REPORT

OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT (COMMERCIAL)

1981

PART V

THE COTTON CORPORATION OF INDIA LIMITED

82

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PREFATORY REMARKS

A reference is invited to paragraph 5 of the Prefatory Remarks contained in Part I of the Report of the Comptroller and Auditor General of India—Union Government (Commercial) 1981—wherein it was *inter alia* mentioned that the draft report on the working of the Cotton Corporation of India Limited—an undertaking selected for appraisal by the Audit Board—was under finalisation. In this case, the Audit Board consisted of the following Members :—

S/Shri

1. T. Rengachari . .	Chairman, Audit Board and Ex-officio Additional Deputy Comptroller and Auditor General (Commercial) upto 29th February, 1980.
2. P. P. Gangadharan .	Chairman, Audit Board and Ex-officio Additional Deputy Comptroller and Auditor General (Commercial) with effect from 1st March, 1980.
3. C. J. Malkani . .	Member Audit Board & Ex-officio Director of Commercial Audit, Bombay upto 9-7-1979.
4. K. J. Kuriyan . .	Member Audit Board & Ex-officio Director of Commercial Audit, Bombay with effect from 10-7-1979.
5. S. S. Roy Choudhury	Member Audit Board & Ex-officio Director of Commercial Audit, Bhopal upto 31-10-1979.
6. Harbans Lal . .	Member Audit Board & Ex-officio Director of Commercial Audit, Bhopal with effect from 1-11-1979.
7. *Dr. T. V. Ratnam .	Deputy Director, South India Textile Research Association, Coimbatore—Part Time Member.
8. Dr. S. B. P. Rao .	Director (Retired), Directorate of Cotton Development—Part Time Member.

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*Dr. T. V. Ratnam did not attend the meeting held on 12th February, 1981.

2. The Report was finalised by the Audit Board after taking into account the result of discussions held with the representatives of the Ministry of Commerce (Department of Textile) and the Corporation, at its meeting held on 12th February 1981 and the additional information furnished by Management in March—July 1981.

3. The Comptroller and Auditor General of India wishes to place on record the appreciation of the work done by the Audit Board and acknowledges with thanks the contribution, in particular, of the members who are not officers of the Indian Audit and Accounts Department.

1. Introduction

1.01 Cotton. the main raw material of the Textile Industry, is grown in many parts of India and principally in the States of Punjab, Haryana, Rajasthan, Gujarat, Maharashtra, Madhya Pradesh, Andhra Pradesh, Karnataka and Tamil Nadu. Before the forties, supply of cotton was largely left to free market forces. It was for the first time in 1943-44 that price control on raw cotton was introduced due to exigencies of World War II. A system of 'floor' and 'ceiling prices' introduced by Government remained operative till 31st August 1967 after which this system was replaced by one of support prices alone to ensure the farmer a minimum return for his inputs. This system implied that if cotton prices fell below the support level, Government would step in and purchase cotton to prevent distress sale. In order to improve the overall position of cotton, Governmtnt side by side also took regulative measures on imports, movement of indigenous cotton and stock holding by mills. In spite of these measures there were violent fluctuations in the price of indigenous cotton. Index number of wholesale prices of raw cotton (base 1961-62 = 100) shot up from 142 in 1967-68 to 171 1969-70.

1.02 Considering the erratic fluctuations in the prices of cotton, the Agricultural Prices Commission recommended (May 1969) the setting up of an agency in the public sector charged with the responsibility for equitable distribution of cotton among the different constituents of the Industry and also to purchase and sell domestic cotton for disciplining prices within and between the years and to serve as a vehicle for the canalisation of all imports of cotton. Government accepted the recommendation of the Commission and constituted (October 1969) a Committee to prepare a detailed scheme for the establishment of a Public Sector Agency. The Committee recommended (February 1970) the establishment of a full-fledged independent Corporation which was to develop necessary skill, expertise and operational finesse to enable it to progressively replace the traders in course of time. Government accepted the Committee's recommendations and set up the Cotton Corporation of India Limited (CCI) on 31st July 1970 with its registered office at Bombay.

1.03 The working of the Company was examined by the Committee on Public Undertakings in 1975 and their recommendations are contained in their 68th Report (Fifth Lok Sabha).

2. Objectives

2.01 The main objects of the Company as mentioned in its Memorandum of Association are :—

(1) to purchase, sell and otherwise dispose of and deal in raw cotton imported from outside India;

(2) to purchase cotton grown in India and to sell and otherwise dispose of and deal in such cotton;

(3) to purchase, sell and otherwise dispose of and deal in 'Kapas' or unginned cotton as the Central Government may direct from time to time;

(4) to organise and undertake purchase, sale and transport of cotton (imported into or grown in India) and/or Kapas including such allied duties as may be entrusted to the Company for such purpose by the Central Government from time to time in India or anywhere else in the world;

(5) to generally implement such special arrangements for imports or internal trade or distribution of raw cotton as the Central Government may specify from time to time in public interest; and

(6) to generally carry on business as exporters and importers of cotton.

2.02 The Administrative Reforms Commission had suggested that the Government should make a comprehensive and clear statement on the objectives and obligations of Public Undertakings. This recommendation was accepted by Government and all Public Sector Undertakings were asked (November 1970) to formulate statements of thteir objectives/obligations clearly. Till 1974-75, however, such a statement of the Company's objectives/obligations was not formulated.

During evidence before the Committee on Public Undertakings (1974-75), the representatives of the Ministry of Commerce stated that the Company had got 3 or 4 activities which would be sustained under any circumstances. These were (i) Imports (ii) Purchases for National Textile Corporation—NTC (whenever arrangements for this purpose were worked out) (iii) Price support operations, if and when the prices should fall below the levels fixed by the Agricultural Prices Commission and (iv) Open market purchases. Ensuring remunerative prices to the farmers and stabilisation of prices of cotton for general welfare of consumers, were also stated to be the objectives of the Company although these do not find a specific place in the Memorandum of Association of the Company.

2.03 The Committee on Public Undertakings in their 68th Report (Fifth Lok Sabha) had recommended that Government should come to an early decision about the role and objectives of the Company in specific terms. In pursuance of this recommendation Government decided (October 1975) that during

1975-76 season, the Company should ensure payment of minimum support price to the growers and it should be used by NTC for purchase of cotton for its requirement. The same role was continued for the years 1976-77 and 1977-78. The Textile Policy announced by Government in August 1978 envisaged the following expanded role to the Company :

(i) to make commercial purchases in the market so as to prevent cotton prices from dropping below the prescribed minimum;

(ii) to prevent cotton prices going above a prescribed limit and for this purpose to operate buffer stocks; and

(iii) to take such other steps including exports so as to maintain cotton prices within the prescribed range.

3. **Organisational Set up**

The Company functions through its Head Office in Bombay and nine Branch Offices located one each at Bhatinda, Sirsa, Sriganganagar, Ahmedabad, Rajkot, Indore, Guntur, Bangalore and Madras. There is one liaison office at New Delhi and one Sales Office at Calcutta. The Head Office, besides having the secretarial, administrative and accounting functions, handles exclusively import and export activities of the Company. The Branch Offices under which there are several purchase centres, are responsible for purchasing, ginning, pressing, storage and delivery of indigenous cotton to customers. Sales are approved by the Head Office.

The Chairman-*cum*-Managing Director is assisted by two functional Advisers *viz.* Financial Adviser and Chief Accounts Officer and Adviser (Purchases and Sales) and by Branch Managers under the guidance and supervision of the Board of Directors. Since the inception of the Company in July 1970, six incumbents have held the post of Chairman. The organisational chart of the Company as on 1st April, 1981 is given in Annexure I.

4. Capital Structure

The Authorised Capital of the Company is Rs. 10 crores divided into 10,00,000 equity shares of Rs. 100 each. The paid up Capital as on 31st August 1979 was Rs. 4.00 crores, the whole of which was subscribed by the President of India. Since inception, the Company was having cash credit arrangements with banks against hypothecation and/or pledge of its Stock-in-trade. It also obtained a loan of Rs. 50.00 lakhs from the Government of India in 1974-75. The amounts of cash credit and Government loan were Rs. 20194 lakhs and Rs. 30 lakhs respectively as on 31st August 1979.

5. Crop Estimation

5.01 The Cotton Directorate of the Government of India collects data on cotton production through its own personnel and also from the State Governments. The Trade and the Industry also prepare estimates of cotton production. The Cotton Advisory Board of the Government of India which consists of representatives of Government, growers, industry and trade, generally meets twice or thrice in a year, considers these estimates and indicates its own estimates of production, consumption and carryover stocks. The Advisory Board makes recommendations for import and export of cotton based on such estimates. The Company has no machinery of its own to estimate production. It makes use of the estimates prepared by the Government and the Cotton Advisory Board for its procurement programme.

The estimates of production made from time to time by Trade, Industry and Directorate of Cotton Development, estimates arrived at in the meetings of the Cotton Advisory Board and actual production for the years 1975-76 to 1978-79 are given below :—

(Figures in lakhs of bales)

	Date of meetings	Trade	Industry	Directorate of Cotton Development	Cotton Avdisory Board
Estimates for 1975-76 .	6-12-1975	70.50	NA	70	69
	10-6-1976	64.50	..	66.70	66.50
Actual production . .		59.50			
Estimates for 1976-77 .	20-12-1976	63/66	65	63/64	66/67 say 66.50
	5-4-1977	58/59	58/60	62.60	59/60
Actual production . .		58.39			
Estimates for 1977-78 .	15-12-1977	66.50	66	66/67	66
	18-4-1978	68.50	68	67.50	67/68 (67.50)
Actual production . .		72.43			
Estimates for 1978-79 .	6-10-1978	73/75	71	N.A.	71/72.50
	16-1-1979	76.50	72	73.5	73 (Revised to 75 on 26-4-79).
Actual production . .		79.27			

It would be seen from the table that there were wide differences between original estimates and actual production. The Ministry stated (Febraury 1980) that "since the major portion of the crop is raised in rain-fed areas, the final production depends upon monsoon conditions and keeps on shifting from assessment to assessment. Other uncertain factors such as infestation also affect crop size. The crop raised in the various States has varying periods of harvest of producer. It is, therefore, not possible to expect an estimate with fair certainty during the entire season".

5.02 To have a reliable estimate of cotton crop, the Company entrusted in August 1975 the work of estimation of cotton production for the season 1975-76 to Operations Research Group

(ORG) Baroda, who had been estimating the production of oil seeds during several years with only 1 per cent variation from the actuals. The ORG who were paid a fee of Rs. 2 lakhs for the work, submitted its report in respect of six States in November 1975 and the final estimates for all the States in February 1976. As against the estimate of 68.49 lakh bales of cotton by the ORG, the actual production of cotton turned out to be 59.50 lakh bales, the lower production being attributed to the prolonged monsoons and late rains in certain States.

For the next cotton season 1976-77, the Board of Directors decided not to spend a large amount for estimating cotton production because of its limited role of supply of cotton to the NTC but attempt the crop estimates with the help of its cotton selectors. In August 1978, the Board decided to entrust the cotton crop estimation work to the Indian School of Political Economy, Lonawala and bear the expenses upto one lakh rupees per annum. For the first year, *i.e.* 1978-79, a consultancy fee of Rs. 25,000 and out of pocket expenses of Rs. 17,160 were paid to the Institute. Although training programmes on crop forecasting were held for the field staff no forecast of crop for the year 1978-79 was possible except for a few districts of Karnataka, Tamil Nadu and Andhra Pradesh since the survey was started late coinciding wit hthe purchase season of the branches. The Ministry stated (February 1980) that the intention behind entrusting the crop estimation work to the Institute was primarily to train the personnel of the Company in crop estimation work and the collection of the survey data was incidental to the training.

6. **Imports**

6.01 To bridge the gap between domestic availability and requirement, import of cotton becomes necessary. Imports are made from Sudan & United Arab Republic under bilateral trade agreements entered into by the Government of India with Governments of these countries and from other countries against the release of free foreign exchange. The quantum of import is decided by the Government of India every year taking into account the domestic availability and requirement, year-end carry over of stocks etc. The quantity released for import is announced through Trade Notices which indicate the country of origin, quantity released, validity of shipment period etc.

Prior to the formation of the Company, quotas were allocated to the user mills by the Textile Commissioner on the recommendations of the Indian Cotton Mills Federation (ICMF) and import licences were issued in the names of user mills on the basis of the quota letters. Actual imports were generally made through established importers who, after ascertaining the requirements of the mills, established contracts with foreign suppliers for purchasing cotton for the mills. Besides the value of the shipments and other incidental expenses incurred in clearing the goods, the importing agents used to recover usually a commission of 1 per cent of the f.o.b. value of shipments from the mills.

After the formation of the Company import of cotton was canalised and the Company was declared as canalising agent from 15-9-1970. Consequently, the practice of issuing import licences in the name of the user mills was discontinued and a revised procedure of import and licensing was introduced. Under the revised procedure, bulk import licences are issued in the name of the Company with endorsement in the name of user mills. Trade Notices issued by Government indicate separately the quantity released for import by the Company and the Trade. Quota letters are issued to the individual user mills by the Textile Commissioner, as was the practice earlier. Till 1974-75 the allottee mill had the option either to select any of the approved importers as its authorised nominee for the import or arrange the import through the Company. In the case of import by trade, the individual contracts entered into with the foreign suppliers by the mills used to be registered with the Company as the canalising agent. But from 1974-75 the user mills do not have this option and have to import cotton through the Company only. On the recommendations of the Company, subsidiary licences are issued to the user mills by the Joint Chief Controller of Imports and Exports, Bombay according to the quota letters issued to them. The Company enters into contracts with the suppliers directly after obtaining approval of the rates from the mills.

6.02 *Purchase procedure*

The main imports have been from Egypt and Sudan under bilateral Trade Agreements. There have been imports from other countries against the release of free foreign exchange. In 1970-71 the Company imported cotton from U.S.A. under PL-480 also. The cotton trade in Egypt and Sudan is nationalised and Government organisations in these countries announce their export policies from year to year. The Company informs the user mills the availability of different types of cotton and their prices and on the basis of the indents placed by the user mills, enters into agreements with foreign suppliers. Simultaneously, agreements for sale of cotton are also entered into with the user mills. Contracts for imports are also entered into pending firm commitments from mills. In the case of global imports, the Company floats tenders asking the sellers to send their offers together with samples of cotton within a specified period. The offers received are considered by an Import Advisory Committee, constituted by the Company in which experts from Trade, Industry and Textile Commissioner's office are also associated. The Committee is assisted by a technical panel comprising experts in cotton classification and evaluation of samples. The Company is advised by the Committee on the quantity of each type and variety of cotton to be imported, prices to be paid and the period of shipment.

6.03 *Recovery of service charges and commissions*

In respect of imports handled by user mills, the Company as a canalising agent used to recover a commission of 1/4 per cent of the c.i.f. value from the user mills, while in the case of imports arranged through Trade it was recovering commission at ½ per cent of the c.i.f. value from the importing agents and passing on half of this commission to the user mills. In the case of imports handled on behalf of the user mills, the Company recovered from the user mills, in addition to f.o.b. value and actual freight, insurance and other incidental expenses, service charges also at 1.5 per cent of c.i.f. value. If the Company opened letters of credit on behalf of the indenting mills, LC charges at 2.5 per cent of c.i.f. value in the case of Sudanese imports and at 3.5 per cent in the case of Egyptian imports were also recovered.

6.04 The following table indicates the total quantity of cotton imported by the country and the Company's share thereof from 1970-71 onwards :—

(Value—Rs. in lakhs)
(Qty. in lakh bales)

Year	Country's import		Company's share		Percentage of Col. 4 to Col. 2
	Quantity contracted	Value	Quantity contracted	Value	
1	2	3	4	5	6
1970-71	10.54	12823.80	2.96	3055.83	28
1971-72	5.58	8552.00	3.33	5162.14	60
1972-73	3.59	6363.69	2.68	4724.59	75
1973-74	0.41	2237.41	0.35	1905.00	85
1974-75	2.00	2700.00	2.00	2700.00	100
1975-76	2.75	8045.65	2.75	8045.65	100
1976-77	8.77	23846.30	8.77	23846.30	100
1977-78	0.34	1270.00	0.34	1270.00	100

It would be seen from the above that from 1974-75 onwards, the entire imports of cotton have been entrusted to the Company by Government. There was a gradual decline in imports till the year 1973-74, which was attributed to the switch over to Indian long and extra long staple varieties of cotton by the traditional spinners of foreign cotton on account of rise in prices of foreign cotton and imposition of high (40 per cent) import duty by Government. Increase in production of long staple cotton achieved on the domestic front also contributed to the reduction in import. 2 lakh bales were imported from Pakistan during 1974-75 in pursuance of Indo-Pakistan Trade Agreement of January 1975. Imports were permitted by Government during 1975-76 and 1976-77 because of the expected shortage of cotton during the lean period of the year 1976-77.

6.05 The following are the salient features of the imports handled by the Company :—

(i) *Import of Pakistani Cotton*

In January 1975 the Company entered into a contract with the Pakistani suppliers for purchase of 2 lakh bales of cotton. Although it was initially decided to import the entire quantity on mills' account, 121,061 bales were later decided (May 1975) to be imported on Government account as some of the mills to whom quotas were allotted or who were otherwise eligible for quota did not evince any interest in purchasing Pakistani cotton despite the fact that Government had reduced the import duty in this case from 40 per cent *ad valorem* to 15 per cent in order to make the price comparable to that of indigenous quality. The tentative landed cost worked out by the Management in August 1975 showed that the average cost of Rs. 3,050 to Rs. 3,100 per candy was much higher than the ruling market rate of comparable indigenous variety. As there was no possibility of disposing of the stock held on Government account at ruling market rate, Government issued a directive (October 1975) that the cotton be sold to the mills in the Public Sector at the average price obtaining in the preceding month for Digvijay and 320F varieties (comparable indigenous cotton) as per East India Cotton Association (EICA) spot rates. The question of reimbursing the loss arising from the disposal was decided to be considered at a later stage. In order to minimise the loss, Government also exempted (November 1975) from import duty altogether the cotton imported on Government account. The sale of cotton at a price lower than the purchase price resulted in a loss of Rs. 124.59 lakhs (including loss on exchange of Rs. 114 lakhs) [Para (ii) below refers] which was reimbursed by Government in March 1979. Besides the loss of Rs. 124.59 lakhs, the import duty forgone amounted to Rs. 201.77 lakhs (approx.). The salient features of this contract were as follows :

(a) At the time of entering into the contract in January 1975, the exchange rate was U.S. $ 12.45 per Rs. 100. The rate dipped to US $11.07 per Rs. 100 in September 1975 when payments for the bulk of the imports were made. The exchange loss suffered on the quantity imported on Government account amounted to Rs. 114 lakhs which arose on account of delay in shipment attributed to delay on the part of Government in intimating the Company about the manner of allocation of cotton. In respect of 78,938 bales imported on behalf of user mills, the Company entered into contracts individually with user mills during the period March 1975 to August 1975. In the agreements, the price payable was fixed at Rs. 2,362 c.i.f. Bombay per candy based on the exchange rate of U.S. $ 12.45 = Rs. 100 prevailing at the time of entering into contract with the Pakistani suppliers in January 1975. There was, however, no stipulation (Exchange Parity Clause) in the contract with the mills that any variation in exchange rate would be to the account of the mills. Due to adverse fluctuation in the rate of exchange, the rupee value of purchases made on behalf of mills increased by Rs. 53.75 lakhs. The mills who were asked to pay the difference initially paid, but later disputed any liability on this account on the ground that the agreement did not stipulate any such payment. They, however, subsequently agreed for a compromise settlement in which exchange difference was agreed to be shared by the Company and the mills in the ratio of 65 : 35. The Company's share of the loss amounted to Rs. 34.94 lakhs.

(b) According to the terms of the contract, the shipment of the first lot of one lakh bales was to be completed between March 1975 and May 1975 and the second lot of one lakh bales between June and August 1975 in equal monthly instaments. Carrying charges at U.S. 0.75 cents per month per lb. were to be levied on the second lot of 1 lakh bales as also on the quantity remaining unshipped by May 1975. Notwithstanding these provisions in the contract, the Trade Notice itself was issued only in March 1975 (7th March 1975) and the allotment of quota to user mills was continued upto June 1975, with the result that letters of credit could be opened only from 19th May 1975. Due to dislocation of shipment schedule of the first lot (shipment of 50,580 bales from first lot made between June and August 1975) shipment of second lot of one lakh bales (on which carrying charges were payable pro-rata from June 1975 till the last date of shipment *viz.* 31st August 1975) did not take place in a phased manner as contemplated, although the entire contracted quantity was shipped before August 1975. Carrying charges paid on the quantity imported on Government account amounted to Rs. 53.54 lakhs out of which an amount of Rs. 27.55 lakhs could have been avoided had letters of credit been opened in time so that the delivery schedule stipulated in the agreement could be adhered to.

The Company stated (July 1978) :—

"Although the contract for import of 2 lakh bales from Pakistan was signed on 31st January 1975,

Government could not finalise the manner of distribution of this cotton until March 1975. It is only after this, the cotton was offered to concerned individual mills. However, by this time the prices of Indian varieties had started receding, thereby prompting the mills to surrender their quotas. In short there was considerable uncertainty about the ultimate buyer of this cotton...........................
This in turn was responsible for not adhering to the schedule of shipment as contemplated in the contract
....................".

(ii) *Import of cotton during* 1975-76 *and* 1976-77

(a) The country's imports during the year 1975-76 were initially confined to the releases made against trade balances with Egypt and Sudan. 53,333 bales were contracted by the Company against the release of £ 8 million for Sudanese imports and 23,335 bales against the release of Rs. 120 million for import from Egypt against the trade balance.

In the Cotton Advisory Board Meeting held on 10th June 1976, the estimate of cotton production in the country for the year 1975-76 was placed at 66.50 lakh bales and carryover stock as at 31st August 1976 as 13.50 lakh bales. The carryover being just sufficient to meet about 9 weeks' requirement of the Industry, there was unanimity that some imports were inevitable to meet the requirement of lean months till the middle of November 1976. It was also stressed that the imports should be arranged on priority basis.

In the context of anticipated shortage of cotton, Government with a view to stabilising the prices and also making available cotton to the mills in time, decided to import cotton and informed the Company on 29th June 1976 that Government had approved import of cotton worth Rs. 35 crores for which foreign exchange had already been allocated and that the Company should complete all follow up action as expeditiously as possible by contacting various countries for such imports and ensure that the imported cotton arrived in the country in the quickest possible time. Government also informed Trade and Industry in July 1976 that 1,50,000 bales of cotton had been permitted for import from any country and the entire quantity would be contracted and imported by the Company and allocations would be made by the Textile Commissioner to the mills for their bonafide consumption. In reply to Government's earlier query regarding availability of cotton in international markets, the Company had from time to time between April 1976 and June 1976, furnished data of availability and prices of international cotton and had informed Government that the supply position in supplying countries was tight and the prices were generally high as compared to the Indian prices. The quantity to be imported was increased to 2 lakh bales in August 1976 and further import of 12 lakh bales was authorised between October 1976 and March 1977 (3 lakh bales in October 1976, 4 lakh bales in January 1977 and 5 lakh bales in March 1977).

An Import Advisory Committee consisting of representatives of the Company, the Textile Commissioner's Office, ICMF, Mill Owners Association and NTC was constituted to assist the Company in finalising imports. The main functions of the Import Advisory Committee were to advise the Company on (i) the types, varieties and quantities of cotton to be imported (ii) the prices to be paid and (iii) period of shipment and to assist the Company in negotiating with sellers of cotton.

The Company also constituted a Technical Panel comprising experts in cotton classification drawn from Trade, Industry and Research fields. The Technical Panel, which was headed by the Chairman-*cum*-Managing Director of NTC's subsidiary at Bombay, was to analyse samples received by the Company under the tender and advise about their suitability with reference to spinning value. A Sub-Committee to consider further negotiation with the parties was also constituted. The Import Advisory Committee considered the report of the Technical Panel *vis-a-vis* the rates quoted by the foreign suppliers and made final recommendations for concluding contracts. The Committee in its first meeting considered the procedure to be followed for arranging imports and decided to dispense with global tenders through press on the ground that such a course might lead to an escalation of prices. It was decided that an intimation regarding purchases giving full details be circulated to Liverpool Cotton Association, the American Cotton Shippers Association, Memphis and other recognised international associations having a vast membership of exporters of cotton in various countries. It was proposed to import immediately cotton of staple length $1\frac{1}{16}''$ on the basis of type samples.

As the prices of imported cotton were much higher than the prices of comparable Indian varieties of cotton, Government decided (August 1976) that imported cotton be allocated to the mills at a pre-determined price. While making such allocations, the first priority was to be given to weak mills who had not declared dividend and not made profits during the last accounting year after providing for interest and depreciation and had stock of cotton of one month or less as on 31st August 1976. The second priority was to be given to all the mills who had stocks of one month or less and balance, if any, was to be considered for allocation on spindleshift basis. In October 1976, Government asked the Company to place orders in its own name for bringing the cotton already contracted but not booked by either NTC or other mills so that shipments may not be delayed.

As per instructions issued by Government in August 1976, reserve prices for sale of the imported cotton were to be pre-determined by a Sub-Committee (to be constituted for this purpose) consisting of representatives of the Company and Textile Commissioner's organisation after taking into account prices of comparable Indian varieties of cotton and making allowance for the quality and cleanliness of the imported cotton. The selling prices would be the reserve prices determined by the aforesaid Committee or the landed cost reduced by 20 per cent, whichever was higher.

(b) As against the total release of 14 lakh bales, the Company by June 1977 contracted for import of 9.69 lakh bales (equivalent to 11.61 lakh bales of 170 kg. each) of various types, both through tenders and through direct negotiations with Government agencies of other foreign countries. Of these, 2,86,870 bales contracted between July 1976 and October 1976 were decided to be brought on Company's account without waiting for its allocation to user mills, as Government wanted the physical arrival of the bales in India by October/November 1976 in view of the anticipated shortage of the commodity in the Country. A further quantity of 66,539 bales out of 6,82,760 bales contracted on forward delivery basis from April 1977 onwards were also brought on Company's account as this quantity could not be sold to any mill at the time of importing.

(c) In keeping with Government instructions to fix the prices of foreign cotton on the basis of the prices of indigenous equivalent varieties at the time of sale, the Company fixed and notified (November 1976) the following sale prices for different varieties of cotton :

Variety	Landed prices Rs. per candy	Sale prices offered Rs. per candy	Difference Rs. per candy	Percentage reduction over landed price
1	2	3	4	5
1. Afghan	6379	5197	1182	18.5
2. Greek	7060	5575	1485	21.0
3. Turkish	6638	5525	1113	16.7
4. Tanzanian . . .	6882	5598	1284	18.6
5. American SVJ . . .	6824	5698	1126	16.5

By January 1977, the Company had contracted for import of 5,98,130 bales of which 2,73,388 bales had been received in the Country. Although the above cotton was offered to the mills at rates equal to the prevailing market prices of similar indigenous variety, the response was not adequate and only about 12,019 bales could be sold. Despite the large imports, the prices of indigenous cotton started showing an upward trend especially after November 1976. In order to bring about a balance between the demand and availability of fibre and to curb the rise in prices, Government by January 1977 had taken a number of measures such as liberalised imports of non-cotton fibre (Viscose/Polynosic), mandatory use by the Cotton Textile Industry of at least 10 per cent non-cotton fibre, imposition of ceiling on stock limits, tightening of credit policy by Reserve Bank of India etc. Since the prices were showing an upward trend in spite of these measures, the matter was further considered by the Ministry towards the end of January 1977, and it was felt that one of the means of arresting the rise in prices was substantial injection of imported cotton to improve the availability and reduce the pressure on the existing stocks. It was also observed that the policy of sale of imported cotton at prices equivalent to the prices of indigenous varieties subject to a ceiling on loss of 20 per cent in each case had not induced the industry to lift the imported cotton.

Government, therefore, decided to follow an active price policy and asked the Company (3rd February 1977) to sell imported cotton at prices somewhat marginally lower than the ruling prices of equivalent Indian variety subject to the overall loss on the sale of the imported cotton not exceeding 20 per cent of the landed cost. Accordingly, the prices notified in November 1976 were reduced by 7 to 9 per cent from February 1977. Thereafter there were substantial sales resulting in the stock being reduced from 2,61,369 bales to 31,086 bales by June 1977. Meanwhile, during the period from February 1977 to June 1977, the Company contracted for import of a further quantity of 3.71 lakh bales, thus bringing the total import commitment to 9.69 lakh bales. The Management reported to the Board of Directors in the meeting held on 15th October 1977 that the question of further purchases of foreign cotton was discussed with the Ministry on 30th July 1977 and in view of the easy trend in indigenous cotton, it was decided not to contract for further foreign cotton until further orders of Government. In this connection the following points deserve mention :

(1) The position of unsold stock (bought on Company's account) from time to time was as follows :—

Date	Opening stock	(In bales) Arrival	Sale	Closing stock Quantity (In bales)	Value (approx.) (Rs. in lakhs)
1	2	3	4	5	6
1-10-1976 . .	..	34,586	..	34,586	1,140.30
1-11-1976 . .	34,586	1,58,907	6,566	1,86,927	6,162.98
1-12-1976 . .	1,86,927	79,895	3,703	2,63,119	8,675.03
1-1-1977 . .	2,63,119	..	1,750	2,61,369	8,617.34
1-2-1977 to 30-6-1977	2,61,369	..	2,30,283	31,086	1,024.91
1-7-1977 to 31-1-1978	31,086	41,258	15,412	56,932	1,877.05
1-2-1978 . .	56,932	..	..	56,932	1,877.05
1-3-1978 . .	56,932	464*	515	56,881	1,875.37
1-4-1978 . .	56,881	..	..	56,881	1,875.37
1-5-1978 . .	56,881	..	..	56,881	1,875.37
1-6-1978 . .	56,881	..	..	56,881	1,875.37
1-7-1978 . .	56,881	..	64	56,817	1,873.26
1-8-1978 . .	56,817	19,262*	9,480	66,599	2,195.77
1-9-1978 . .	66,599	..	9,248	57,351	1,890.86
1-10-1978 to 30-6-1979 . .	57,351	5,555*	15,959	46,947	1,547.84

*Relates to the contracts entered into during July 1976 to June 1977.

Reasons for the initial delay in the disposal of the cotton were stated to be due to the mills, accustomed to use indigenous varieties, not showing ready enthusiasm to buy foreign cotton and the general reluctance on the part of the mills to change the mixings unless there were over-riding advantages. There was practically no sale from February 1978 to July 1978. Even at the end of June 1979 the Company was holding an unsold stock of 46,947 bales valued at Rs. 1548 lakhs (approx.).

(2) There had been problems even in the disposal of the cotton imported on mills' account. Normally, the Company arranges import of cotton against mills' subsidiary licences only after the requisite bank guarantee is furnished by the indenting mills. However, in view of the financial stringency faced by the Textile Industry in general and weak and marginal mills in particular and at the request of the ICMF, the Company did not insist on the execution of bank guarantee before advising the suppliers to ship the cotton in the name of the mills. When the cotton imported on mills' account arrived in India, a number of mills backed out of their commitment and did not clear the bales. 85,749 bales contracted by 92 mills had to be cleared by the Company and stored on mills' account, incurring in the meantime, interest on borrowed funds, insurance and storage charges. The reasons for not lifting the cotton were stated to be :

— fall in domestic prices to the extent of Rs. 1,000 per candy (approx.).

— undue delay in clearance of cotton in Bombay due to port congestion.

— non-application for sub-import licence.

— fall in consumption of cotton consequent upon increased use of synthetic fibre.

Subsequently, as a result of the Company's persuasion and issue of legal notices to the mills 9110 bales were lifted by the mills. Three more disputed cases covering 325 bales were settled by adjusting the amount that was lying with the Company to the mills' credit and 20,194 bales were resold to other parties, leaving an unlifted stock of 56,120 bales of the value of Rs. 1,850.27 lakhs as on 1st June 1979.

The disputed bales fall in the following four categories :—

1	Actual No. of bales 2	Approx. Value (Rs. in lakhs) 3
(a) Contracts not confirmed, bank guarantee not furnished, sub-licence not obtained .	20,253	667,74
(b) Contracts not confirmed but either bank guarantee furnished or sub-licence obtained	9,161	302.04
(c) Contracts confirmed but either bank guarantee not furnished or sub-licence not obtained	7,281	240.05
(d) Contract confirmed bank guarantee furnished, sub-licence obtained	19,425	640.44
	56,120	1,850.27

In respect of the cases falling under category (a), where signed contracts did not exist, the Company clarified that the correspondence between the Company and the mills concerned formed the basis for the transaction and the lawyers of the Company have been asked to proceed against the mills for recovery of losses/damages suffered by the Company. The Company has so far (February 1981) filed suits against 69 mills for the recovery of Rs. 20.05 crores. In five more cases covering 3400 bales, the dispute is stated to have been referred to arbitration. The Company is reviewing the remaining two cases for taking legal action.

(d) Due to lack of response from the mills for the cotton imported on Company's account and due to the mills' failure to honour their commitments in respect of cotton imported on their account the Company had to make arrangements for storage of large unsold stock even by hiring private godowns. In the process, the Company had to pay storage and insurance charges amounting to Rs. 102.07 lakhs and Rs. 36.53 lakhs respectively upto 31-8-1978. There was also delay in clearance of imported cotton due to congestion at ports, bargemen's strike at Bombay and mixing up of bales with different lot numbers and marks due to discharge of cargo simultaneously by more than one ship. Consequently, the Company incurred demurrage charges amounting to Rs. 23.63 lakhs (Rs. 13.06 lakhs at the Bombay Port and Rs. 10.57 lakhs at Cochin port).

A review of the expenditure incurred on demurrage revealed that an amount of Rs. 3.02 lakhs had to be paid because of avoidable delay on the part of a clearing agent. The last free date allowed for clearance of a consignment which arrived at Cochin Port on 31st December 1976 was 18th January 1977 but the clearance was completed only on 8th February 1977. In respect of another vessel, the clearance commenced six days after the last free date. A civil suit was filed by the Company against the clearing agent in June 1979 holding him responsible for the loss. The outcome of the suit is awaited (February 1981). The Company has already paid an amount of Rs. 9.64.835 against bills for Rs. 10,43,820 sent by the clearing agent for his services and expenses.

(e) *Loss on sale of Tanzanian Cotton*

The Company purchased 31,000 bales (33,894 bales of 170 kg. each) of Tanzanian cotton in May 1977 from the Tanzanian Cotton Authority (TACOTA) at US cents 77.00 per lb. f.o.b. for 13,000 bales and US cents 76.50 per lb. f.o.b. for 18,000 bales for shipment in October/November 1977. According to the terms of the contract carrying charges were applicable from 1st December 1977 at the rate of 1.05 per cent per month or part thereof. By October/November 1977 the prices of equivalent varieties of indigenous cotton had fallen steeply and the Company, to avoid further depression in prices, decided not to import the cotton and asked the TACOTA to carry the cotton on Company's account. A request for waiver of carrying charges from 1st December 1977 was also made and the Tanzanian Authorities agreed not to levy carrying charges till 28th February 1978. The economics of importing the cotton and selling it in India, *vis-a-vis* selling the same at ruling market price in Tanzania itself was considered in April 1978, and it was estimated that the loss would be Rs. 1.14 crores for sale in Tanzania as against Rs. 3.74 crores for sale in India after import. The Foreign Cotton Price Committee (consisting of Economic Adviser, Ministry of Commerce, Civil Supplies and Co-operation, Secretary, Ministry of Industry and the Managing Director of the Company) therefore, decided to resell the cotton in Tanzania itself.

In July 1978, the Company sold through TACOTA 796 bales in Tanzania incurring a loss of Rs. 2.53 lakhs. For the balance quantity TACOTA stated that their local mills were prepared to buy the cotton at US cents 70 per lb. With a view to obtaining higher prices, a two member delegation sponsored by the Ministry of Industry went to Tanzania in August 1978. The delegation was also required to impress upon TACOTA the waiver of the carrying charges after February 1978, fully or partially. TACOTA agreed to waive the carrying charges upto 31st March 1978 and the sale was finalised at US cents 70 per lb. on the understanding that the difference between purchase price and sale price would be borne by the Company. On checking the physical availability of the cotton it was noticed by the Company's representative that out of 30,204 unsold bales, 261 bales of Type II were not traceable and 17,624 bales of Type III out of 18,000 bales were not actually available. The Company, therefore, took the position that compensation was not payable for quantities not in stock. The dispute was thereupon referred to arbitration in terms of the contract. According to the arbitration award given in December 1980 the Company was to pay a compensation of Rs. 1.34 crores. The total compensation payable to TACOTA including the loss of Rs. 2.53 lakhs on the disposal of 796 bales, thus, amounted to Rs. 1.36 crores.

It was stated by the Company (April 1979) that the Tanzanian Cotton was contracted in May 1977 for shipment in October 1977 due to heavy demand for cotton from mills. In reply to a query as to why the Company did not simultaneously enter into contracts with Indian mills for sale of this cotton if there was heavy demand from mills, the Company stated (July 1979) as follows :—

> "Even the Tanzanian cotton though contracted in the month of May 1977, was for actual shipment in October, as the mills had already booked their forward requirements against CCI's releases for shipment till July. The response to CCI's releases for forward booking by mills had started thinning out. Therefore, it was not considered appropriate time for release of Tanzanian cotton for booking by mills and entering into back-to-back contract. It was considered better to do so just a month before the scheduled period of shipment. However, as time passed, with heavy arrivals of imported cotton, and with an improvement in the use of cheaper synthetic fibres imported as also a brighter outlook for 1977-78 crop, the prices kept on declining and the CCI did not wish to add to the depression by importing Tanzanian cotton on its own account."

(f) *Loss on re-export of Russian cotton*

On 18th April 1977 the Company contracted to purchase 500 tons of Soviet cotton Pervyi 31/32" at a price of US $1913.50 per matric ton *i.e.* at US 86.80 cents per lb. c.i.f. Bombay for July/August shipment. 23,849 bales (14,412 bales on Company's account and 9,437 bales on mills' account) of the total value of Rs. 838.62 lakhs arrived in India in August/September 1977. Due to non-lifting of this cotton by the mills, 3,898 bales out of the 9,437 bales brought on mills' account were later treated as having been brought on Company's account. The Company could dispose of only a small quantity of cotton brought on its account leaving an unsold stock of 15,000 bales. In July

1979, it was decided to export the cotton to Poland under Indo-Polish Trade Protocol at a price of 67.80 cents per lb. (Rs. 4,200 per candy) for 4,507 bales and 67.30 cents per lb. (Rs. 4,170 per candy) for 10,493 bales as compared to the procurement cost of 86.80 cents. The Company stated (February 1981) that the price offered by NTC at that time was Rs. 3,200 per candy and the export was decided upon to reduce the loss. The loss on the export of this cotton amounted to Rs. 234.14 lakhs including the carrying cost of Rs. 138.45 lakhs incurred from October 1977 to June 1979.

Justifying the contracting of Russian cotton in April 1977 and Tanzanian cotton in May 1977, the Ministry stated (February 1980) that with the expected production of 59/60 lakh bales during 1976-77 the carryover stock was estimated to be of the order of 13 lakh bales (which was less than the normal carryover stock of nearly 18 lakh bales) and in such a situation of acute shortage of cotton, decision for import had to be taken almost quickly, especially when responding to the global tender acceptances. It was further stated that this cotton was contracted in a situation of uncertainty and subsequently when the crop situation became favourable and the domestic prices started falling, the demand for the imported cotton receded.

(g) A trading account of 9,40,897 bales imported during the years 1976-77 and 1977-78 compiled as at 31-8-1979 by the Company revealed a loss of Rs. 71.54 crores in the disposal of these bales, the closing stock of 69,388 bales being valued at the market rate (being lower than cost) as on that date. Carrying charges (interest, storage and insurance), which mainly arose because of retention of stock for considerable periods for reasons explained in the foregoing paras, contributed to the loss to the extent of Rs. 25.23 crores. Government of India has so far released to the Company a sum of Rs. 62 crores (Rs. 11 crores in May 1977, Rs. 30 crores in August 1977, Rs. 14 crores in May 1978 and Rs. 7 crores in September 1980) towards reimbursement of the loss.

7. **Exports**

The short staple cotton (*viz.* Bengal Deshi, Assam Comillas) which are mostly put to non-spinnable use were being exported every year to Japan, U.K., France, Belgium, U.S.A., etc. The Company had no share in these exports till 1976-77. In so far as staple cotton (medium or long) is concerned, no export was permitted by Government till 1973-74 except that the Company was allowed to export 80,996 bales to Bangladesh during 1971-72 to 1973-74 to meet the emergent requirements of that country In May 1975, Government allowed the export of long staple cotton (1974-75 crop) because of the satisfactory cotton situation in the country and also to help the Maharashtra State Cooperative Marketing Federation to liquidate its accumulated stock and nominated the Company as the canalising agent. Consequent upon this policy decision, the Company exported 32,261 bales of long staple cotton in 1975-76, 1,55,561 bales in 1978-79 and 4,40,310 bales in 1979-80. During this period the Company also exported Bengal Deshi cotton 2,871 bales in 1977-78, 16,389 bales in 1978-79 and 700 bales in 1979-80.

The policy of exports was explained by the Ministry in March 1981 as follows :—

> "As a matter of policy it may not be desirable to encourage the export of raw cotton as our emphasis is on the export of value added made-up goods. Since cotton is a basic raw material for the textile industry it is desirable to make use of this cotton within the domestic industry rather than allow it to be exported.................. However, Government permits exports of cotton from time to time on *ad hoc* basis after taking into account the supply and demand position, domestic and international prices etc. Only such quantity of cotton is permitted for export which is considered surplus to our domestic requirements and for which there is no demand in the domestic market at reasonable rates...........The export of staple cotton is confined to the Cotton Corporation

of India and Cooperative marketing federations/ societies of cotton growing states................. In the case of export of Bengal deshi cotton, the private trade has been associated as the performance of Government agencies and Cooperatives has not been found up to the mark; perhaps, they do not have the desired expertise in this regard. However, to encourage and protect the interest of Cooperatives and the Cotton Corporation of India, who procure cotton directly from growers, Government reserves a specific quota of Bengal deshi cotton to be exported by them."

8. Purchase of Indigenous Cotton

8.01 *Purchase policy*

Till 1974-75 the Company's purchases of indigenous cotton were dovetailed to the limited role given to it from time to time. During 1975-76, the role of the Company was extended to meet the requirements of NTC mills. Under the Integrated Textile Policy, announced by the Government in August 1978, the Company was allowed to make commercial purchases and to operate buffer stocks in addition to its role of purchasing cotton for NTC mills and undertaking support operations when a need for such purchases arose. The Company's purchase policy can broadly be categorised into three phases *viz;* the first phase covering the period from the commencement of the Company till 1974-75 when barring support price operation, it had no specific role assigned by Government, the second phase covering the period 1975-76 to 1977-78 when it purchased cotton exclusively for the NTC mills and the third phase starting from 1978-79 when the Company has been assigned an enlarged role.

First Phase (1970-71 *to* 1974-75)

During the year 1970-71 which was its first year of operation the Company purchased 8.262 bales in the States of Maharashtra, Gujarat and Karnataka on the basis of indents placed by the user mills.

During 1971-72 the demand for cotton was not brisk due to bumper cotton crop and slump in the textile industry. The position got aggravated due to Indo-Pakistan conflict and prices tumbled down to unremunerative levels. With a view to stablising the prices, Government directed the Company (April 1972) to undertake purchases at prices fixed under the Price Support Scheme. Accordingly, the Company purchased 5.17 lakh bales during the year 1971-72.

For the 1972-73 season, the Company initially decided (December 1972) that the purchases should be on a commercial basis and should be regulated in such a way that stock at any time did not exceed 2 lakh bales. With the improvement in crop conditions, the statewise purchase operations *vis-a-vis* the financial resources of the Company were reviewed in March 1973 and it was decided that the Company should purchase 10 lakh bales, in States other than Maharashtra, Punjab, Haryana, Rajasthan and Madhya Pradesh, equitably during the remining period of the cotton season and a further quantity of 8 lakh bales in Maharashtra State subject to the issue of a directive by the State Government to the Maharashtra State Textile Corporation to buy its entire requirement from the Company. No purchases were, however, made in Maharashtra as the State Government did not issue such a directive.

For the first time in 1973-74, the Company drew up its purchase programme in advance which envisaged a procurement target of 30.5 lakh bales out of the estimated production of about 70 lakh bales in the country. The purchases were to be made on commercial basis.

As the prices of indigenous cotton ruled at a high level at the commencement of the season 1974-75 the Company did not enter the market at that stage. In January 1975, the Board of Directors approved commencement of purchase of indigenous cotton in all the cotton growing States on pro rata basis within the available resources. Subsequently, in March 1975 Government introduced a scheme for purchase of cotton on a deferred payment basis under which 50 per cent of the price of the Kapas was payable to the growers in cash immediately after purchase and the remaining 50 per cent in bonds redeemable after six months with interest at the rate of 6 per cent per annum.

The Scheme, however, could not be implemented and was withdrawn by Government in April 1975 as the cotton growers refused to sell their cotton to the Company against deferred payment particularly when other buyers were paying them the full amount in cash on delivery.

Second Phase (1975-76 *to* 1977-78)

The ruling market prices during these years were well over the support prices and the Company had no occasion to undertake price support operations except at the end of 1977-78 season, when Government directed the Company to intervene in the market when prices of kapas dropped to 3 to 5 per cent above the support prices announced by Government. Accordingly, as a price support measure, the Company purchased 1,631 bales valued at Rs. 32 lakhs in the States of Gujarat (143 bales), Andhra Pradesh (597 bales) and Karnataka (891 bales). This, however, constituted a negligible percentage of the total quantity of 6.67 lakh bales purchased during the year.

The role of the Company in the domestic market was thus confined to purchase of cotton for meeting the requirements of the NTC mills. A scheme to supply cotton to NTC was finalised in 1975-76 and continued with some modifications during 1976-77 and 1977-78.

Third Phase (1978-79)

The Company had initially fixed a procurement target of 12 lakh bales for the year 1978-79 of which 6 lakh bales were meant for NTC mills, 2 lakh bales for commercial purchases and 4 lakh bales for buffer stock. With a view to arresting the downward trend in prices, Government revised the target to 15 lakh bales in March 1979.

8.02 Statewise production of cotton in the Country, Company's purchases and percentage of Company's purchases to total production for the eight years ending 31st August 1978 is given in Annexure II. The following table gives the summarised position of the quantum of Company's purchases for the ten years ending 31st August, 1980 :—

(Figures in '000 bales)

Year	Total production in the Country	Production in Maharashtra*	Production excluding Maharashtra	Company's pruchases	Percentage of Company's purchases to total production	Percentage of Company's purchases to total production excluding Maharashtra
1	2	3	4	5	6	7
1970-71	4499	482	4017	8.3	0.18	0.21
1971-72	6564	917	5647	517.3	7.9	9.2
1972-73	5417	1053	4364	386.1	7.1	8.8
1973-74	6309	1016	5293	310.3	4.9	5.9
1974-75	7156	1717	5439	31.9	0.4	0.6
1975-76	5950	772	5178	149.5	2.5	2.8
1976-77	5839	833	5006	534.9	9.2	10.7
1977-78	7243	1263	5980	667.2	9.2	11.2
1978-79	7927	1317	6610	1036.4	13.1	15.7
1979-80	8020	1780	6240	1111.9	13.9	17.8

*Maharashtra Monopoly Procurement Scheme was introduced from 9th August 1972 but it was suspended from 11th January 1974 to 9th August 1974 and from 1st September 1977 to 15th December 1978.

The data furnished in the table and Annexure II reveal the following features :

(i) The Company's purchases during the first year of operation *i.e.* 1970-71 were insignificant, being only

0.2 per cent of the total production. Thereafter, during the period from 1971-72 to 1975-76 the Company's share ranged from 0.6 to 9.2 per cent. With the finalisation of arrangements for purchase of cotton for NTC this went up to 10.7 per cent in 1976-77 and 11.2 per cent in 1977-78. The share went up further to 15.7 per cent in 1978-79 and 17.8 per cent in 1979-80.

(ii) During the year 1971-72, the Company made sizeable purchases in Punjab, Haryana, Maharashtra, Karnataka and Gujarat as a price support measure with a view to averting the fall in prices particularly in the border districts where the farmers had started making distress sales for fear of loss of crop in the wake of Indo-Pakistan hostilities.

(iii) The purchases were concentrated in the Northern States of Punjab, Haryana and Rajasthan during the year 1972-73 and 1973-74 constituting about 98 per cent and 76 per cent of the total purchases during the respective years.

(iv) No purchases were effected from Gujarat during 1972-73 and the purchases made during 1973-74 were also minimal although that State accounted for 27 to 35 per cent of the Country's total production.

(v) Till 1974-75 the Company did not have a definite purchase policy laying down the quantities to be bought in different states. Except in 1973-74, no specific targets of procurement for the Company as a whole were also fixed. The Company stated (October 1977) that a definite purchase policy could not be followed because of the uncertainty about the precise role of the Corporation in the cotton economy of the country and it was only after the recommendation of the Committee on Public Undertakings that Government decided in 1975-76 that the Company should make purchases to meet the requirements of NTC besides undertaking price support operation. From 1975-76 to 1977-78 purchases were effected in different States depending upon the requirements of NTC mills.

(vi) From 1972-73 to 1976-77 the Company could not effect any purchases from Maharashtra because of the State Government's monopoly procurement scheme under which growers in the State were required to tender all the Kapas to the State Government or its nominees only. But during the period 1st September 1977 to 15th December 1978, the monopoly procurement scheme remained suspended and, therefore, the Company was able to make purchases in Maharashtra.

8.03 One of the objectives of setting up the Company was to moderate fluctuations in prices ensuring at the same time a remunerative price to the growers. Recommending the setting up of an agency in the Public Sector, the Agricultural Prices Commission in their Report on Price Policy for Raw Cotton for 1969-70 had observed that in a year of good crop the Agency would purchase extensively so as to maintain prices for the growers and in a year of short crop, before speculative elements could queer the pitch, it would release stocks in an effort to moderate the rise in prices. The National Commission on Agriculture had also recommended (May 1975) that the Company should be suitably strengthened so as to be in a position to buy 25 to 30 per cent of the indigenous crop including a substantial portion of the long and extra long staple cotton during a year of normal production and it should be able to purchase all quantities of cotton offered at the minimum prices during a year of bumper production and act as a holding agency for such stocks. The Agricultural Prices Commission in its Report on the Price Policy of Raw Cotton for 1977-78 season had also stressed the need for greater effort at disciplining cotton prices *via* extension of the ambit of the operations of the Company and had stated that these objectives would be better served if the Company acquired sizeable weight in the indigenous cotton trade.

During the period 1970-71 to 1977-78 when the Company's share of the market ranged from 0.2 per cent to 11.2 per cent the Company cannot be said to have played any significant role in stabilising the prices. The Ministry stated (February 1980) that "it was only in the Textile Policy Statement of August 1978 that the role of Cotton Corporation of India Limited, in disciplining the prices of cotton within reasonable limits was given a concrete delineation". During the next 2 years *i.e.* 1978-79 and 1979-80 the Company's share went up to 14.8 per cent and 17.8 per cent respectively, still below the level of 25 per cent to 30 per cent recommended by the National Commission on Agriculture.

8.04 *Purchase Procedure*

For the purpose of effecting purchases, the Company set up nine branch offices one each at Bhatinda (Punjab), Sirsa (Haryana), Sriganganagar (Rajasthan), Ahmedabad (Gujarat), Indore (Madhya Pradesh), Guntur (Andhra Pradesh), Bangalore (Karnataka), Madras (Tamil Nadu) and Akola (Maharashtra). The Branch Office at Akola was opened during 1977-78 for effecting purchases in the Maharashtra State on suspension of the monopoly procurement scheme by the Government of Maharashtra. Each branch has a number of purchase centres where purchases of cotton are made by the cotton selectors. Since 1974-75, the Company has evolved a system of intimating to the field staff ceiling prices per candy of lint within which purchases are to be effected. Details regarding the purchases effected at the centres are reported by the Branch Offices to Head Office through daily/weekly returns which are reviewed by a purchase and sales committee at the Head Office. Upto 1973-74 purchases were made through co-operative societies and state marketing federations which worked as agents of the Company on a commission of 1 per cent of the value of kapas.

It is generally the policy of the Company to effect purchases in regulated markets and in open auctions which provide for fair competition enabling the growers to get the most competitive price for their produce. However, in certain cotton growing areas (like those in Gujarat) regulated markets are either not functioning effectively or non-existent. In these cases, the produce of the growers is marketed mainly through local merchants.

In certain states like Punjab, Haryana and Rajasthan, even though regulated markets are functioning, sale of kapas is carried out through Adtyas or middlemen who work as agents of the Cotton growers in disposing of their produce. These adtyas arrange to stock the kapas, display it in the mandis and supervise the weighment on behalf of the growers. In respect of such purchases, the Company has to pay to the Adtyas 1 per cent commission over and above the price fixed for the kapas and market fees (varying from 1 to 2 per cent) payable to the Marketing Committees. The payment of commission to the adtyas is provided in the Regulated Markets Act, enacted by the respective State Legislatures.

8.05 *Purchase Price*

The Agricultural Prices Commission recommends the minimum support prices of Kapas every year. It fixed the support price of only one variety *viz.* 320 F and the support prices of other varieties are fixed by the Government on the basis of the normal price differentials between 320 F and other varieties. Since one of the objectives of the Company, is to ensure a remunerative price to the grower, the Company is called upon to make purchases at the support prices fixed by Government, whenever ruling prices of Kapas fall below the support prices.

Except during the year 1971-72 and towards the end of 1977-78 the ruling market prices of Kapas were higher than the support prices recommended by the Agricultural Prices Commission and, therefore, the purchases effected by the Company during the other periods were on commercial basis at ruling market prices.

8.06 The rates fixed by Government were much higher than the rates recommended by the Agricultural Prices Commission in respect of all varieties purchased by the Company during the price support operation of 1971-72. The following table gives the comparative position of the prices fixed by Government and the support prices recommended by the Agricultural Prices Commission during the years 1971-72 to 1974-75 in respect of certain varieties of cotton, of which a review was made in Audit.

(Rupees per quintal)

Variety	Prices fixed by Govt. for purchases during 1971-72	Support prices recommended by the Agricultural Prices Commission			
		1971-72	1972-73	1973-74	1974-75
1	2	3	4	5	6
Punjab					
320 F American Cotton	195 to 210	142	142	170	195
Madhya Pradesh					
A—51/9					
(1) Certified cotton	220				
(2) Uncertified cotton	210				220
Gujarat					
Kalyan . . .	180	146	146	175	201
CO2 (Cambodia C)	235	162	162	194	223
CO2 (Cambodia B).	260	167	167	200	229
V—797 . . .	190	155	155	186	213
Digvijay . .	240 to 245	162 to 182	162 to 182	194 to 218	223 to 250
Guj. 67 . .	305	198	198	238	273
H.4	320	217	217	260	298

8.07 Except at a few centres in Karnataka, cotton brought by the growers to the mandis is not graded and the cotton selectors have to decide about the quality of cotton and make purchases. The cotton selectors are drawn from the Trade. Graduates in Agriculture or degree or diploma holders in Textile Technology are also directly recruited by the Company as cotton selectors.

Out of 633 field staff as on 31st December 1980, there were 238 field staff from the Trade. The prices paid for cotton depend on various characteristics of cotton like staple length, spinning capacity, pickings, etc. which are determined by the cotton selectors by visual inspection. Till 1974-75 there was no system of conducting post-purchase check, lotwise, to ensure that the quality assessment made by the cotton selectors was correct Out-turn ratio of kapas to lint and percentage of losses etc. were determined only after completion of ginning and pressing of the entire quantity of kapas purchased at the centre. During the year 1975-76 the Company laid down a procedure under which each Branch Office is required to obtain the processing results of each lot of 100 bales and intimate the results to the Head Office. A system of lotwise analysis of all purchases by testing laboratories with reference to staple, grade micronaire and strength has been introduced from February 1978.

8.08 *Purchase of testing equipment*

In order to ensure that the Company's purchases of cotton are not based upon personal judgement by visual examination, the Management in April 1972, decided to supply important centres with scientific testing equipment and for this purpose approached the Technological Research Laboratory, Matunga (Bombay) (a constituent of Indian Council of Agricultural Research), who suggested that Laboratory Gins with G. P. balances which could ascertain outturn of lint from kapas by sampling method would be useful. An order for the supply of 100 Laboratory Gins (60 electrically operated at Rs. 3,100 each and 40 hand operated at Rs. 2,300 each) and 100 G.P. balances at Rs. 600 each at a total cost of Rs. 3.38 lakhs was placed on the Research Laboratory in August 1972. A few machines supplied to Bhatinda Office were tried and were not found to be useful. A decision was taken in March 1973 to cancel that part of the order which was not executed and to find out ways to resell the machines already purchased. The supplier, however, did not agree to the cancellation and the supply of all the 100 sets was completed in batches till September 1974.

Excepting one or two sets, these equipment have not been put to use in any of the centres. In some cases, the sets received have not even been issued to the purchase centres for use and they are lying either with the branch offices or in the warehouses. Purchase of equipment without ascertaining their utility and actual requirements led to infructuous expenditure of Rs. 3.38 lakhs.

The Company stated (July 1978) that there was general reluctance to give up traditional methods in preference to scientific methods for determining lint content and that efforts were being made to put the machines to use. In February 1981 the Company further stated that it was exploring possibilities of disposing of the equipment to some other public sector undertakings which could utilise them.

8.09 *Purchase of Cotton for NTC Mills*

(a) The Company has been considering from time to time as to how the Government policy of supplying the requirement of cotton to the mills under the control of NTC could be implemented. As far back as August 1971, the Board of Directors of the Company, reached a consensus that NTC should indicate the annual requirement of the mills under its control and on that basis a scheme could be worked out by the Company for purchasing cotton. No concrete proposals, however, emerged till January 1975, when in a joint meeting of the representatives of the Ministries of Commerce and Finance, NTC and the Company, it was decided that the two public sector companies should work in close co-ordination and a beginning should be made by the Company acting as agent for the NTC mills for purchasing cotton by opening twenty purchase centres according to the directions of NTC. Because of the difficult liquidity position, NTC wanted the Company to extend the same credit facilities as were being given by private traders but this proposal was not acceptable to the Company as its own purchases were financed from borrowings from banks. The matter was again discussed at the Board's level in August 1975 and it was decided to approach Government to place sufficient funds at the disposal of the Company so that purchases for NTC mills could also be undertaken. Since the NTC mills could not indicate their exact requirements and as they also wanted to purchase only fully pressed bales of cotton instead of kapas usually bought by the Company, the idea of the Company to purchase cotton for NTC mills as their agent was given up and a decision was finally taken in October 1975 to make purchases on commercial basis as per the indents to be placed by NTC mills. The terms and conditions of supply of cotton during the year 1975-76 were drawn up in consultation with NTC and were later approved by the Board in January 1976.

(b) During the years 1975-76 to 1977-78, the Company effected purchases mainly to meet a part of the requirement of NTC against the indents placed by it in advance. Although the annual consumption of NTC is about 10 lakh bales excluding about 2 lakh bales of the varieties grown in Maharashtra where the Monopoly Procurement Scheme is in operation (and which the Company cannot, therefore, cover), the actual quantity indented by NTC from the Company was far less than their actual requirement. The following table indicates for three years quantities indented by NTC, purchased by the Company, lifted by NTC, not lifted by NTC and the estimated value of the unlifted quantity.

Year	Quantity indented by NTC (bales)	Quantity purchased by the Company (bales)	Quantity lifted by NTC (bales)	Quantity not lifted by NTC (bales)	Estimated value of quantity not lifted by NTC (Rs. in lakhs)
1	2	3	4	5	6
1975-76 . .	2,00,000	1,49,303	1,44,000	5,503	157.60
1976-77 . .	6,00,000	5,34,863	3,52,850	1,82,013	3,198.49
1977-78 . .	7,35,000	6,67,189*	4,95,000	1,72,189	2,682.03

*This includes 1.13 lakh bales purchased in excess of the NTC indents for certain varieties to make up the shortfall in other varieties within the same count group.

It would be seen that the quantity lifted by NTC fell short of the quantity indented in all the years resulting in sizeable accumulation of stock with the Company at the end of 1977-78. Faced with this situation, the Company sought permission from Government to sell the unlifted quantity to other organisations and sold 23,931 bales in 1976-77 and 9,943 bales in 1977-78 to non-NTC mills incurring heavy losses. The Company stated that while indents placed by NTC on the Company were not binding on NTC which had an option to buy from other sources, the Company had no choice but to sell to NTC mills only on account of the limited role assigned to it till 1977-78.

8.10 *Loss of Rs. 220.52 lakhs on the purchase of Cotton from Gujarat State Co-operative Cotton Marketing Federation*

In February 1977, the Gujarat State Co-operative Cotton Marketing Federation offered to the Company for sale full pressed bales of various varieties of the crop year 1976-77, which had been lying with them unsold for sometime. The accumulation of the stock with the Federation was stated to be due to its holding back the stock from the market in anticipation of higher prices, which did not materialise due to large imports of cotton by the Company.

The Branch Manager, Ahmedabad, who was consulted on the proposal of the Federation, stated that the Federation's rates were higher than the ceiling rates fixed by the Head Office and that the requirement of NTC mills (the Company was purchasing cotton only to meet requirement of NTC) had already been met by the Company's own purchases of kapas. In view of this position, the Company referred (May 1977) the matter to Government for their decision, recommending that the request of the Federation for purchase of their full pressed bales at ruling market price, particularly when the Industry was not ready to buy it, deserved sympathetic consideration. On 3rd June 1977 Government sought from the Company clarification as to whether it would be possible to purchase the Federation's cotton as an advance purchase against NTC's next year's requirement and whether any outstanding foreign contracts could be stopped to accommodate the purchase of the Federation's cotton. The Company informed Government on 4th June 1977 that if Shankar-4 variety which accounted for the bulk of the cotton offered was purchased at ruling market price for sale to NTC in the following year, substantial funds of the Company would be blocked and the Company would have to charge 2 per cent carrying charges, in which case cotton would have to be sold at Rs. 7,000 per candy (approx.) whereas it might be available to NTC in the range of Rs. 5,000 to 5,600 per candy. It was also pointed out that NTC might not pay such high prices and, therefore, advance purchase for meeting NTC's future requirements was not advisable. Cancellation of foreign contracts or deferring the delivery schedules already fixed was also not favoured as this would have entailed payment of compensation and carrying charges in foreign exchange. Despite this position and in furtherance of Government's desire to help the Federation to liquidate the stock, the Company purchased 13,080 bales of Shankar-4 (besides 637 bales of other varieties) from the Federation in July/August 1977 at rates ranging from Rs. 5,020 to Rs. 5,750 per candy.

Even during July/August 1977 when the Federation's cotton was being purchased by the Company, the price of cotton was falling. Out of 13,717 bales purchased, the Company sold 13,018 bales upto 30th June 1981 at a loss of Rs. 200.79 lakhs. In respect of the unsold stock of 699 bales, the loss is estimated at Rs. 19.73 lakhs at the prices prevailing in June 1981.

The Company stated (November 1977) :

"Due to imposition of credit control by the Reserve Bank of India, difficult financial liquidity of the Textile Mills on the one hand and the bearish market conditions on the other, Gujarat State Cotton Co-operative Marketing Federation found itself saddled with huge stock of long staple cotton......... .... Even at the time of purchase there was not enough demand for this cotton. The same was accentuated with the arrival of imported cotton for which mills were already committed .... Shankar 4 being a long staple variety is used only by restricted mills."

The Ministry stated (February 1980) that Government had taken a conscious decision to advice the Company to go to the rescue of the Co-operatives of Gujarat and that this was done as a matter of expendiency and also to help the Gujarat farmers.

Thus the Company bought the cotton from the Federation as the latter could not find buyers in the open market. The purchase was also not in furtherance of any price support scheme as no such scheme was in operation at that time.

8.11 *Purchase of cotton and lint of inferior quality*

A review of the purchases of cotton and lint effected during 1976-77 at Ahmedabad and Indore branches revealed that in several cases the quality of cotton and lint purchased by the selectors was poor. Consequently, their sale resulted in loss of Rs. 43.38 lakhs to the Company as discussed below :—

(a) *Ahmedabad Branch*

In several cases it was observed that the quality of cotton purchased by the cotton selectors was inferior both in respect of grade and staple length necessitating grant of "off" allowance on the cotton supplied to NTC mills. The reduction in price that had to be allowed amounted to Rs. 7.43 lakhs (The reduction allowed by other branches on similar count ranged between Rs. 0.04 lakh and Rs. 1.26 lakhs only).

Among other varieties, NTC (Gujarat) had placed indents with the Ahmedabad Branch for supply of 8,000 bales of CJ-73 variety of cotton during the period October 1976 to January 1977. Against this, the Branch Office tendered 8,500 bales for selection, out of which the mills selected only 3,300 bales. The balance quantity of 5,200 bales was rejected and the mills did not choose to lift these bales even at reduced price on the ground that the quality of cotton was far below standard. After the selection of 3,300 bales, NTC (Gujarat) treated the indents as closed. As against the procurement cost of Rs. 4,022 per candy, these bales were sold to other parties between November 1977 and March 1978 at rates varying from Rs. 2,500 to Rs. 2,800 per candy resulting in a loss of Rs. 35 lakhs (approx.).

The Company stated (November 1977) that the selection of kapas by the cotton selectors was done on visual basis and, therefore, some allowance for error of judgement had to be made and that Branch Offices had been advised to tighten their supervision to obviate complaints regarding quality of cotton and to initiate disciplinary proceedings against the defaulters. The Company further stated (April 1979) that explanation of the concerned official was called for, but before any action could be taken, he met with a fatal accident in February 1978.

(b) *Indore Branch*

During the year 1976-77, the branch office at Indore purchased at Indore centre 5,109 quintals of lint of 197/3 variety and 6,662 quintals of lint of A-51/9 variety. Although according to the daily purchase reporting proforma prescribed by the Head Office of the Company, the Branch Office was required to indicate in the report information regarding total arrival of lint, highest and lowest market rates of each variety of cotton, market rate of Full Pressed (F.P.) bales etc., these details were not furnished by the Branch Office with the result that it could not be ensured that the purchases were effected at competitive rates.

A comparison made by Audit of the price of lint purchased by the branch office at Indore Centre with the market rates at Ujjain, an adjoining centre, revealed that the Company's purchase rates were higher by Rs. 84 to Rs. 220 per candy.

The lint directly purchased does not require any further processing but has to be only pressed into bales before sale. Therefore, normally there is not much variation in the weight of the lint sent for pressing and the weight of the F. P. bales obtained therefrom. Out of 11,771 quintals of lint purchased and sent for pressing, the Branch Office, however, got only 11,716 quintals of F.P. bales, 3 quintals of waste cotton (not pressed into bales) and 4 quintals of cotton seed. The balance 48 quintals was treated as loss in processing. In monetary terms the loss to the Company on account of shortage of 48 quintals and wastage of 7 quintals amounted to Rs. 67,780. Further, out of 11,716 quintals of F.P. bales, 12 bales (20 quintals) were of waste cotton and 2 bales (3 quintals) were of yellow picking, realisable value of which would be very negligible, as compared to their procurement cost of Rs. 27,181. The purchase of lint of inferior quality and abnormal shortage put the Company to a loss of Rs. 94,961. The Company stated (April 1979) that the lint purchased *was stated* to have been subjected to pre-cleaning through the lint opener before pressing into F.P. bales and therefore, a certain amount of shortage was unavoidable.

But no explanation was furnished for the presence of seeds, waste cotton and yellow picking in the lint, which normally should have been seggregated in the ginning process itself. Further, in the case of kapas purchased by the Company and ginned into lint or lint directly purchased in other branches (Bangalore Branch had purchased lint in 1975-76 and 1976-77 and Ahmedabad Branch in 1976-77 and 1977-78) no pre-cleaning operation was resorted to.

The Ministry stated (April 1980) that "the Assistant Manager who was there in charge of Indore Branch has since been removed from service".

9. **Ginning and Pressing of Kapas**

9.01 Kapas purchased is ginned to remove seeds and other impurities and the lint obtained is pressed into bales of standard size and sold. The Company enters into agreements with the ginning and pressing factories before the start of the season for exclusive processing as far as possible. The charges for ginning and pressing are fixed by each State Government. Quantitative accounts of kapas ginned, lint and seeds obtained and bales pressed are kept at each centre and when ginning of all kapas purchased at a particular centre is completed, outturn ratio of kapas to lint and processing loss of that centre are determined. A low lint outturn ratio is indicative of the poor quality of kapas purchased. Processing loss or ginning loss is the difference between the weight of kapas and the total weight of lint, seeds, yellow picking, waste cotton, candy etc. A high percentage of loss could, among other things, be due to wrong weighment, shortage in transportation from mandis to ginning factories, lower ginning efficiency of the machinery in the factories, etc.

9.02 The Company considered (March 1973) that 1/4% loss on ginning was acceptable as being normal. In the agreements entered into with the ginning factories, however, there is no stipulation about the maximum permissible percentage of loss in ginning operations. In its guidelines issued to the branch offices for the year 1974-75, the permissible loss was indicated as 1% which was again reduced to 1/2% in the guidelines issued for the season 1975-76. Actual losses in ginning were, however, more than the permissible percentage indicated in the guidelines in many centres. The range of lint outturn for different varieties of kapas is indicated in the Indian Cotton Annual published by EICA. A review of the yield from kapas processed at various centres revealed that in a number of centres lint outturn was less than the minimum outturn specified in the Indian Cotton Annual.

The loss suffered by the Company on account of the ginning loss exceeding 1 per cent during the years 1971-72 to 1977-78 was Rs. 279.25 lakhs, excluding centres in Tamil Nadu and certain other centres for which information was not available. Similarly, the loss on account of shortfall in lint outturn during the period was Rs. 347.03 lakhs. Yearwise figures of such losses are indicated below :—

(Rupees in lakhs)

Year	Ginning loss in excess of 1 per cent	Loss on account of shortfall in lint outturn
1	2	3
1971-72	16.36	5.43
1972-73	56.33	..
1973-74	64.53	18.54
1974-75	1.50	3.48
1975-76	4.90	27.81
1976-77	63.92	201.93
1977-78	71.71	89.84
	279.25	347.03

(Vide Annexure III)

Referring to the high percentage of ginning losses, the Company stated (April 1979) that the Ahmedabad Textile Industry Research Association to whom the matter was referred had intimated that no norm for ginning loss was available in any literature and based on experience, the loss percentage generally varied from 1 to 3 and in certain cases, *e.g.* Theni in Tamil Nadu, the loss percentage could even be 15. Losses on account of ginning loss exceeding 3 per cent in centres other than in Tamil Nadu were as follows :—

Year	No. of centres	Quantity lost in quintals	Value in lakhs of Rs.
1	2	3	4
1971-72	12	3707	6.20
1972-73	13	2971	6.68
1973-74	16	1816	6.19
1975-76	3	197	0.91
1976-77	11	1019	5.22
1977-78	9	496	1.97
TOTAL			27.17

About shortfall in lint outturn the Company stated (July 1978) :—

> "The ginning percentages vary from place to place, region to region and State to State depending upon the climatic and soil conditions. They also vary from one picking to another. The quality of seed and its generation used for sowing also greatly influence the ginning percentage. The condition of ginning factories also affect ginning percentages. In view of these it is highly difficult to standardise ginning percentages for different Indian varieties and work out the likely loss".

It may, however, be stated that the norms indicated in Indian Cotton Annual by the EICA must have been arrived at after making allowance for variations on account of these factors since separate norms have been laid down for different regions.

The Ministry stated (October 1980) that the Company was conscious of the financial implication involved in lower outturn and had taken various measures such as hiring of exclusive Ginning and Pressing Factories, ascertaining heapwise processing results and regular review of purchases and processing (centrewise and varietywise) to safeguard its interests.

9.03 *Setting up of Ginning and Pressing Unit*

In May 1973, the Board of Directors of the Company authorised the Management to set up Company's own ginning and pressing units especially in the areas where intensive cotton development schemes were being implemented as the existing ginning factories were found to be slow and inefficient causing deterioration in quality of cotton, lint and seeds. Accordingly, Regional Offices were advised to conduct surveys so as to find out facilities and leeways which would be covered by the Company. A proposal for setting up ginning and pressing factories at 13 centres in the Northern Region and 3 centres in the

Southern Region was submitted to the Board in July 1973. The Board did not take any decision but wanted the matter to be examined further in the context of the Company's purchase programme and the processing facilities required for the same throughout the country.

Finally, in November 1973 it was decided to set up in some important centres modern ginning & pressing factories and apply for necessary foreign exchange for import of machinery from abroad. By this time, a study team of the International Bank for Reconstruction and Development had gone into the cotton problems of India as a part of the World Bank Cotton Expansion Programme and came to the conclusion that India's ginning and pressing facilities were outdated as a result of which considerable lint was lost in the process of ginning and pressing. The team recommended the setting up of new ginning and pressing factories equipped with high capacity gin stands of latest design and technology. The Company approached (July 1975) Government to nominate the Company as an agency for implementing Intensive Cotton Development Programme of the International Bank for Reconstruction and Development in selected areas and to provide necessary financial assistance for setting up model ginning and pressing factories. As no favourable response to this proposal was received from Government, the Management in May 1976 prepared a Project Report for setting up a double roller ginning and pressing factory in Andhra Pradesh, preferably in Guntur, at a capital cost of Rs. 35.00 lakhs and with a working capital requirement of Rs. 2.00 lakhs and submitted it to the Board. According to this Report the Company was expected to earn a profit of Rs. 39,240 by ginning 30,240 quintals of kapas and pressing 16,800 bales in a year. The Board considered the Report and asked the Management to have a technical feasibility report prepared by a competent organisation. Accordingly, the work of preparation of feasibility report for the setting up of a factory at Guntur Centre in Andhra Pradesh was entrusted to M/s. Kirloskar-Consultants in July 1976 at a fee of Rs. 25,000. The consultants submitted their report in November 1976. On being asked to intimate the action taken on the consultants' report, the Company stated (July 1979) :—

"In view of the comparatively limited purchases by the Corporation in Andhra Pradesh, a proposal was mooted to set up a modern ginning and pressing factory in Rajasthan but the Government of Rajasthan felt that it might make the existing small scale factories sick and throw people out of employment. Therefore, the Corporation is consulting the State Governments of Punjab and Madhya Pradesh with regard to availability of land and other infrastructural facilities".

The Company further stated (February 1981) that a proposal to purchase one ginning factory at Kanood in Madhya Pradesh belonging to NTC (MP) Ltd. was under its consideration. Besides, State Governments of Punjab, Haryana, Andhra Pradesh, Gujarat and Tamil Nadu had been approached by the Company for allotment of land at selected centres to set up ginning and pressing factories. The results of these efforts of the Company are awaited (March 1981).

9.06 *Setting up of seed oil extraction plants*

On the basis of a proposal put up by the Management, the Board approved (July 1973) in principle the setting up by the Company of four seed oil extraction plants of 200 tonnes capacity each on the following considerations.

(i) There was considerable fluctuation in seed prices from year to year which made the operation of the Company extremely risky. Sales of cotton seed were effected by the cotton selectors in small mandies and traders took advantage of the situation and tried to exploit it. It was, therefore, in the Company's interest to set up seed oil extraction plants of their own.

(ii) During the year 1973-74, the Company's plan was to purchase kapas (about 25 lakh bales) instead of fully pressed bales. Seed from its own kapas together with seed available from large monopoly purchases by Maharashtra State, where sufficient number of seed oil extraction plants did not exist, was considered sufficient to run the plant.

(iii) The International Bank for Reconstruction and Development in its Pre-appraisal Integrated Cotton Development Project had observed in June 1973 that only 45 per cent of cotton seed produced in India was being crushed for oil extraction and that too very poorly. If properly processed, more oil could be extracted from the seed and if all the cotton seeds available in the country was crushed, import of edible oil from U.S.A. could be eliminated or greatly ameliorated.

Later, on the advice of an Expert Committee (constituted by the Chairman of the Board), a Project Report for a 200-tonne capacity plant was got prepared by a firm on payment of Rs. 5,000. Thereafter a Project Manager was appointed in September 1974 to fix the specifications of machinery and scrutinise the quotations to be obtained. The Project Manager also prepared a final Project Report which indicated that a capital outlay of Rs. 2 crores would be involved for setting up a 200-tonne capacity plant and the plant has to be fed with large quantities of cotton seed throughout the year to make its functioning viable. When the Management sought the Board's approval for this, the Board decided (January 1975) that because of the heavy outlay involved a feasibility study of setting up a plant with a capacity of crushing 100-tonne of cotton seeds per day should be undertaken.

Accordingly, a feasibility report prepared by the Project Manager was put up to the Expert Committee which suggested (27th February 1975) collection of further data regarding oil contet and oil seeds in Southern Region and survey of Southern Region where no plant existed. No such survey was conducted and the services of the Project Manager were discontinued with effect from 1st April 1975 after incurring expenditure of Rs. 12,455 towards his pay and allowances.

The Management stated (May 1975) as under :—

> "The Corporation was granted only a credit of Rs. 10 crores during the current year for its purchase in all cotton growing states in the country. With this meagre credit, the Corporation could not make much headway in its purchase, with the result if was feared there may not be sufficient cotton seed to feed even the 100-tonne plant. As and when more funds are made available proposal for setting up a cotton seed extraction plant would be reviewed".

In November 1975 the Management brought before the Board a proposal for hiring capacity on tonnage basis in cotton seed oil extraction plants. The Board decided that as an experimental measure the Company should enter into agreement with cotton seed oil extraction Plants, preferably in the South, on a pilot basis. The matter was again considered by the Board in November 1977 when the Management was authorised to hire a cotton seed factory on experimental basis for crushing of cotton seed. Accordingly, the Company approached the Co-operative Cotton Seed Crushing Plants at Anand in Gujarat and at Gidderbha in Punjab. While these Plants were ready to offer their crushing capacities which were lying idle, the Company found that as there was no parity in the prices of cotton seed and prices of oil and oil cake, it would not be an economically viable proposition to get a portion of its stocks of cotton seed crushed in an oil extraction Plant. The proposal was, therefore, held in abeyance.

The Ministry stated (October, 1980) that 'the Corporation has taken on hire basis Cotton Seed Crushing Plants at Abohar, Malout, Dabwali and Sirsa for crushing cotton seeds during the current season 1979-80 on an experimental basis'.

10. Sale of Indigenous Cotton

10.01 (a) *Pricing and sales policy*

In 1970-71 the Company acted as agent of the mills in both the public sector and the private sector for buying cotton. For these sales the Company recovered its total costs, including carrying charges and service charges of 1%. This policy continued till March 1972.

Under a Government directive issued in April 1972 the Company purchased 5.17 lakh bales during 1971-72 as a price support measure at prices fixed by the Government above the prevailing market prices. Of these stocks, 4.53 lakh bales were held in stock at the end of the year. Faced with the serious problem of disposing of the huge stocks, the Company departed from its normal practice and sold cotton to private traders who had been financing mills for meeting their cotton requirements. The prices were also brought down to market rates in December 1972. Besides, the Company also sold cotton to the mills through trade agents paying commission on the sales. The practice of selling cotton to private traders as well as mills and of employing trade agents was followed upto April 1974.

During 1973-74, the prices of cotton were continuously rising from the beginning of the season. In September 1973, the Board of Directors appointed a Sub-Committee headed by the Textile Commissioner with the Joint Secretary in the Ministry of Commerce as one of its members to examine the purchase and sales policy of the Company. While examining the sales policy, the Chairman of the Sub-Committee observed (March 1974) that the primary objective of stabilisation of prices would not be achieved if the Company was to continue its policy of selling and buying at market rates especially in view of the short crop and increased mill consumption. The Committee, therefore, recommended suspension of sales of stocks. The Board of Directors considered the recommendation of the Sub-Committee and decided (March 1974) to suspend all sales. However, it was decided to sell the old crop of 1972-73 to Government run mills and Co-operative mills so as to avoid deterioration in quality. As the NTC mills were prepared to take only the new crop, the matter was reconsidered by the Board (April 1974) and with a view to stabilising the prices it was decided that the Company's stocks should be sold only to the mills on a fortnightly basis by evenly spreading the stocks over the remaining period of the season 1973-74 at cost prices (including carrying charges) which were lower than market prices. In pursuance of this decision 20,043 bales were offered for sale through a circular issued on 4th May 1974, in response to which 20 mills sent their offers for a total quantity of 89,219 bales. In view of the fact that the demand far exceeded the quantity released, it was decided (31st May 1974) to sell the stock on the basis of the number of installed spindles of each applicant mill. Later, 1973-74 stocks were also released for sale on a fortnightly basis.

(b) The following table indicates the number of bales released for sale, number of bales indented by mills in both public and private sectors and the quantities sold to them during the period from May 1974 to September 1974 :—

Release circular No. and date	No. of bales released	No. of bales indented by		Total	Allocation of bales to		Total
		Public sector	Private sector		Public sector	Private sector	
1	2	3	4	5	6	7	8
1. CCI/II/Sales/1/ 73–74 Dated 4-5-1974.	20,043 (1972-73)	14,453	74,766	89,219	8,233	11,810	20,043
2. CCI/II/Sales/2/ 73–74 Dt. 1-6-74.	22,801 (1972-73)	7,023	50,773	57,796	5,046	17,755	22,801
3. CCI/II/Sales/3/ 73–74 Dt. 4-6-74.	20,083 (1972-73) 5,419 (1973-74)	400	74,444	74,844	279	19,804	20,083 (1972-73)
4. CCI/II/Sales/4 73–74 Dt. 25-6-74.	43,256 (1973-74)	11,099	30,985	42,084	6,715	1,882	8,597
5. CCI/II/Sales/5/ 73–74 Dt. 31-7-74.	14,548 (1972-73) 25,859 (1973-74)	50,836	1,64,573	2,15,409	10,719	21,987	11,613 (1972-73) 21,093 (1973-74)
6. CCI/II/Sales/6/ 73–74 Dt. 13-8-74.	60,404 (1973-74)	65,533	2,88,206	3,53,739	13,227	32,556	45,783
7. CCI/II/Sales/7/ 73–74 Dt. 17-9-74.	13,208 (1972-73) 40,099 (1973-74)	..	2,557	2,557	..	2,557	800 (1972-73) 1,757 (1973-74)
	2,65,720	1,49,344	6,86,304	8,35,648	44,219	1,08,351	1,52,570

NOTE :—The quantity allotted (1,52,570 bales) is less than the quantity released (2,65,720 bales). This is due to the fact that while at certain centres demand from mills exceeded the quantity available for release, at other centres it was less than the released quantity.

It would be seen from the above that due to the system of allocating cotton on the basis of number of spindles, the mills in the private sector obtained the bulk of the releases made by the Company at prices lower than the market prices.

In the next circular issued on 1st June 1974 it was realised that there might be some loss to the Company in the sale of hybrid varieties for which market prices had receded. In order to make up for the likely losses, the prices of Northern Cotton were increased by Rs. 100 per candy. In the third circular issued on 4th June 1974 the Company invited offers for 25,502 bales, *i.e.* 20,083 bales of 1972-73 crop of Punjab, Haryana and Rajasthan (for which the price was increased by Rs. 100 per candy) and 5,419 bales of 1973-74 crop of Southern Region for which no price increase was made. Although the mills sent offers for Northern Region Cotton to the extent of 74,844 bales against the release of 20,083 bales, not a single offer was received for Southern Region Cotton. It was realised that while the cost prices of stocks in some centres of Karnataka State were higher than the ruling market prices, there was considerable scope for increasing the prices of Northern Region Cotton. The prices of Northern Region Cotton were, therefore, further increased by Rs. 100 per bale with a reduction in the prices of Karnataka Stock. Nevertheless, the prices at which the Northern Region Cotton was sold were still lower than the ruling market prices.

The Company stated (October 1977) that prices realised for Northern varieties were in parity with the market prices though it was possible to get slightly better prices.

(c) As stated earlier, out of 1,52,570 bales sold at fixed rates below ruling price, 1,08,351 bales were allotted to the mills in the private sector as a result of allocation of the bales on the basis of their installed spindlage. The benefit of lower prices could have at least been passed on to the public sector mills by allocating cotton to the extent indented by them. The Company stated (June 1978) :—

> "Since this was a general decision aimed at moderating the prices of cotton, the company could not restrict its application to one section of the Textile Industry as this would not have brought about the desired result. In a situation of scarcity assured supply of cotton at fixed rates at regular intervals does have a salutory effect on the price sentiment. Decision to release its stocks .... was a general measure taken by the Company to moderate the prices of cotton which had touched unprecedented level thereby seriously affecting the textile industry as a whole. In view of this situation, its decision to release stocks at lower rates to the mills in general including weaker mills was justified".

(d) While the Company was able to allot 75,340 bales of old crop against the total releases of 90,683 bales, the response of the mills to the new crop from the centres where it was released was very limited. Apparently, this was due to the prices of 1972-73 crop being lower than those for 1973-74 crop. The ultimate result was that while the Company incurred heavy losses in the disposal of 1973-74 crop (refer paragraph 10.03) due to subsequent fall in prices, the old stock was sold at prices lower than the market prices. It is also a moot point whether allotment of about 1.52 lakh bales over a period of five months had really any moderating effect on the prices as even during the period when the Company released stocks at lower rates, the prices shot up considerably.

The Company stated (June 1978) that although it was difficult to mathematically assess the actual effect of releasing the stock at fixed rates at specific intervals on the price behaviour, northern varieties (320 F and J-34) of which the Company was holding a sizeable stock and which was sold in the aforesaid manner did witness less fluctuations than other varieties (Kalyan). This is, however, not borne out by the prices indicated below :—

(Rupees per candy)

Month	AK-235/ 277	Kalyan	320F (R/G)
1	2	3	4
January 1974	2490	2335	2670
February 1974	2711	2675	2870
March 1974	2951	2980	3085
April 1974	3065	3140	3105
Percentage increase in April 1974 over January 1974 prices	23	34	16
May 1974	3175	3310	3170
June 1974	3310	3425	3380
July 1974	3511	3710	3595
August 1974	3930	4020	3800
Percentage increase in August 1974 over April 1974 prices	28	28	22

While the price of 320F variety which formed the bulk of the cotton released by the Company at fixed rate registered only 16 per cent increase for the period January 1974/April 1974 as compared to 23 per cent for AK-235/277 variety and 34 per cent for Kalyan, the increase was 22 per cent for 320F during May/August 1974, when the sale at fixed rates was resorted to by the Company, as against 28 per cent for the other two varieties.

(e) By September 1974 the Company had a large quantity of 1973-74 crop which had been purchased when the rates were ruling very high. The response from the user mills against the last release circular issued in September 1974 having been poor, the Company resorted to sales by inviting tenders from mills from December 1974. As by 21st April 1975 the Company could dispose of only 33,445 bales it decided (25th April 1975) to sell the unsold stock pertaining to 1972-73 crop to the mills at negotiated prices. This mode of selling cotton at negotiated prices was extended to the crop of the year 1973-74 also in June 1975. The results of disposal of the 1973-74 crop and remaining stock of 1972-73 crop have been discussed in paragraph 10.03.

In pursuance of the decision taken by the Government in September 1975 that the Company should be used by NTC for purchase of its cotton requirements the Company sold cotton mainly to NTC mills from 1975-76 to 1977-78, the prices being determined according to an agreed formula on the basis of the daily spot rates announced by the EICA Bombay. Under the Textile Policy announced by Government in August 1978 the role of the Company was extended and since then the Company has been selling cotton to both NTC and other mills at negotiated prices.

10.02 Details of yearwise sales to Government departments, public sector mills and others, as also exports, are given below for the 9 years ending 1978-79.

(Rupees in crores)

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
1. Government Departments	..	..	..	..	0.22	0.32	0.04	0.10	0.20
2. Public Sector .	..	..	..	..	4.63	41.90	113.55	102.81	62.15
3. Exports . .	..	..	6.18	2.70	0.04	5.02	..	..	9.69
4. Others including private parties	8.76	81.95	110.42	88.91	30.62	27.57	194.22	77.65	67.46
	8.76	81.95	116.60	91.61	35.51	74.81	307.81	180.56	139.50
Source :									
Import . .	8.18	72.51	41.88	26.01	14.74	33.12	206.76	54.58	17.51
Indigenous .	0.58	9.44	74.72	65.60	20.77	41.69	101.05	125.98	121.99

To step up the Company's sales and reduce the stock, the Board authorised the Company in its meeting held on 28th August 1979 to engage the services of brokers/trade agents on payment of 1/4 per cent commission. The Company had earlier discontinued the practice of selling cotton through trade agents in 1974-75.

10.03 *Suspension of Sales and Consequential Loss*

In August 1973, the Company drew up a programme for the purchase of 30.5 lakh bales of cotton (which represented about 48% of the total production in the country) from different states during the year 1973-74. These purchases were to be made on commercial basis at ruling market prices. The purchase programme of the Company was made known to Trade and Industry. When the purchases commenced in October 1973, it was realised that in spite of a bumper crop and comfortable carry over stocks, the prices ruling were higher by about 25 per cent than the previous year's prices. On the ground that it was the view of the RBI that the Company's entry into the market in a big way would shoot up the cotton prices, it was decided (3rd November 1973) to restrict the purchases in such a way that the prices paid would not be more than 10 per cent of the progressive average prices for the corresponding period of the previous year. This decision was, however, changed on 14th November 1973 as it was thought that linking current year's prices with the market prices of previous year would be unrealistic especially when the Corporation was expected to cover a sizeable stock and be in a position to influence market prices. The purchases were, therefore, continued at the ruling market rates on the basis of best commercial judgement.

By 1st March 1974 the Company had purchased 95,097 bales of cotton, procurement cost of which in some cases was higher by about Rs. 400 per candy than the corresponding prices for 1972-73. At this stage the Company had an unsold stock of 2,01,296 bales (including 95,097 bales of 1973-74). Although the ruling selling prices at this time were very favourable and the stock could have been disposed of at a profit, the Board of Directors, on the basis of the recommendation of the sub-committee referred to in para 10.01, decided to suspend sales and hold in stock at least 5 lakh bales to influence the market later in the year when the prices would start moving upward. Accordingly, the sales were suspended from 3rd March 1974. The purchases were, however, continued and by end of April 1974, the Company had procured 15,76,934 quintals of kapas (sufficient for pressing 3,15,386 bales) and had a stock of 2,71,722 bales (including 1,98,748 bales of 1973-74). As against its announced programme of purchasing 30.5 lakh bales, the Company purchased only about 3.10 lakh bales during 1973-74. On 30th April 1974 the Company, with a view to stabilising the prices in the coming months, decided to release in lots the existing stock of 1972-73 and 1973-74 crops every fortnight. Although normal sales were resumed from September 1974 the entire stock of 1972-73 and 1973-74 crops could not be disposed of as by August/September 1974, the prices of cotton, and especially of long staple cotton grown in Southern States, had started falling steeply (Ref. Paragraph 10.01).

During the month of March 1974, the Branch Office at Bangalore had received offers for various varieties of cotton which were higher than the average purchase price of the Branch. These offers were, however, not considered as sales were suspended during this period. Out of a total stock of 45,311 bales (1973-74 crop) held in stock as on 31st August 1974, the Branch Office sold 31,639 bales in 1974-75 to private parties at a loss of Rs. 103.92 lakhs and 13,672 bales in 1975-76 at a loss of Rs. 99.39 lakhs.

The loss sustained by the Company on sale of cotton of 1973-74 crop in other regions as a result of suspension of sales has not been worked out as the details in this behalf, though called for, have not been furnished by the Company (February 1981).

During the year 1975-76, the Bhatinda Branch sold 1,404 bales of cotton (1972-73 crop) at a loss of Rs. 6.57 lakhs. Likewise, Sirsa Branch sold in 1975-76, 1,348 bales of cotton (1972-73 crop) at a loss of Rs. 6.72 lakhs.

In reply to an audit query, the Banagalore Branch stated (November 1976) that had the sales been not suspended the Branch would have made a profit of about Rs. 50 lakhs instead of incurring loss of over Rs. 2.03 crores.

Since the ruling prices at the commencement of the year 1973-74 were very high, the Company's entry in the market at this juncture was not perhaps desirable as the presence of a large scale buyer in the open market itself would act as a firming sentiment. It would appear that the initial spurt in prices was partly the result of the Company's announcement of its intention to undertake large-scale purchase. Having entered the market and made purchases on commercial basis at the ruling prices, commercial considerations also demanded that the stocks were sold when the market was most favourable instead of suspending sales at that very point of time and incurring loss.

The Company stated (June 1978) that the objective in taking such measure was to moderate the prices of cotton which had touched unprecedented levels causing anxiety to Government in view of the serious repercussions on the Textile industry as a whole.

10.04 *Loss of Rs.* 5.18 *lakhs due to delay in disposal of cotton*

Between March 1975 and August 1975, the Ahmedabad Branch of the Company purchased 4,504 bales of V-797 variety of cotton at an average cost of Rs. 2,133 per candy, the total cost being Rs. 48.03 lakhs. Although the price of this variety of cotton was generally declining from month to month since March

1975 [the EICA's notified price was Rs. 814 per quintal (Rs. 2890 per candy) for February, Rs. 751 (Rs. 2666 per candy) for March, Rs. 667 (Rs. 2368 per candy) for June, Rs. 666 (Rs. 2364 per candy) for July and Rs. 717 (Rs. 2545 per candy) for August 1975] these bales were not disposed of as and when they were ready. The stock was sold from October 1975 to December 1975, when the new cotton season had begun in Gujarat, at rates ranging from Rs. 2,000 per candy to Rs. 2,230 per candy realising only Rs. 42.85 lakhs from the sale of the entire stock, as compared to the procurement cost of Rs. 48.03 lakhs. Thus the Company suffered a loss of Rs. 5.18 lakhs (excluding carrying charges) which was avoidable..

10.05 *Loss of Rs. 87.74 lakhs on resale of unlifted bales sold to N.T.C.*

Prior to the coming into effect of the scheme of purchasing cotton for NTC mills (implemented from the year 1975-76), the Company had sold certain quantity of cotton to the NTC mills during the normal course of its trading operations. A contract entered into on 14th March 1974 for the sale of 20,000 bales of 320F and J-34 (both RG and SG) cotton from different stations in Punjab, Haryana and Rajasthan provided that :

(1) selection of cotton would be made by the mills within 25 days from the date of contract;

(2) buyers were entitled for a free delivery period upto 21st March 1974 after which carrying charges at 2 per cent per month for 30 days or *pro rata* were payable, the Company, however, having no obligation to carry cotton beyond 30th June 1974; and

(3) full payment of price and carrying charges would be made to the Company after delivery of the bales at Calcutta within 24 hours of delivery of bales or documents.

In addition to the contracted quantity of 20,000 bales, 4,504 bales were also selected by the NTC against the above contract. The Company initially (June 1974) refused delivery of excess bales selected by NTC but on a request from NTC (October 1974) agreed to give delivery of the excess quantity also.

The Company also contracted to supply 2,569 bales in September 1974. According to the terms and conditions of this sale NTC mills were required to select cotton and lift the same within 15 days from the date of allocation of cotton against full payment. They were also required to pay 25 per cent value of the cotton as deposit within the first 15 days' period, if they required a further period of 15 days for lifting the cotton. In the event of failure by the mills to fulfil the contract within the time stipulated therein, the Company had the option to cancel the contract and dispose of the contracted bales or the balance thereof in the manner it deemed fit, reserving to itself the right to recover damages for the loss sustained in such distress sale.

Against 22,569 contracted bales, the NTC mills did not lift 10,222 bales contending that no cotton was available at stations mentioned in the contract beyond 12,813 bales selected by them while the Company held that stocks were available. Out of the unlifted bales, 4,149 bales were subsequently sold to other private parties between June 1975 and September 1975, *i.e.* after retaining the stock for periods ranging from 336 days to 557 days, at rates varying from 2,200 per candy to Rs. 2,450 per candy as compared to the cost price (including carrying charges) ranging from Rs. 3,668.89 per candy to Rs. 4,951.04 per candy resulting in a loss of Rs. 34.08 lakhs. The remaining 6,073 bales were sold during 1975-76 at a further loss of Rs. 47.96 lakhs.

The Company entered into yet another contract with NTC, Calcutta on 23rd May 1975 for the sale of 1,385 bales of RG 1973-74 crop at Rs. 2,600 per candy and 1974-75 crop at Rs. 2,765 per candy and SG 1974-75 crop at Rs. 2,865 per candy from various centres in the Northern region. The delivery and payment terms, *inter alia,* provided that the Company would arrange to despatch a maximum of 300 bales at a time against rolling advance of Rs. 6 lakhs to be deposited by the NTC for value of 300 bales and other expenses such as freight, transit insurance and other incidental charges. In the event of the buyer's failure to do so, the Company was entitled to cancel the contract and dispose of the bales at the risk and cost of the buyer.

NTC, Calcutta, accordingly, made payment of Rs. 6 lakhs as rolling advance and the Company despatched 300 bales thereagainst. NTC did not recoup the rolling advance and claimed that there was a credit balance of approximately Rs. 17 lakhs and that the aforesaid bales should be despatched against these credits. This proposal was not acceptable to the Company as NTC had failed to lift certain quantity of bales against the earlier contracts, which were sold at a loss. As the NTC, Calcutta did not make any further payment and lift the bales, 1,085 bales were sold to outside parties between December 1975 and February 1976 at a loss of Rs. 5.70 lakhs.

The disputed cases were discussed during the course of the Price Negotiation Committee meeting between the two organisations held in August 1980. It was felt that it would be in the interest of both the organisations to sort out the matter between themselves. Accordingly, a sub-committee consisting of representatives of both the organisations was formed to go into the disputed cases. The Company reported in February 1981 that the discussions were still continuing.

11. Inventory Management

11.01 The Inventory of the Company consists of full pressed bales (imported and indigenous), kapas (seed cotton), lint and cotton seeds. The following table gives the value of stocks held at the end of each year for nine years ending 1978-79:

Year	Closing Stock						Value of closing stock expressed in No. of months. sales	National stock (In lakh bales)	Percentage of Company's Stock to National Stock (In terms of bales)
	Imported		Indigenous		Total				
	No. of bales	Value (Rs. in lakhs)	No. of bales	Value (Rs. in lakhs) including value of lint, Seeds and Kapas	No. of bales	Value (Rs. in lakhs) including the value of lint, Seeds and Kapas			
1	2	3	4	5	6	7	8	9	10
1970-71 . . .	26,890	358.19	3,546	44.71	30,436	402.90	5.2	16.9	1.8
1971-72 . . .	16,504	341.78	4,53,321	4,031.87	4,69,825	4,373.65	6.2	27.5	17.1
1972-73 . . .	22,986	429.07	2,51,002	2,603.99	2,73,988	3,033.06	3.1	26.8	10.2
1973-74 . . .	5,439	278.04	1,78,010	2,273.11	1,83,449	2,551,15	3.2	25.6	7.2
1974-75 . . .	1,36,476	1,745.47	94,967	971.71	2,31,443	2,717.18	8.8	30.7	7.5
1975-76 . . .	13,905	504.60	4,472	232.38	18,377	736.98	1.2	19.0	1.0
1976-77 . . .	2,33,469	6,589.68	1,57,304	2,766.70	3,90,733	9,356.38	3.5	12.42	31.5
1977-78 . . .	1,40,394	4,359.33	2,75,657	4,406.60	4,16,051	8,765.93	5.4	18.42	22.6
1978-79 . . .	86,207	2,766.91	7,60,265	12,731.67	8,46,472	15,498.58	12.3	22.40	37.8

Despite the fact that the purchases were financed from cash credit from banks, the Company was holding large inventories upto 1974-75 resulting in high carrying cost to the Company. The closing stock at the end of 1976-77, 1977-78 and 1978-79 was significantly large as compared to National Stock and Scale of purchase operations of the Company as the Company was holding substantial stock of imported cotton as also indigenous cotton purchased for the NTC mills but not lifted by them.

At the end of the year 1979-80, the closing stock included 31,994 bales of Varalaxmi and Suvin cotton of 1978-79 crop valued at Rs. 8.93 crores, and 70,757 bales of 1979-80 crop valued at Rs. 18.95 crores out of 95,016 bales and 87,698 bales purchased during 1978-79 and 1979-80 respectively at a total cost of Rs. 52.57 crores. The two varieties of cotton were purchased by the Company with a view to protecting the interest of growers of extra long staple cotton when the demand for it had become depressed. The production of long staple cotton in the country went up from 19.55 lakh bales in 1977-78 to 22.80 lakh bales in 1978-79 while the consumption declined from 18.35 lakh bales to 17.63 lakh bales during the same period. The demand being less than the supply, the Company had either to sell the cotton purchased at a loss or carry the stock for considerable period. According to the information received from branches in Karnataka, Tamil Nadu and Madhya Pradesh, the Company suffered a loss of Rs. 4.94 crores on sale of these varieties of cotton upto August 1980.

12. Financial Management

12.01 The table below summarises the financial position of the Company under broad headings for the nine years ending 31st August, 1979.

(Rupees in lakhs)

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Liabilities :									
(*a*) Paid-up Capital	67.00	100.00	100.00	100.00	150.00	250.00 *100.00	400.00	400.00	400.00
(*b*) Reserves and Surplus	1.37	8.55	105.36	163.89	219.88	336.70	342.05	0.75	0.75
(*c*) Borrowings :									
(*i*) From Banks	494.80	3362.01	1918.46	1154.67	1274.62	519.45	17464.15	12572.42	20239.03
(*ii*) From Others	..	450.00	..	..	..	..	1.40	17.93	20.53
(*iii*) From Government of India	..	..	..	..	50.00	45.00	40.00	35.00	30.00
(*d*) Trade dues and other current liabilities including provisional	**173.49**	**975.50**	**1150.88**	**1287.98**	**1417.74**	**1249.43**	**3608.79**	**2798.47**	**2124 97**
TOTAL	736.66	4896.06	3274.70	2706.54	3112.24	2500.58	21856.39	15824 57	22815.28

*Advance towards share capital.

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
Assets :									
(*e*) Gross Block .	3.91	13.07	19.35	23.77	24.59	24.87	27.99	31.35	33.82
(*f*) Less Depreciation	0.46	0.54	1.29	2.33	3.43	4.48	5.56	6.69	8.05
(*g*) Net Fixed Assets	3.45	12.53	18.06	21.44	21.16	20.39	22.43	24.66	25.77
(*h*) Current Assets, Loans and Advances.	733.21	4883.53	3,256.64	2,685.10	3,091.08	2,480.19	21,833.96	15,605.94	21,899.93
(*i*) Profit and Loss Account.	..	..	..	..	..	..	..	193.97	889.58
TOTAL . .	736.66	4,896.06	3,274.70	2,706.54	3,112.24	2,500.58	21,856.39	158,24.57	22,815.28
Capital Employed	563.17	3,920.56	2,124.88	1,420.65	1,698.29	1,255.98	18,251.47	12,832.13	19,800.73
Net Worth	68.37	108.55	205.36	263.89	369.88	586.70	742.05	400.75	400.75

12.02 *Working results and Profitability*

The working results of the Company for the nine years ending 31st August, 1979 are tabulated below :

(Rupees in lakhs)

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
1	2	3	4	5	6	7	8	9	10
(*a*) Sales :									
Imported	817.89	7,250.98	4,027.65	2,601.66	1,474.08	3,311.96	20,676.34	5,458.39	1,750.83
Indigenous	58.28	944.43	7632.04	6559.63	2076.89	4169.17	10,104.69	12,597.61	12,199.07
Carrying Charges & Commission including interest received from customers	**54.78**	**309.88**	**172.12**	**304.26**	**138.67**	**162.30**	**1,402.43**	**1,534.94**	**1,131.19**
	930.95	8,505.29	11,831.81	9,465.55	3,689.64	7,643.43	32,183.46	19,590.94	15,081.09
(*b*) Cost of Sales	920.57	8,473.19	11,327.00	9,154.02	3,501.64	7,252.11	32,030.69	20,126.21	15,776.69
(*c*) Profit/Loss(—) before tax	10.38	32.10	504.81	311.53	188.00	391.32	152.77	(—)535.27	(—)695.60
(*d*) Provision for taxation	7.00	20.75	396.00	253.00	120.00	260.00	80.00	..	..
(*e*) Profit after tax	3.38	11.35	108.81	58.53	68.00	131.32	72.77	(—)535.27	(—)695.60
(*f*) Capital employed	563.17	3,920.56	2,124.88	1,420.65	1,698.29	1,255.98	18,251.47	12,832.13	19,800 73

1	2	3	4	5	6	7	8	9	10
Percentage of Profit before tax :									
(*a*) To Sales including commission interest and carrying charges etc.	1.1	0.4	4.3	3.3	5.1	5.1	0.5	..	..
(*b*) To Capital Employed	1.8	0.8	23.8	21.9	11.1	31.2	0.8	..	..
Percentage of Profit after tax :									
(*a*) To capital employed	0.6	0.3	5.1	4.1	4.0	10.5	0.4	..	..
(*b*) To net worth	4.9	10.5	53.0	22.2	18.4	22.4	9.8	..	..
(*c*) To equity capital	5.0	11.4	108.8	58.5	45.3	52.5	18.2	..	..

The highest sales were in 1976-77 and lowest in 1974-75 (excluding the year 1970-71 which was the first year of operation). The increase in sales during 1972-73 as compared to the earlier two years was due to the fact that large quantities of cotton bought during the year 1971-72 as a price support measure was sold during the year 1972-73. In 1974-75 the Company had made only restricted purchase of indigenous cotton; hence the lower turnover during that year.

Despite the high turnover during the year 1976-77, the profit before tax declined from Rs. 391.32 lakhs in 1975-76 to 152.77 lakhs in 1976-77. This was due to two reasons :—

(i) The year-end stock of indigenous cotton was valued at the prevailing market rates which were substantially below the procurement cost.

(ii) The sale of imported cotton resulted in loss which was made good by Government; thus this portion of the turnover did not fetch any profit.

For the first time since its inception the Company suffered a loss of Rs. 535.27 lakhs during 1977-78. The operations of the next year also resulted in a loss of Rs. 695.60 lakhs. Explaining the factors responsible for the loss during 1977-78 the company stated (May 1979) :

"The main reason for the loss is the continuous downward trend in the domestic cotton prices since the end of 1976-77 cotton season. Further due to inadequate role till 1977-78, the Corporation could not take advantage of the market situation by selling unlifted cotton bales, to mills other than N.T.C. As a result of this limited role, the Corporation had to depend only on one party *i.e.* N.T.C. . . . The bales had to be kept till the end of the year and additional carrying charges were incurred apart from not being able to take advantage of the price situation by selling the same immediately, after it was known that the same will not be lifted by N.T.C. Due to continuous fall in the domestic cotton prices by the time the Corporation started selling unlifted stocks, the prices further came down".

The loss during 1978-79 was, however, mainly attributable to purchase of extra long staple cotton which for want of adequate demand was either sold at a loss or held in stock and valued at market price (being lower than cost) on the Balance Sheet date.

12.03 *Return on Government Investment*

The investment made by Government in the equity shares of the Company since inception and dividend paid to Government upto 31-3-1979 are given below :—

Year	Total investment at the close of the year (Rs. in lakhs)	Rate of Dividend (percent)	Dividend paid to Govt. for the year (Rs. in lakhs)
1	2	3	4
1970-71	67	3	2.01
1971-72	100	5	5.00
1972-73	100	12	12.00
1973-74	100	12	12.00
1974-75	150	12	14.50
1975-76	250-100*	12	25.00
1976-77	400	12	42.43
1977-78	400	Nil	Nil
1978-79	400	Nil	Nil
			112.94

*Advance towards share capital.

12.04 *Credit control*

The following table indicates the volume of book debts and sales for the nine years ending 31st August, 1979 :—

Year	Total Book Debts		Sales	Percentage of Book Debts to sales	Book Debts in terms of number of months' sales
	Considered goods (Rs. in lakhs)	Considered doubtful (Rs. in lakhs)	(Rs. in lakhs)		
1970-71 . .	161.51	0.42	930.93	17.4	2.1
1971-72 . .	483.35	0.42	8,505.29	5.7	0.7
1972-73 . .	196.70	31.24	11,831.81	1.9	0.2
1973-74 . .	95.86	75.41	9,465.55	1.8	0.2
1974-75 . .	243.25	28.69	3,689.64	7.4	0.9
1975-76 . .	1,732.16	42.78	7,643.42	23.2	2.8
1976-77 . .	9,094.63	28.52	32,183.46	28.3	3.4
1977-78 . .	5,672.33	25.19	19,590.94	29.1	3.5
1978-79 . .	5,054.10	30.75	15,081.09	33.7	4.0

The increase in sundry debtors from 1975-76 onwards was mainly due to the outstandings from NTC mills, (which agreegated to Rs. 2,765 lakhs on 31-8-1977, Rs. 3,375.72 lakhs on 31-8-1978 and Rs. 2,340 lakhs as on 31-8-1979) and towards imported cotton held on buyers account, the lifting of which was disputed by the mills.

(ii) Break up of debts outstanding for more than one year as on 31st August 1970 is given below :—

(Rs. in lakhs)

	Govt. Deptt./ Public sector	Other parties	Total
(*i*) Debts outstanding for more than one year but less than two years	1,062.46	752.89	1,815.35
(*ii*) Debts outstanding for two years and more but less than 3 years	208.80	682.75	891.55
(*iii*) Debts outstanding for 3 years and above	23.53	17.99	41.52
	1,294.79	1,453.63	2,748.42

Outstanding from Government/Public Sector Undertakings

Debts due from Government and Public Sector Undertakings for more than one year amounted to Rs. 1,294.79 lakhs as on 31st August 1979. These debts represented mainly the amounts due from NTC mills for cotton supplied to them on credit. NTC was allowed to avail itself of credit subject to a ceiling of Rs. 25.00 crores.

Outstanding from other parties

Debts amounting to Rs. 1,435.63 lakhs, outstanding for more than two years but less than three years, mainly related to cotton held onbuyers' account, the lifting of which had been disputed by the mills. The major portion of amount of Rs. 17.99 lakhs outstanding for over three years was due from three parties against whom suits had been filed by the Company (Refer paragraph 12.05).

12.05 A review of the major cases of doubtful debts revealed the following :—

(i) *Outstanding against Party A—Rs.* 4.90 *lakhs*

In July 1971, the Company contracted for import of 974 bales of American cotton on behalf of Party A against the quota allotted to them. The Party did not obtain subsidiary licence by paying the premium to ICMF, but requested the Company to import cotton on their account. On Party A's assurance that payment would be made at the time of delivery of cotton, the Company imported 974 bales on its own licences. Since the Party did not make payment and retire the original shipping documents for clearance through customs, the Company cleared the imported bales and stored them in its godowns during September 1971 to January 1972. Although the Party was asked several times to take delivery of cotton on payment it refused to do so on the ground that the mills for whom cotton was covered were taken over by NTC in October 1971. The cotton was sold by the Company at the risk and cost of the Party to other mills during June 1973 to July 1974 at a price of Rs. 22.06 lakhs against its cost price of Rs. 26.26 lakhs (including carrying charges) resulting in a loss of Rs. 4.20 lakhs. As the Party did not make good to the Company the amount of loss of Rs. 4.20 lakhs, premium of Rs. 0.70 lakh paid to ICMF and interest charges on these amounts accrued upto 31st August 1976, the Company filed a civil suit, in August 1977 the outcome of which is awaited (February 1981).

(ii) *Loss of Rs.* 8.81 *lakhs on resale of Cotton recoverable from Mill B*

In November 1973, the Company contracted for the import of 106 bales of Egyptian cotton on behalf of Mill B, from whom a bank guarantee for 40 per cent of the c.i.f. value of imports was obtained. The bank guarantee was valid upto the date of retirement of documents or 30th September 1974 whichever was earlier. The shipment advice was sent to the Mill on 25th June 1974 asking them to make arrangement for clearance of cotton on its arrival at Madras under intimation to the Company. On the advice of the Mill (12-7-1974) the Company drew a bill through its banker on 16th August 1974 for Rs. 5.91 lakhs but the bill was returned unpaid after two months, by which time the guarantee had lapsed.

The goods arrived in August 1974, but the Mill did not clear them. The Company cleared the goods (February 1975) and stored them in Madras as the Port Trust Authorities were threatening to dispose of the goods by auction if they were not cleared by the Company.

On the request of the Mill the bank guarantee was returned to them on 22nd January 1975 for the issue of a fresh guarantee.

As the Mill did not issue a fresh bank guarantee in favour of the Company, it was served with a legal notice (May 1975) for recovery of Rs. 6.95 lakhs being invoice value of cotton and other incidental expenses incurred by the Company. The cotton was subsequently (June 1976) sold to another mill by the Company after obtaining permission of the Textile Commissioner, at a price of Rs. 3.66 lakhs as against its cost of Rs. 12.47 lakhs (including customs duty and carrying charges) resulting in a loss of Rs. 8.81 lakhs. The Company filed a suit in the Bombay High Court in October 1976 for recovery of the loss of Rs. 8.81 lakhs. The Company stated (July 1979) that since the documents were sent to the bank for collection at the time when the bank guarantee was valid and as the bank took an unusually long time to return the non-retired documents back to the Company, the bank was also responsible for the loss sustained by the Company and that the matter had been taken up with the bank.

(iii) *Recovery of dues from Mill C—Rs* 2.35 *lakhs*

The Company contracted for import of 475 bales on behalf of Mill C to whom imported cotton of the value of Rs. 4.75 lakhs was allotted by the Cotton Textile Export Promotion Council. As per instructions of the Company, the Mill opened a letter of credit on 14th April 1971 for Rs. 5.91 lakhs valid upto 31st May 1971. Certain amendments in the letter of credit as desired by the Company were also made by the Mill on 26th May 1971. The Company imported these bales on its own bulk licence and raised (5th June 1971) an invoice against the Mill for an amount of Rs. 6.19 lakhs which included besides the c.i.f. value, sales tax, Letter of Credit (LC) charges, telegram charges, etc. On 28th June 1971 the Company informed the Mill that it could not encash the LC before 31st May 1971 and, therefore, the validity date should be extended upto 15th August 1971 increasing the value of LC to Rs. 6.19 lakhs. The Mill denied (5th July 1971) any liability for payment of sales tax contending that since it had already opened a letter of credit, the title to the documents could have been transferred to it when the goods were on high seas so as to avoid payment of sales tax. As the Company insisted on the payment of sales tax and also carrying charges from 1st June 1971 and the Mill refused to take delivery of the bales on paymnt of such charges, the bales remained with the Company till December 1973 when they were sold to other mills at a price of Rs. 6.90 lakhs as against its cost price of Rs. 9.25 lakhs. While the loss of Rs. 2.35 lakhs suffered by the Company remained to be recovered, the Mill filed (November 1974) a suit against the Company for alleged loss of Rs. 2.38 lakhs suffered by it due to non-delivery of bales contracted on its behalf. The solicitors of the Company intimated in August 1976 that the suit filed by the Mill was a long cause suit and it would be some years before the said suit would become ripe for hearing.

(iv) According to the accounts of the Bhatinda Branch Office for the year 1976-77 an amount of Rs. 2.46 lakhs treated as advance, was recoverable from Punjab State Cooperative Supply and Marketing Federation Limited (MARKFED) who were appointed as Company's Agents for procurement of kapas for the year 1971-72 and 1972-73. A dispute arose about the correctness of this amount. In their letter dated 12th November 1976 ; MARKFED not only disowned liability for the payment of Rs. 2.46 lakhs to the Company but demanded from the Company a sum of Rs. 1.58 lakhs as being due to them. In support of their claim they forwarded to the Company a detailed statement of account which has not been disputed by the Company. Although the agency with MARKFED was terminated in 1973-74, their account has remained unreconciled (February 1981).

13. **Man Power**

13.01 The following table gives the details of staff in position, volume of business handled and expenditure on pay and allowances for nine years ended 31st August 1979 :—

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79
(*i*) No. of staff at the end of the year . .	84	268	503	648	613	585	679	809	910
(*ii*) Expenditure on staff (direct) (Rs. in lakhs) .	4.35	14.84	40.71	60.42	63.03	67.19	75.88	92.74	119
(*iii*) Volume of business (in lakh bales) :									
(*a*) Imports handled .	0.86	4.09	2.25	0.41	2.19	0.50	8.44	0.81	.06
(*b*) Purchases of indigenous cotton .	0.08	5.17	3.86	3.10	0.32	1.49	5.35	6.67	10.36
Total volume of business (in lakh bales)	0.94	9.26	6.11	3.51	2.51	1.99	13.79	7.48	10.42
(*iv*) Expenditure per employee per annum (Rupees)	5179	5537	8093	9324	10282	11485	11175	11464	13100
(*v*) Expenditure on staff per lakh of bales (Rupees) .	4.6	1.6	6.7	17.2	25.1	33.8	5.5	12.4	11.4

Till 1973-74, the domestic purchases were effected mainly through Co-operative Societies, State Government Agencies and nominees of State Governments, appointed as agents of the Company on commission basis. From 1974-75 onwards, the purchases are effected directly by the Company. Although the volume of purchases handled during 1973-74 was much less than that in 1971-72 and 1972-73, the staff strength increased from 503 in 1972-73 to 648 in 1973-74. Increase in staff in 1973-74 was due to the creation of infrastructure to effect purchases of about 30 lakh bales in 1973-74 which target the Management did not achieve either in 1973-74 or in subsequent years.

13.02 *Creation of Infrastructure*

During the first two years of operation, *i.e.* 1970-71 and 1971-72, no branch office was set up and domestic purchases were handled directly from the Head Office through purchase centres opened and operated in different States. Four Regional Offices were opened during 1972-73, one each at Ahmedabad, Delhi, Bangalore and Indore, making them responsible for controlling the purchase operations etc. of indigenous cotton. On the basis of the target of 30 lakh bales for purchase of indigenous cotton during 1973-74, the Management decided (July 1973) to create 470 additional posts involving additional expenditure of Rs. 22.89 lakhs per annum. Five Sub-Regional Offices—three in the Northern Region and two in the Southern Region, were also opened. Against the 470 posts created, the Management filled 400 posts raising the staff strength to 648 as on 31st August 1974. However, in the context of its actual procurement during 1973-74 being only 3.10 lakh bales and prospects of overall activities for 1974-75 were even lower (about 52,500 bales) the Management in October 1974, reassessed the staff requirements and found that 361 posts (333 field staff and 28 accounts) were redundant.

The Board decided (17th January 1975) to take the following remedial measures to avoid retrenchment of the surplus staff on a large scale.

(a) All deputationists, except a few whose services were absolutely necessary be repatriated.

(b) Field staff be readjusted by transfers and redeployment and by minimum retrenchment, wherever the strength was disproportionately higher than the requirement.

It was also decided (26th February 1975) to reorganise the set up of the field offices by upgrading the sub-regional offices and converting the existing regional offices into branch offices to have direct contact with the field offices rather than go through regional offices. As regards the surplus staff a decision was taken by the Board (17th May 1975) that a thorough review should be conducted, a standard pattern of staffing for each office evolved, the surplus staff identified categorywise and thereafter a list of surplus staff sent to the NTC and the Ministry of Commerce to explore the possibility of alternative employment. In pursuance of the above, a list of 204 staff found surplus was circulated (August 1975) to Public Sector Undertakings and Government Departments but only 6 employees were taken by these organisations (January 1977).

The Committee on Public Undertakings in its 68th Report (Fifth Lok Sabha) had observed that it could not appreciate why a large infrastructure was maintained so long when for almost two years the Company's purchase operations had been very much on the low side and the future role of the Company was yet to be decided. In reply, the Ministry stated (January 1976) :

> "..................... As against the total strength of 648 during 1973-74, the present strength is 586. It will be appreciated that the Corporation is a Public Sector Undertaking and as such it has some social objectives. Therefore, it would not be proper for it to straightway dispense with the services of surplus staff in order to reduce the expenditure."

Due to resignation, superannuation, transfers, etc. the number of surplus staff could be reduced by 75 till March 1977. The staff strength, however, increased from 585 as on 31st August 1976 to 679 as on 31st August 1977. Explaining the reasons for the employment of additional staff during 1976-77 the Company stated (January 1977) :

> "The Corporation created 470 additional posts in 1973-74 as recommended by sub-committee of the Board presuming that the Corporation would continue to avail of the services of the Co-operative Societies in various States where the Corporation was operating for procurement of kapas/F.P. bales, as also the services of the brokers for sale of cotton and cotton seeds. However, in view of limited purchase operation, the Corporation had, as a part of economy measure dispensed with the services of co-operatives as well as brokers. Consequently, the responsibilities of the field staff have increased."

Increased volume of domestic purchase of cotton for NTC mills and import of large quantities of cotton during 1976-77 were also stated to be the reasons for employing the additional staff. The increase in staff strength during 1977-78 has been attributed to the increase in domestic purchases.

A standard staffing pattern determined on a scientific basis and linked to the volume of business to be handled has, however, not been evolved so far. The question of securing a review of organisational set up of the Company by the Indian Institute of Management, Ahmedabad, was considered by the Board of Directors in January 1975, but it was decided to defer the same in view of the economy measures and in the absence of a prior decision about the volume of operations to be handled by the Company.

The Committee on Public Undertakings in their 82nd Report (Fifth Lok Sabha) had reiterated their earlier recommendation (contained in the 68th Report) that the norms of overheads should be worked out on a realistic basis after studying the pattern in other comparable organisations and steps should be taken to see that the actual overheads were within the prescribed norms. No such study has been undertaken so far. The Company stated (February 1981) that the matter had been taken up with the National Productivity Council for evaluation of norms of providing staff on the basis of work output both in respect of office and field.

14. **Internal Audit**

14.01 Pursuant to a Board Resolution of April 1972 that a firm of Chartered Accountants should be appointed for conducting internal audit of the Company's accounts the management appointed (June 1972) a firm of Chartered Accountants on a fixed remuneration of Rs. 24,000 for conducting internal audit for the year 1971-72. As per the terms of appointment, the internal auditors were expected to check cent per cent transactions of the Company and to submit monthly reports. The same firm was appointed as internal auditors for 1972-73 and 1973-74 also on the same terms and conditions except that their remuneration was increased after negotiation to Rs. 68,000 for audit of each year's accounts.

The reports submitted by the internal auditors did not indicate that cent per cent checks of the Company's transactions had been actually carried out by them in any of the years as per the terms of appointment. The firm also did not submit their reports every month as required. For 1971-72 and 1972-73 interim reports were submitted (but no final reports followed) for the Company as a whole, but for 1973-74 separate reports for Head Office and Branches were submitted. In January 1975, the Management reported to the Board that considerable delays were occurring in the submission of reports of internal audit in different regions and in order to enable the Management to apply necessary correction in time the Company should have concurrent audit instead of Internal Audit in all its Regions and Head Office. To minimise travelling and other expenses it was proposed to appoint local firms of Auditors at each Branch Office and Head Office instead of appointing a single firm for carrying out the Internal Audit of the entire Company as was the practice. The Board approved the proposals and accordingly different firms of chartered accountants were, thereafter, appointed for conducting internal audit of Head Office and each of the Branch Offices. The monthly reports received from the Auditors were submitted to the Financial Adviser and Chief Accounts Officer and the Managing Director and the Chairman. There was, however, no system of reporting important points raised in the Reports to the Board of Directors.

14.02 The Committee on Public Undertakings in its 15th Report (4th Lok Sabha) had recommended that the functions of Internal Audit should include a critical review of the systems, procedures and operations as a whole. The Ministry of Finance (Bureau of Public Enterprises) while accepting the above recommendation directed the Public Enterprises in September 1978 to introduce such a system. The Reports submitted by Internal Auditors did not indicate that appraisals of systems, procedures and operations of the Company as a whole had been conducted.

On being informed by the Company that they had entrusted the work of internal audit to firms of Chartered Accountants and no separate manual had been prepared for the guidance of Internal Audit, the Committee on Public Undertakings in its 68th Report (Fifth Lok Sabha) had recommended that the Company should develop an Internal Audit Cell of its own and also prepare an Internal Audit Manual setting out the scope, functions and procedures of Internal Audit for guidance of the Internal Audit Cell. In reply, the Ministry of Commerce had stated (October 1976) :

> "The Corporation has adopted the system of concurrent audit and has appointed auditors for various regions for the current year. Thus it is only after the term of the present auditors expires that the proposal to set up Internal Audit Cell can be considered."

However, the internal audit for the year 1976-77 and 1977-78 was also entrusted to firms of Chartered Accountants.

The Company stated (April 1979) that continuance of the practice of getting internal audit conducted by firms of professional Chartered Accountants was taken up with the Bureau of Public Enterprises who had advised (August 1978) the Company to continue the system and review the position after two years.

In February 1981, the Company reported that the practice had been discontinued from the year 1980-81, the Company having set up its own Internal Audit Cell. It has been further stated that detailed instructions containing guidelines for conducting internal audit have also been issued to the Internal Audit Cell and the important points brought out in the Internal Audit Reports would be put up to the Board.

15. **Summary**

15.01 *Objectives*

The Company was set up on 31st July 1970 to purchase, sell, import and export cotton and to undertake all such other duties as may be entrusted by the Central Government from time to time.

Later in pursuance of a recommendation of the Committee on Public Undertakings in their 68th Report (Fifth Lok Sabha) that the role of the Company should be defined in clear terms, Government, in October 1975, decided that the Company should ensure payment of minimum support price to the growers and should be used by NTC for meeting its cotton requirements. This limited role assigned to the Company was continued till the announcement of the Textile Policy of Government in August 1978, according to which the Company should make commercial purchases in the market and operate buffer stock for the purpose of disciplining prices. Even earlier the Agricultural Prices Commission, on whose recommendation (May 1969) the Company was set up, had indicated disciplining of prices as a major objective of the public sector agency. During the period 1970-71 to 1977-78 when its share of the market ranged from 0.2 per cent to 11.2 per cent the Company cannot be said to have played any significant role in disciplining prices. During the next 2 years *i.e.* 1978-79 and 1979-80, the Company's share went upto 15.7 per cent and 17.8 per cent respectively, which were still below the level of 25 to 30 per cent recommended by the National Commission on Agriculture in May 1975.

15.02 *Organisational set-up*

The overall management of the Company vests in the Chairman-*cum*-Managing Director who is assisted by two functional advisers, *viz.* Financial Adviser and Chief Accounts Officer and Adviser (Purchases & Sales), and by Branch Managers under the guidance and supervision of the Board of Directors. Since the inception of the Company in July 1970, six incumbents have held the post of Chairman.

15.03 *Capital structure*

The paid up capital of the Company as on 31st August 1979 was Rs. 400 lakhs, and the amounts of cash credit and Government loan outstanding as on that date were Rs. 20,194 lakhs and Rs. 30 lakhs respectively.

15.04 *Crop Estimation*

The Cotton Directorate of Government of India collects data on cotton production through its own personnel and State Governments. The Trade and the Industry also prepare estimates of cotton production. The Cotton Advisory Board of the Government of India considers these estimates and indicates its own estimates. The Company has no machinery of its own to estimate the production. It makes use of the estimates prepared by the Cotton Advisory Board for its procurement programmes. There were wide differences between original estimates and actual production.

15.05 *Import* .

There was a decline in imports from 10.54 lakh bales in 1970-71 to 0.41 lakh bales in 1973-74 due to switch over to Indian long and extra long staple varieties of cotton by the traditional spinners of foreign cotton on account of rise in prices of foreign cotton and imposition of high import duty by Government. During 1974-75, 2 lakh bales were, however, imported from Pakistan in pursuance of Indo-Pakistan Trade Agreement of January 1975. Sale of this cotton resulted in a loss of Rs. 124.59 lakhs (in addition to remission of import duty of Rs. 201.77 lakhs), which was reimbursed by Government.

To meet the shortfall in the production of cotton, the Company imported 9.69 lakh bales of cotton during 1975-76 and 1976-77. Later, this imported cotton was sold at prices generally lower than the ruling prices of equivalent Indian varieties. At the end of June 1979, the Company held an unsold stock of 46,947 bales valued at Rs. 1,548 lakhs. As a result of holding sizeable stocks from month to month, expenditure by way of interest on borrowed funds, insurance and storage had to be incurred. Due to the downward trend of prices in the domestic market, 31,000 bales of Tanzanian cotton contracted in May 1977 were not brought into the Country at all, but resold in Tanzania at a loss of Rs. 136 lakhs. In yet another case, out of 23,849 bales of Russian Cotton imported in September/October 1977, 15,000 bales remained unsold. These bales were exported to Poland after retaining the stock in the Country for over 20 months, resulting in a loss of Rs. 234.14 lakhs. The Company suffered a total loss of Rs. 71.54 crores in selling the cotton imported during this period. The loss was to be borne by Government ; Government have so far reimbursed Rs. 62 crores to the Company.

There had been problems even in the disposal of cotton imported on mills' account. Out of 6,29,703 bales imported on mills' account, 85,749 bales received between July 1977 and March 1978 were not cleared by the parties who backed out of their commitments on arrival of the cotton in Indian ports. These bales were cleared by the Company and carried on mills' account. The Company had to resort to litigation for recovery of over Rs. 20 crores towards the loss sustained on resale of 56,120 bales to other parties.

15.06 *Export*

In May 1975 Government nominated the Company as the canalising agent for export of cotton. Explaining the policy of exports, the Ministry has stated that only such quantity of cotton is permitted for export which is considered surplus to domestic requirements of the Country and for which there is no demand in the domestic market at reasonable rates. The export of staple cotton is confined to the Company and co-operative marketing federation/societies of cotton growing States. In the case of export of Bengal deshi cotton, private trade has been associated as the performance of the Government agencies and co-operatives has not been found upto the mark.

15.07 *Purchase of indigenous cotton*

The Company's purchase performance can be considered in three phases :—

(a) During the first phase, *i.e.* the period upto 1974-75, the Company's operations were mostly concerned with :

(i) commercial purchases in the domestic market,

(ii) handling of imports as a canalising agent, and

(iii) purchase of 5.17 lakh bales of cotton during 1971-72 as a price support measure.

During this period, the annual purchases of the Company represented only 0.2 per cent to 9.2 per cent of the total production of the Country. There was no definite pattern of purchases from different States.

(b) During the second phase *i.e.* from 1975-76 to 1977-78, the role of the Company was defined to include also purchases for NTC mills.

Although NTC's annual requirement of cotton was placed at around 12 lakh bales, the indents placed by NTC on the Company were for 2 lakh bales in 1975-76, 6 lakh bales in 1976-77 and 7,35 lakh bales in 1977-78. The quantity actually lifted by the mills was much less than the indented quantity. The non-lifting of bales by NTC resulted in large accumulation of stock and increased the burden of carrying charges. Besides, the Company could not take advantage of the price situation by selling the unlifted quantity to non-NTC mills. A small quantity of 1,631 bales of kapas was also purchased by the Company at the end of 1977-78 season under price support operation. Besides, the Company purchased 13,717 bales during 1976-77 season from Gujarat State Co-operative Cotton Marketing Federation to help the Federation of liquidate its stock. Of these, the Company sold upto June 1981, 13,018 bales at a loss of Rs. 200.79 lakhs and for the balance 699 bales the loss is estimated at Rs. 19.73 lakhs at the prices prevailing in June 1981.

(c) During the third phase commencing from 1978-79, the Company was allowed to make commercial purchases and operate buffer stocks with a view to stabilising prices. The Company initially drew up a target for procurement of 12 lakh bales of which 6 lakh bales were meant for NTC, 2 lakh bales for Commercial purchases and 4 lakh bales for buffer stock. The target was revised to 15 lakh bales in March 1979. The actual procurement till 31st August, 1979 amounted to 10.36 lakh bales only.

A review of purchases of cotton and lint effected during 1976-77 at Ahmedabad and Indore branches revealed that in several cases the quality of cotton and lint purchased by the selectors was poor. Consequently, the Company suffered a loss of Rs. 43.38 lakhs on their sale.

15.08 *Ginning & Pressing of Kapas*

The Company considered in March 1973 that ¼% loss of ginning was acceptable as being normal. In 1974, the permissible loss was raised to 1%, but again in 1975-76 it was reduced to ½%. The actual loss in ginning was, however, more than 1% in many centres. The loss suffered by the Company on account of the ginning loss exceeding 1% during the years 1971-72 to 1977-78 amounted to Rs. 279.25 lakhs excluding centres in Tamil Nadu and certain other centres for which information was not available.

According to the Ahmedabad Textile Industrial Research Association, to whom the matter had been referred by the Company no norms for ginning loss were available in any literature and based on experience the loss percentage generally varied from 1 to 3 and in certain cases, *e.g.* Theni in Tamil Nadu, the loss percentage could even be 15. The loss on account of ginning exceeding 3% in centres other than those in Tamil Nadu amounted to Rs. 27.17 lakhs during the period from 1971-72 to 1977-78.

Similarly, a review of the yield from kapas processed at various centres revealed that in a number of centres lint outturn was less than the minimum outturn specified in the Indian Cotton Annual Published by EICA. The loss suffered by the Company on this account in centres other than those in Tamil Nadu during the period 1971-72 to 1977-78 amounted to Rs. 347.03 lakhs.

The Ministry stated (October 1980) that the Company was conscious of the financial implication involved in lower outturn and had taken various measures such as hiring of exclusive Ginning and Pressing factories, ascertaining heapwise processing results and regular review of purchases and processing (centre-wise and variety-wise) to safeguard its interests.

15.09 *Sale of Indigenous Cotton*

In 1970-71 the Company acted as agent of mills in both the public and private sectors for buying cotton. The Company recovered from the mills its costs (including carrying charges) and service charges of 1 per cent. This policy continued till March 1972. Under the Government directives issued in April 1972 the Company purchased 5.17 lakh bales during 1971-72 as a price support measure at prices fixed by the Government above the prevailing market prices. Faced with serious problems of disposing of the huge stock purchased, the Company departed from the normal practice and sold cotton to private traders and to the mills through trade agents by paying commission on the sales upto April 1974. During 1973-74 the prices of cotton started rising from the beginning of the season. On the recommendation of a Sub-Committee appointed to examine the purchase and sale policy of the Company, the Board of Directors decided in March 1974 to suspend all sales to enable the prices to stabilise. Later, from May 1974, the Company released in fortnightly instalments limited quantities of stock at cost prices which were generally lower than market prices. This kind of limited sale continued for about 5 months. Thereafter the prices started falling. Most of the 1973-74 stocks had, therefore, to be sold in the declining market at prices below cost. The loss sustained by the Company on sale of 1973-74 crops in respect of Bangalore branch alone amounted to Rs. 203.31 lakhs. The loss incurred in other regions had not been worked out by the Company.

15.10 *Inventory Management*

Closing stock at the end of 1976-77, 1977-78 and 1978-79 was significantly large (valued at Rs. 93.56 crores, Rs. 87.66

crores and Rs. 154.99 crores respectively) as compared to the total stock of the National level and scale of purchase operations of the Company as the NTC mills did not lift the cotton purchased for them. The closing stock for 1979-80 included a large quantity of Varalaxmi and Suvin cotton of the value of Rs. 27.88 crores of 1978-79 and 1979-80 crop which varieties of cotton had been purchased with a view to protecting the interests of the growers of extra long staple cotton when the demand for it had depressed. The Company suffered a loss of Rs. 4.94 crores on sale of these varieties of cotton upto August 1980 in Karnataka, Tamil Nadu and Madhya Pradesh.

15.11 *Financial Management*

The Company earned profits upto 1976-77 and paid dividends to Government ranging from 3 to 12 per cent. During 1977-78 and 1978-79 the Company suffered losses of Rs. 535.27 lakhs and Rs. 695.60 lakhs respectively due to the continuous fall in the domestic cotton prices since the end of 1976-77 cotton season. On account of the inadequate role assigned to the Company restricting its purchases to meet the needs of NTC mills till 1977-78, the Company could not take advantage of the market situation by selling unlifted cotton bales to non-NTC mills. Later, when the Company started selling the unlifted stock the prices came down further.

15.12 *Man Power*

The staff strength was increased from 503 in 1972-73 to 648 in 1973-74 to create the infrastructure to effect purchases of about 30 lakh bales in 1973-74 which target the Management did not achieve in 1973-74 or in subsequent years. The quantity of cotton purchased by the Company ranged from 1.99 lakh bales to 13.79 lakh bales during the period 1973-74 to 1978-79.

A standard staffing pattern linked with the volume of business has not been evolved so far.

15.13 *Internal Audit*

Internal Audit of the Company was entrusted to firms of Chartered Accountants upto 1979-80. In 1980-81 the Company set up its own Internal Audit Cell.

16. **Glossary of Terms**

Adtyas

Small broker in mandi having licence under the law and selling kapas on behalf of the growers on commission.

Bale

Pressed lint in hessian cloth and iron hoops weighing about 170 kgs. each.

Candy

The measure of weight equal to 355.62 kgs. or 784 lbs.

Caudy

Immature and insect damaged kapas having lost staple and class.

Cotton year

The period from the first day of September of any year to the 31st day of August of the next year (both days inclusive).

Long staple

Cotton whose staple length is above 1″, but below $1\frac{5}{32}$″.

Extra Long staple

Cotton of staple length above $1\frac{5}{32}$″.

Ginning

A process by which the cotton seeds are separated from kapas, and lint is obtained.

R.G.

Roller ginned.

S.G.

Saw ginned.

Kapas

Unginned cotton.

Lint

Raw cotton obtained after processing and separating cotton-seed from kapas.

Yellow Picking

Kapas having yellow strains and whose class and strength is damaged, due mainly to insect damage and/or weathering in the open or due to prolonged storage in 'Kutcha' godowns.

P. P. Gangadharan

(P. P. GANGADHARAN)
Chairman, Audit Board and
Ex-Officio Additional Deputy
Comptroller and Auditor General
(Commercial)

New Delhi
The 30 November, 1981

Countersigned

G. Prakash

(GIAN PRAKASH)
Comptroller and
Auditor General of India

New Delhi
The 30 November, 1981

ANNEXURE I

(Referred to in para 3)

ORGANISATIONAL CHART OF THE COTTON CORPORATION OF INDIA LIMITED, BOMBAY AS ON 1-4-1981

CHAIRMAN-cum-MANAGING DIRECTOR

- Adviser (Purchase)
  - Deputy Manager (Purchase)
    - Assistant Manager (Purchase)
  - Deputy Manager (Qlty. Cont.)
  - Branch Managers
    - Bhatinda, Sirsa, Shriganganagar, Indore, Ahmedabad, Rajkot, Madras, Bangalore, Guntur
      - Asstt. Manager (Field)
  - Deputy Manager (Legal and Imports)
- Adviser (Sales) (vacant)
  - Manager (Sales)
    - Deputy Manager (Sales)
  - Manager (C&F)
    - Asstt. Manager (Godown)
    - Asstt. Manager (C&F)
  - Manager (Exports)
    - Assistant Manager (Exports)
- F.A. & C.A.O.
  - Manager (Accts.)
    - Accounts Officer (Gr. I & II) (HQ)
  - Manager (Internal Audit)
    - Audit Officers
      - Bhatinda, Ahmedabad, Bangalore, Bombay
  - Branch A.O.
    - Bhatinda, Sirsa, Shriganganagar, Indore, Ahmedabad, Rajkot, Madras, Bangalore, Guntur, Calcutta
- Manager (Personnel & P R)
  - Deputy Manager (Vig.)
    - Asstt. Manager (Vig).
    - Vigilance Officers
      - Bhatinda, Sirsa, Shriganganagar, Ahmedabad, Madras, Bangalore, Guntur
  - Deputy Manager (Personnel)
    - Assistant Manager (Establishment)
  - Liaison Officer (At Delhi)

ANNEXURE II

(Referred to in para 8.02)

('000 bales)

1971-72				1972-73				1973-74				1974-75				1975-76				1976-77				1977-78			
urchases y the Company	% to total purchases	Production in the Country	% of Col. 6 to 8	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 10 to 12	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 14 to 16	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 18 to 20	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 22 to 24	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 26 to 28	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 30 to 32
6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33
17.4	3.4	165.7	10.5	..	..	112.7	..	16.6	5.4	347.3	4.8	6.6	20.7	483.0	1.4	8.1	5.4	239.1	3.4	34.1	6.4	260.7	13.1	29.2	4.4	217.0	13.5
337.8	65.3	2280.5	14.8	..	..	1383.2	..	3.4	1.1	1707.6	0.2	16.6	52.0	1454.8	1.1	44.6	29.8	1677.1	2.6	121.5	22.7	1630.4	7.5	111.9	16.7	1941.8	5.8
21.9	4.2	439.0	5.0	80.1	20.7	428.0	18.9	39.5	12.7	466.9	8.5	0.5	1.6	426.0	0.1	6.7	4.5	465.0	1.4	41.9	7.8	499.0	8.4	46.2	6.9	464.0	9.9
5.2	1.0	368.8	1.4	6.9	1.8	330.4	2.1	3.0	1.0	179.0	1.7	1.7	5.4	424.5	0.4	7.7	5.2	271.8	2.9	65.7	12.3	277.8	23.6	65.8	9.9	299.2	22.0
64.0	12.4	917.1	7.0	..	..	1053.3	..	..	..	1015.7	..	..	..	1716.6	..	..	..	771.5	..	..	..	832.7	..	134.7	20.2	1263.4	10.7
20.0	3.8	568.8	3.5	0.8	0.2	418.4	0.2	50.2	16.2	719.8	7.0	2.4	7.5	793.1	0.3	23.0	15.4	586.7	3.9	40.9	7.7	460.2	8.9	36.3	5.4	801.7	4.5
46.9	9.1	971.5	4.8	233.8	60.6	1015.3	23.0	168.6	54.3	1157.3	14.6	1.0	3.1	1198.6	0.1	21.3	14.2	1235.0	1.7	132.8	24.8	1138.0	11.7	113.5	17.0	1224.0	9.3
2.7	0.5	392.8	0.7	64.4	16.7	287.2	22.4	29.0	9.3	300.3	9.7	1.0	3.1	336.6	0.3	14.9	10.0	404.2	3.7	69.1	12.9	348.4	19.8	93.8	14.1	452.4	20.7
1.4	0.3	388.5	0.4	..	..	326.9	..	..	..	358.1	..	2.1	6.6	274.1	0.8	23.2	15.5	253.0	9.1	28.9	5.4	347.5	8.3	35.8	5.4	538.1	6.6
..	..	71.3	..	..	..	66.4	..	..	..	56.8	..	..	..	47.8	..	..	..	46.1	..	..	..	44.6	..	..	..	41.8	..
517.3	100.0	6564.0	7.9	386.0	100.0	5416.8	7.1	310.3	100.0	6308.8	4.9	31.9	100.0	7155.1	0.4	149.5	100.0	5949.5	2.5	534.9	100.0	5839.3	9.2	667.2	100.0	7243.4	9.2

al 1976-77 (P. 117). Figures for 1975-76, 1976-77 and 1977-78 are collected from Directorate of Cotton Development.

State	1970-71				1971-72				1972-73				
	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 1 to 4	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 6 to 8	Purchases by the Company	% to total purchases	Production in the Country	% of Col. 10 to 12	Pu by Co
1	2	3	4	5	6	7	8	9	10	11	12	13	
Andhra Pradesh	..	..	78.4	..	17.4	3.4	165.7	10.5	..	..	112.7	..	
Gujarat	5.4	65.1	1571.3	0.3	337.8	65.3	2280.5	14.8	..	..	1383.2	..	
Haryana	..	..	353.0	..	21.9	4.2	439.0	5.0	80.1	20.7	428.0	18.9	
Madhya Pradesh	..	..	210.3	..	5.2	1.0	368.8	1.4	6.9	1.8	330.4	2.1	
Maharashtra	1.4	16.8	481.7	0.3	64.0	12.4	917.1	7.0	..	..	1053.3	..	
Karnataka	1.5	18.1	343.3	0.4	20.0	3.8	568.8	3.5	0.8	0.2	418.4	0.2	
Punjab	..	..	818.5	..	46.9	9.1	971.5	4.8	233.8	60.6	1015.3	23.0	
Rajasthan	..	..	229.1	..	2.7	0.5	392.8	0.7	64.4	16.7	287.2	22.4	
Tamil Nadu	..	..	344.9	..	1.4	0.3	388.5	0.4	..	..	326.9	..	
Other	..	..	68.3	..	..	..	71.3	..	..	..	66.4	..	
All India	8.3	100.0	4498.8	0.2	517.3	100.0	6564.0	7.9	386.0	100.0	5416.8	7.1	

Source :—Statewise production figures upto 1974-75 are taken from Indian Cotton Annual 1976-77 (P. 117). Figures for 1975-76, 1976-77 and 1977-78 are collected from Directorate

ANNEXURE III

(Referred to in para 9.02)

(Quantity in Quintals)

1973-74				1974-75					1975-76					1976-77					1977-78				
nning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms		Quantity processed	Ginning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms		Quantity processed	Ginning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms		Quantity processed	Ginning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms		Quantity processed	Ginning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms	
uantity (No. of Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs		Quantity (No. of Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs		Quantity (No. of Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs		Quantity (No. of Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs		Quantity (No. of Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs
13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36
15363 (16)	44.70	1583 (4)	10.87	5,297	68 (1)	0.20	..	..	48,002	167 (4)	0.41	105 (3)	0.70	6,04,033	6,687 (19)	27.33	..	..	5,07,105	7,676 (16)	28.80	N.A.	..
2673 (12)	8.43	136 (3)	0.89	2,482	25 (1)	0.08	..	..	17,400	213 (5)	0.54	67 (4)	0.47	..	N.A.	..	..	..	..	N.A.	..	..	..
1920 (9)	6.47	..	..	5,198	23 (1)	0.07	..	..	7,172	95 (1)	0.26	..	..	..	N.A.	..	..	..	2,20,723	2,852 (11)	11.79	..	..
970 (3)	4.80	80 (1)	1.18	17,175	151 (3)	0.51	88 (1)	0.77	33,921	735 (4)	3.41	1,273 (6)	18.25	1,28,625	3,299 (5)	18.15	8,648	146.21	46,649	404 (5)	2.89	1,966 (4)	23.06
33 (2)	0.13	..	..	..	..	..	111 (2)	0.92	..	..	..	437 (4)	3.98	41,434	350 (5)	1.87	74 (5)	0.98	82,513	253 (5)	1.10	78 (4)	0.88
N.A.	..	385 (5)	5.60	9,110	146 (2)	0.64	139 (1)	1.79	9,826	75 (3)	0.28	368 (1)	4.41	22,558	372 (2)	1.93	532 (3)	8.57	39,996	29 (2)	0.13	1,533 (2)	25.20
N.A.	..	..	..	..	Purchased	only F.P. Bales		..	..	..	..	..	..	2,94,627	2,833 (9)	14.64	3,619 (11)	46.17	1,53,635	1,552 (6)	7.15	4,587 (12)	40.70
purchase	..	..	..	.. No purchase			..	..	..	No purchase		..	..	..	.. No purchase		..	..	4,29,012	4,558 (13)	19.85	N.A.	..
	64.53		18.54			1.50		3.48			4.90		27.81			63.92		201.93			71.71		89.84

ANNEXU

(Referred to in

State	1971-72					1972-73					1973-74						
	Quantity processed	Ginning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms		Quantity processed	Ginning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms		Quantity processed	Ginning Loss in excess of 1%		Lint out turn less than the minimum stipulated norms		Quantity processed	Ginning L of 1
		Quantity (No. of Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs		Quantity (Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs		Quantity (No. of Centres)	Rs. in lakhs	Quantity (Centres)	Rs. in lakhs		Quantity (No. of Centres)
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Punjab	2,13,911	6691 (12)	11.57	..	..	10,11,935	14766 (16)	33.41	..	..	8,84,303	15363 (16)	44.70	1583 (4)	10.87	5,297	68 (1)
2. Haryana	1,04,659	2624 (6)	4.73	..	..	4,00,565	8000 (13)	18.13	..	..	1,44,108	2673 (12)	8.43	136 (3)	0.89	2,482	25 (1)
3. Rajasthan	3,103	35 (1)	0.06	..	..	2,66,285	2008 (9)	4.79	..	..	1,71,057	1920 (9)	6.47	..	..	5,198	23 (1)
4. Andhra Pradesh	N.A.	N.A.	..	..	..	..	No purchase	..	..	..	39,723	970 (3)	4.80	80 (1)	1.18	17,175	151 (3)
5. Madhya Pradesh	N.A.	N.A.	..	157 (3)	0.69	..	N.A.	..	N.A.	N.A.	4,778	33 (2)	0.13	..	..	..	..
6. Karnataka	N.A.	N.A.	..	..	..	..	N.A.	..	N.A.	N.A.	..	N.A.	..	385 (5)	5.60	9,110	146 (2)
7. Gujarat	..	..	..	..	..	..	No purchase		..	..	..	N.A.	..	..	..	..	Purchased
8. Maharashtra	N.A.	N.A.	..	1049 (34)	4.74	..	No purchase		..	..	..	No purchase	..	..	..	..	No purchase
			16.36		5.43			56.33		..			64.53		18.54		

NOTE :—Quantity processed represents the kapas processed at the Centres where the ginning loss exceeded 1%.

MGIPRRND—TSS/1—S/15 C&AG/81—30-11-81—2046

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