

1009239.26 181379.35

Annexure 'B'

Statement showing position of projects in progress (Referred to in paragraph 1.10.1. Page 49)

	MINOS	DAS	FDM
1. Date of letter of intent	January 1982	February 1984	March 1984
2. Date of industrial licence	August 1984	March 1986	September 1986
3. Foreign collaboration with firms of	England	U.S.A.	Sweden
4. Date of agreement with foreign collaborator	September 1984	July 1985	February 1984
5. Agreement taken on record by Government of India	December 1984	January 1986	August 1985
6. Agreement in force for (from the date of start of commercial production)	8 years	5 years	5 years

	MAS	EPABX	SUPER COMPUTER
1.	September 1984	June 1983	--
2.	February 1987	October 1986	November 1985
3.	Japan	France	USA
4.	July 1985	April 1985	February 1987
5.	August 1986	February 1986	April 1987
6.	4 years	--	5 years

	MINOS	DAS	FDM
7. Design/drawing know-how fee as per agreement	₹ 3.07 lakhs (including income tax) reduced to ₹ 2.46 lakhs	US Dollar 7.58 lakhs (excluding income tax)	Rs. 25 lakhs for designs and drawings
8. Instalments of know how and training fee paid (Rupees in lakhs)	44.51	91.26	35.28
9. Period of payment of know-how fee etc.	September 1985 to August 1987	February 1986 to June 1988	November 1986
10. Royalty payable to foreign collaborator (percentage of net ex-factory price)	5	4	Nil
11. Plant and machinery imported (Rupees in lakhs)	11.08	79.41	52.89

	MAS	EPABX	SUPER COMPUTER
7.	Japanese yen 835.60 lakhs	US Dollar 1.67 lakhs (including income tax)	US Dollar 3.00 lakhs (including income tax)
8.	1.53	5.80	16.24
9.	September 1987	July 1986	November 1987 to Dec- ember 1987
10.	4	4 (internal) 4 (export)	5
11.	--	444.66	--

	MINOS	DAS	FDM
12. Period of import of plant and machinery	December 1986 to June 1988	December 1986 to June 1988	May to June 1988
13. Project cost (Rupees in lakhs) (with the date of the project in brackets)	145.00 (March 1985)	702.18 (April 1985 revised to March 1987)	819.29 (Not available) revised to 850.00 (December 1986)
14. Expenditure (Provisional) incurred on fixed assets upto June 1988 (Rupees in lakhs)	83.01	416.01	190.88
15. Projected means of finance (Rupees in lakhs)			
Equity	57	360	370
Loans	88	546	480
Total	145	906	850

	MAS	EPABX	SUPER COMPUTER
12.	--	January 1987 to June 1988	--
13.	--	790.75 (September 1985) revised to 992 (December 1986)	240.00 (Not approved)
14.	--	708.86	--
15.			
Equity	--	432	90
Loans	--	560	150
Total	--	992	240

(240)

	MINOS	DAS	FDM
16. Scheduled date of commercial production	July 1987	January 1988	October 1987
17. Present position (July 1988) of capital works	In progress	In progress	In progress
18. Assembly of semi-knocked down kits started in	1986-87	1986-87	June 1987

	<u>MAS</u>	<u>EPABX</u>	<u>SUPER COMPUTER</u>
16.	--	April 1987 revised to July 1988	--
17.	--	In progress	--
18.	1987-88	1986-87	--

(243)

Require- ment (Number)	Excess	Per- cent- age of reje- ction	Quant- ity in excess of 2 <u>per</u> <u>cent</u>	Rate (Rup- ees per set)	Value of excess consu- mption (Rupees in lakhs)
105845	2507	2.37	2117	52	20280.00
105845	8299	7.84	6182	83	513106.00
					533386.00
57174	2465	4.31	1322	54.30	71784.60
79225	1911	2.41	327	144.62	47290.74
--	--	--	--	--	--
57174	1783	3.12	640	46.62	29836.80

IC TDA 7243 P	1983-84 to 1985-86	77557	17.94
Cap.Elec.100+100/ 350V, 385 V, 400V	-do-	74021	12.22
Speakers	1983-84 to 1986-87	120941	32.91
Picture Tube 20"	Up to Sep- tember 1987	103351	310.05
Total			550.33

EF II (COLOUR TV SETS)

Picture Tube 20"	1983-84 to 1986-87	30755	568.97
Cabinet	-do-	30634	49.32
LOT	1984-85 to 1985-86	24223	35.13
Tuners M.C. for UV 503 and UV 504	1985-86	1197	1.27
Tuner Elect. VTK 7C CDE IX-300 (UV 606 and 602)	1985-86	8135	13.06

(245)

71368	6189	8.67	4762	23.13	110145.00
70226	3795	5.40	2390	16.51	39459.00
116223	4718	4.06	1394	27.21	37930.74
100751	2600	2.52	533	300.00	159900.00
					496346.88
30018	737	2.46	137	1850	253450.00
30018	616	2.05	16	161	2576.00
23103	1120	4.85	658	145.03	95429.74
946	251	26.53	232	106.08	24610.56
7935	200	2.52	41	160.50	6580.50

Turner Elect. (Sharp)	1984-85	14601	30.17
Tuning bank (UV 602)	1984-85	15314	10.13
	to		
	1985-86		
Transformers SMPS 710	1986-87	9267	3.75
Cartons	1983-84	30661	12.57
	to		
	1986-87		
Programme switch (UV 602)	1984-85		
	to		
	1985-86	15296	6.25
Main PCB	1985-86	9449	3.05
Total			733.66

EF III COLOUR TV SETS

ICTDA 3561	1983-84	49305	16.02
	to		
	1985-86		
TR BRV 205/546	1983-84	50284	14.00
	to		
	1985-86		
SPMS Transformer	1983-84	5769	2.08

14107	494	3.5	212	206.60	43799.20
14686	628	4.28	334	66.14	22090.76
5974	3293	55.12	3174	40.49	128515.26
29703	958	3.23	364	41.00	14924.00
14686	610	4.15	316	40.87	12914.92
8935	514	5.75	335	32.26	10807.10
					615698.04
48306	999	2.07	33	32.50	10725.00
48306	1978	4.09	1012	27.85	28184.20
4936	833	16.88	734	36.00	26424.00

(249)

68632	1416	2.06	43	34.34	1476.62
48306	1259	2.61	293	22.98	6733.14
48306	1195	2.47	229	326.40	74706.43
4936	175	3.55	97	N.A.	--
1563	111	7.10	80	N.A.	--
					148249.39
					17.94

