सत्यमेव जयते

REPORT

OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED
31 MARCH 1996

No. 1

(COMMERCIAL)

Government of Rajasthan

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Table of Contents

This Report deals with the results of audit of Government companies and Statutory corporations including the Rajasthan State Electricity Board (RSEB) and has been prepared for submission to the Governor of Rajasthan under Section 19A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Services) Act, 1971, as amended in March 1984. The results of audit relating to departmentally managed commercial undertakings are contained in the Report of the Comptroller and Auditor General of India (Civil) - Government of Rajasthan.

Audit of the accounts of the wholly owned Government companies is conducted by the Comptroller and Audtitor General of India under Section 619(4) of the Companies Act, 1956. There are certain companies which are not subject to audit by the Comptroller and Auditor General of India as Government or Government owned/controlled companies/corporations hold less than 51 *per cent* of the shares.

In respect of the Rajasthan State Electricity Board and the Rajasthan State Road Transport Corporation, which are the Statutory corporations, the Comptroller and Auditor General of India is the sole auditor. In respect of the Rajasthan Financial Corporation and the Rajasthan State Warehousing Corporation, he has the right to conduct the audit of their accounts independently of the audit conducted by the Chartered Accountants appointed under the respective Acts. The Audit Reports on the accounts of all these corporations are being forwarded separately to the Government of Rajasthan.

This Report contains four chapters. Chapter-I deals with the general aspects of the results of working of the Government companies and Statutory corporations.

Chapter-II contains two reviews covering - (i) disinvestment of equity shares held in assisted units by Rajasthan State Industrial Development and Investment Corporation Limited (RIICO), and (ii) Rajasthan Paryatan Vikas Nigam Limited (RPVN). The review on disinvestment of equity shares in assisted units by RIICO highlights that the average period of holding of a share was 16 years, and this long period contributed to low annual return on disinvestment of just 6 *per cent.* The review on RPVN highlights that location at uneconomical sites contributed to many of its hotels/motels in incurring continuous losses.

Chapter-III contains a review on the working of the Rajasthan State Warehousing Corporation. This review highlights that before deciding upon location of some warehouses and their capacities, business potential was not adequately evaluated which resulted in their low capacity utilisation and consequent losses.

Chapter-IV deals with miscellaneous topics relating to loss, lack of economy or efficiency *etc*. The cases reported in this section came to notice in course of audit during the year 1995-96 as well as those which came to notice earlier but were not dealt with in the previous Reports. Matters relating to the period subsequent to 1995-96 have also been included, wherever necessary.

Overview

OVERVIEW

1. There were 19 Government companies (including three subsidiaries) and four Statutory corporations as on 31 March 1996.

(Paragraphs 1.2.1, and 1.3.1)

The aggregate paid-up capital of the 19 Government companies was Rs.284.03 crores, of which Rs.276.43 crores were invested by the State Government, Rs.5.44 crores by the Central Government and Rs.2.16 crores by others. During the year 1995-96 the State Government received dividend of Rs.5.03 crores from five Government companies as against a 'Nil' dividend during the year 1994-95, representing a return of 1.82 *per cent* on its share capital.

The total loans outstanding against 15 Government companies (including three subsidiaries) at the end of March 1996 amounted to Rs.612.29 crores. The repayment of loans raised by seven companies and payment of interest in case of six companies had been guaranteed by the State Government. The amount of such guarantees outstanding as on 31 March 1996 was Rs.410.27 crores.

(Paragraphs 1.2.1, 1.2.2, 1.2.3, 1.2.5.2
and Annexures II and IV)

Thirteen of the nineteen Government companies (including three subsidiaries) had finalised (October 1996) their accounts for the year 1995-96. Seven of these earned profits aggregating Rs.52.11 crores, while the losses of the six others totalled Rs.1.93 crores. The accounts of the remaining six companies were in arrears for periods ranging from one year to five years. Based on the latest available accounts, the accumulated losses (Rs.21.64 crores) of five Government companies, had exceeded their paid-up capital (Rs.8.39 crores).

(Paragraphs 1.2.4 and 1.2.5.3)

The capital requirements of the Rajasthan State Electricity Board are met by way of share capital and long-term loans from Government, public and financial institutions. At the end of March 1995, long-term loans

totalling Rs.3595.26 crores were outstanding representing an increase of 26.53 *per cent* over the outstandings at the end of March 1994, of which the repayment of Rs.1448.22 crores had been guaranteed by the State Government. The accounts of the Board for the year 1994-95 disclosed a net surplus of Rs.77.07 crores, which decreased the accumulated loss to Rs.382.30 crores at the end of 1994-95. The accounts for the year 1995-96 were awaited (October 1996).

(Paragraphs 1.3.2, 1.3.4, 1.3.5, 1.4.1 and 1.4.2)

The capital of Rs.107.95 crores of Rajasthan State Road Transport Corporation as on 31 March 1995 comprised Rs.81.12 crores contributed by the State Government and Rs.26.83 crores by the Central Government. The accounts of the Corporation for the year 1994-95 disclosed a net surplus of Rs.24.16 crores, which wiped out the accumulated loss of Rs.6.52 crores till the end of 1993-94. The accounts for the year 1995-96 are yet to be received (October 1996) for audit.

(Paragraphs 1.5.1 and 1.5.2)

The Rajasthan Financial Corporation, with a paid-up capital of Rs.67.53 crores as on 31 March 1996, of which Rs.44.71 crores were contributed by the State Government, earned during the year 1995-96, a profit of Rs.7.08 crores after adjustments/appropriations. Consequently, the accumulated losses decreased to Rs.35.85 crores.

(Paragraphs 1.6.1 and 1.6.2)

The Rajasthan State Warehousing Corporation earned a profit of Rs.3.16 crore in 1995-96 against a profit of Rs.1.46 crores earned during 1994-95.

(Paragraph 1.7.2)

2. Reviews of the activities of two Government companies and one Statutory corporation revealed the following:

2A. Rajasthan State Industrial Development and Investment Corporation Limited (RIICO)

Disinvestment of equity shares held in assisted units

RIICO, set up in 1979 to promote and finance industrial undertakings, has been investing in the shares of its assisted units. Despite 17 years of equity investment, RIICO has not evolved a consolidated policy and guidelines for deciding cases where shares should be purchased in an assisted unit and for governing disinvestment.

(Paragraphs 2A.1 and 2A.4)

RIICO has not handled the disinvestment of its equity portfolio prudently as indicated by the following:

(a) The average period of holding of share till its disinvestment/write off was 16 years, which is too long for quick rotation of funds.

(Paragraph 2A.7.2.2)

(b) The slow disinvestment of equities and loss of opportunities of selling them when higher prices were available, contributed to a low annual return of 6 *per cent*. As the average annual return from dividends was just 1 *per cent*, the total average return from equity investments was 7 *per cent*. This compared poorly with term loans which yielded an average return of 16.44 *per cent*.

(Paragraphs 2A.7.2.3 and 2A.7.2.6)

(c) RIICO disinvested only such equities, the price of which was higher or equal to the purchase price, and continued to hold on to shares of companies performing poorly. This tendency contributed to :

(i) write-off of shares costing Rs.0.82 crore during the six years ending 1995-96,

(Paragraph 2A.8)

(ii) **holding of shares (as on 31 March 1996) costing Rs.9.91 crores in 45 companies (out of 95 companies in portfolio), which were under rehabilitation/winding up, and**

(Paragraph 2A.10(e))

(iii) **holding of shares (as on 31 March 1996) costing Rs.31.84 crores in 73 companies which had little liquidity.**

(Paragraph 2A.10(a))

(d) Lack of monitoring of share prices to facilitate disinvestment, contributed to RIICO tapping only an average of 13.85 *per cent* of the potential profits available. Test check revealed that RIICO did not disinvest its shareholding in 6 companies during the period of buoyancy in market prices despite the advice of their Finance Wing in January 1994. On a conservative basis, loss of opportunities to disinvest till March 1995 resulted in RIICO not realising a potential profit of Rs.12 crores, which was completely eroded by March 1996.

(Paragraphs 2A.11.1.5 and 2A.14)

In two cases test-checked RIICO disinvested shares with reference to price determined as per buy back arrangement even after the period of this arrangement had lapsed and the market price of these shares was significantly higher. This resulted in RIICO forgoing a profit of Rs.2.40 crores in favour of the promoter.

(Paragraphs 2A.13.1 and 2A.13.2)

At the request of the promoter of Rajasthan Syntex Limited, RIICO decided to forego an offer (February 1994) from a private investment company for the purchase of 2 lakh shares at a price of Rs.126 per share and decided to freeze their sale for 3 years. While losing this opportunity of earning a profit of Rs.2.32 crores, RIICO did not obtain any assurance from the promoter that he would buy them later at a price higher than that forgone. The price of this share fell to Rs.31 per share by 31 March 1996.

(Paragraph 2A.14.1)

2B. Rajasthan Paryatan Vikas Nigam Limited

Rajasthan Paryatan Vikas Nigam Limited (RPVN) was incorporated as a wholly owned Government company in November 1978 with the object of promoting tourism in the State. RPVN's share in providing accommodation to both domestic and foreign tourists, however, exhibited a declining trend.

(Paragraphs 2B.1, 2B.2 and 2B.9)

The net profit of RPVN declined sharply from Rs.2.07 crores in 1992-93 to Rs.1.24 crores in 1993-94 and again to Rs.0.29 crore in 1994-95. This was largely on account of steep rise in personnel expenditure and Head Office administrative expenditure.

(Paragraph 2B.7.1)

Profits earned by RPVN were mainly due to beer trade, which is not a core activity of RPVN. On the running of its hotels, motels *etc.*, RPVN has consistently incurred losses which increased sharply from Rs.0.20 crore in 1992-93 to Rs.2.33 crores in 1994-95.

(Paragraph 2B.7.2)

The number of hotels, midways and cafeterias incurring losses increased from 43 *per cent* in 1990-91 to 70 *per cent* in 1994-95. The total annual loss of such units also increased from Rs.0.17 crore in 1990-91 to Rs.0.75 crore in 1994-95. Nine hotels and motels incurred continuous losses in each of the five years from 1990-91 to 1994-95, which aggregated Rs.0.83 crore.

(Paragraph 2B.10)

During 1990-91 to 1994-95, the aggregate expenditure on raw material for catering and the expenditure on fuel exceeded the normative cost by Rs.0.12 crore and Rs. 0.44 crore respectively.

(Paragraphs 2B.13.1.1 and 2B 13.1.2)

Due to delay of 3 to 9 months in finalisation of tenders for purchase of catering raw material and resultant delay in revision of menu rates, RPVN sustained loss of revenue to the extent of Rs.0.24 crore.

(Paragraph 2B.14)

Due to non-mutation of the plots in favour of Government of India, Central assistance towards expenditure of Rs.0.65 crore incurred by RPVN for the years 1985-86 to 1992-93 was yet (May 1996) to be received. This resulted in loss of interest of Rs. 0.40 crore on the blocked funds upto 31 March 1996.

(Paragraph 2B.19)

3. Rajasthan State Warehousing Corporation

Rajasthan State Warehousing Corporation (RSWC) was established in December 1957 with the object to provide scientific storage facility for agricultural commodities. Even by 1995-96 RSWC had not been able to utilise the available storage capacity of 1989-90.

(Paragraphs 3.1, 3.2and 3.8.1(ii))

Profits earned by RSWC during 1990-91 to 1993-94 were lower than that during 1989-90 due to (a) low capacity utilisation in 29 to 36 warehousing centres (out of 77 to 78 centres) which contributed annual losses varying in aggregate between Rs.0.38 crore and Rs.0.63 crore in these centres, and (b) disproportionate increase in the establishment cost from 43 *per cent* of total income in 1989-90 to 57 *per cent* in 1993-94.

(Paragraph 3.7.1)

By refusing to undertake procurement activity during r*abi* 1993-94, RSWC lost an opportunity of earning a profit of Rs.0.41 crore.

(Paragraph 3.10)

RSWC failed to construct warehouses at Jaipur and continued to hire warehouses at Durgapura and Jhotwara at Jaipur. Despite 88 *per cent* average capacity utilisation during 1989-96 at Durgapura and 97 *per cent* average capacity utilisation during 1989-93 at Jhotwara, these godowns

incurred aggregate loss of Rs.0.14 crore and Rs.0.02 crore respectively. This is indicative of an insufficient margin between their hire charges and the rates of storage charges recovered by RSWC.

(Paragraph 3.12)

4. Miscellaneous topics of interest

RIICO failed to take cognizance of its own Standing Orders and allowed (July 1995) restoration of a cancelled plot at the pre-revised rate of Rs.125 per square metre instead of the revised rate of Rs.250 per square metre. This resulted in loss of revenue of Rs.0.22 crore.

(Paragraph 4A.2.4)

Due to incorrect assessment of actual requirement of land for construction of Grid Sub-Station , RSEB sustained loss of interest of Rs.0.22 crore upto March 1996 on advance payment of Rs.0.61 crore .

(Paragraph 4B.1.1)

By constructing the hydel power house at Charanwala with reference to the designed discharge of water at the Charanwala branch of the Indira Gandhi Main Canal without examining as to when Indira Gandhi Nahar Pariyojna expected the designed level of discharge to be achieved, Rajasthan State Electricity Board needlessly commissioned the project around three years ahead of requirement. This resulted in idle expenditure of Rs.4.96 crores for 2½ years (up to June 1996) causing loss of interest of Rs.2.23 crores.

(Paragraph 4B.1.3)

Payment of both interest and dividend by Rajasthan State Road Transport Corporation on State Government's capital contribution for the year 1992-93 resulted in overpayment of Rs.3.82 crores besides recurring loss of interest of Rs.3.82 lakhs per month (Rs.30.56 lakhs up to August 1996).

(Paragraph 4B.2.2)

Chapter-I

GENERAL VIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1 Introduction
1.2 Government companies
1.3 Statutory corporations
- Rajasthan State Electricity Board
- Rajasthan State Road Transport Corporation
- Rajasthan Financial Corporation
- Rajasthan State Warehousing Corporation

CHAPTER-I

General view of Government companies and statutory corporations

GENERAL VIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

1.1 Introduction

The accounts of the Government companies are audited by the Statutory Auditors who are appointed by Central Government on the advice of the Comptroller and Auditor General of India (CAG) as per provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by the CAG as per provisions of Section 619(4) of the Companies Act.

Of the Statutory corporations, the accounts of Rajasthan State Electricity Board and Rajasthan State Road Transport Corporation are audited solely by CAG under their respective Acts. The accounts of Rajasthan Financial Corporation and Rajasthan State Warehousing Corporation are audited by the Chartered Accountants appointed by the State Government in consultation with the CAG, who also undertakes the audit of these Corporations separately. Audit Reports on the accounts of all the Statutory corporations are issued by the CAG to the respective organisations/State Government.

1.2 Government companies

1.2.1 General View

As on 31 March 1996, there were 19 Government companies (including three subsidiaries) with total investment of Rs.896.32 crores (Equity: Rs.284.03 crores; Long-term loans: Rs.612.29 crores) as against 17 companies (including three subsidiaries) with a total investment of Rs.801.27 crores as on 31 March 1995 (Equity: Rs.262.88 crores; Long-term loans: Rs.538.39 crores). The only deemed Government company, Rajasthan State Seeds Corporation Limited, became a Government company with effect from 30 March 1996 and a new Government company, Rajasthan State Power Corporation Limited was incorporated on 6 April 1995.

The classification of the companies is as under

		Number of Companies	Paid-up Capital (Rs. in crores)
(a)	Working companies	13	279.06
(b)	Non-working companies:		
	(i) Defunct companies	6	4.97
	(ii) companies under liquidation.	Nil	Nil

Out of six defunct companies no company has been referred to BIFR.

1.2.2 The financial position and working results in respect of all the Government companies are given in Annexures II and III respectively.

The sector-wise investment in these companies was as detailed below:

Equity and loans

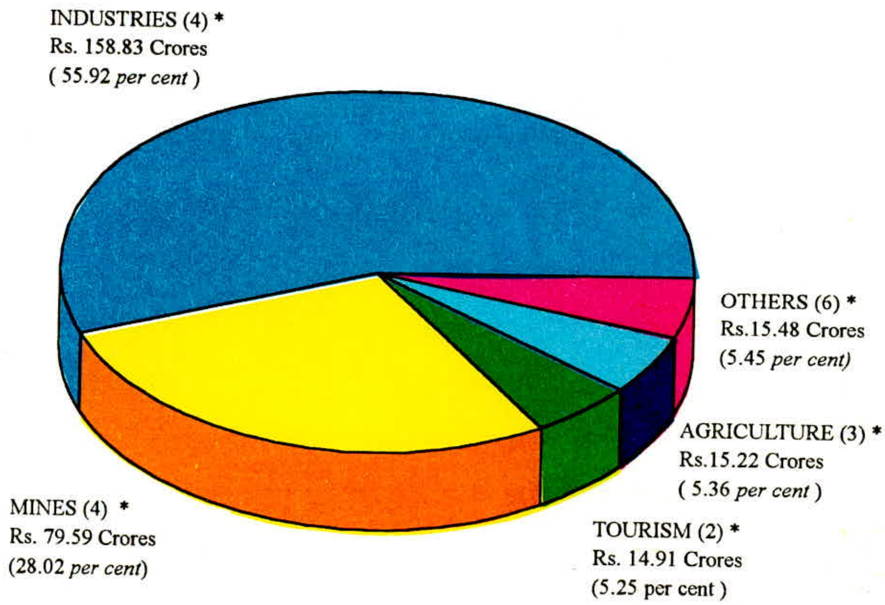
Department/ type of PSU's	As at the end of 1995-96			As at the end of 1994-95			Debt-equity ratio in 1995-96	Remarks
	No.	Equity (Rs.in crores)	Loan	No.	Equity (Rs.in crores)	Loan		
1	2	3	4	5	6	7	8	9
AGRICULTURE								
A. Government companies	3	15.22	10.33	2	8.88	0.33	0.68:1	
B. Deemed Government companies	-	-	-	1	2.33	Nil	-	
FOREST & ENVIRONMENT	1	0.19	Nil	1	0.19	Nil	-	
GROUND WATER	1	1.27	Nil	1	1.27	Nil	-	
INDUSTRIES								
A. Government companies	3	158.53	477.39	3	149.01	423.06	3.01:1	
B. Subsidiary companies	1	0.30	1.88	1	0.30	1.95	6.27:1	
MINES								
A. Government companies	2	78.06	83.76	2	78.06	83.55	1.07:1	
B. Subsidiary companies	2	1.53	0.42	2	1.53	0.42	0.27:1	
PUBLIC WORKS	1	10.00	17.68	1	5.00	6.60	1.77:1	
STATE ENTERPRISES	2	3.72	6.01	2	3.73	8.13	1.62:1	
TOURISM	2	14.91	14.82	2	14.91	14.35	0.99:1	
ENERGY	1	0.30	Nil	-	-	-	-	
GRAND TOTAL	**19**	**284.03**	**612.29**	**18**	**265.21**	**538.39**	**2.16:1**	

Chart - I

Sector-wise investment in Government Companies

As on 31 March 1996

(Rupees in crores)



* These indicate number of companies in the sector

(Refer paragraph No. 1.2.2)

Analysis of investments

(a) The increase in investment during 1995-96 comprised the following :

Sl.No	Reasons of increase/ decrease in investment	Number of companies	Rs. in crores
1.	Increase in equity of existing companies	3	(+)14.51
2.	Increase in loans of existing companies	6	(+)66.46
3.	Decrease in equity of existing companies	-	-
4.	Decrease in loans of existing companies	4	(-)02.56
5.	Equity in a company previously classified as a deemed Government Company	1	(+)06.34
6.	Loan in a company previously classified as a deemed Government company	1	(+)10.00
7.	Equity in a newly incorporated Government company	1	(+)00.30
	Total	-	**(+)95.05**

(b) The State Government had not disinvested its shares in any of the State Government companies during 1995-96.

1.2.3 Guarantees, budgetary outgo and waiver of dues

The position of guarantees and budgetary outgo at the end of the year 1995-96 is given in Annexures-II and IV.

(a) The guarantees given by the State Government against loans and credits given by banks *etc.* to the Public Sector Enterprises for the preceding three years upto 1995-96 and outstanding as on 31 March 1996 are shown in the table below:

Sl. No.	Guarantees	Amount guaranteed during			Guaranteed amount outstanding as on 31 March 1996
		1993-94	1994-95	1995-96	
		(Rupees in crores)			
1.	Cash credit from State Bank of India and other nationalised banks	-	-	1.80	1.80
2.	Loans from other sources	3.25	261.15	33.75	408.47
3.	Letters of credit opened by S.B.I. *etc.* in respect of imports	-	-	-	-
4.	Payment obligation under agreements with foreign consultants of contracts	-	-	-	-

Guarantee was both for repayment of loan and interest except in the case of one Government company (Rajasthan Small Industries Corporation Ltd.) where the guarantee was only for the amount of loan and not for interest. There was no case of default in repayment. Guarantee commission paid/payable by Government companies to the State Government for the year 1995-96 was Rs.1.08 crores.

(b) Budgetary outgo and waiver of dues

(i) The outgo from the State Government to 11 PSUs during the years 1993-94 to 1995-96 in the form of equity capital, loans and subsidy is as detailed below:

	Particulars	1993-94	1994-95	1995-96
		(Rupees in crores)		
1.	Equity capital outgo from Budget	27.32	24.92	18.82
2.	Loans given out of Budget	0.12	7.59	39.21
3.	Subsidy	7.72	6.15	25.82
	Total outgo	**35.16**	**38.66**	**83.85**

(ii) In the last three years, no amount of receipt due to the Government was foregone by way of loans written off or interest waived or due to grant of moratorium on loans repayments.

1.2.4 Finalisation of accounts

Accountability of PSUs to the legislature is to be achieved through the submission of audited annual accounts within the prescribed time schedule to the legislature. Of 19 Government companies, 11 accounts of 6 companies were in arrears for periods ranging from 1 year to 5 years (31 October 1996) as indicated in Annexure-III.

According to the latest finalised accounts of these companies, nine companies had incurred losses of Rs.3.30 crores and the remaining nine companies earned profit of Rs.52.42 crores as indicated in the table below:

Sl. No.	No.of companies*	Year up to which accounts were finalised	Profit		Loss	
			No.of companies	Amount	No.of companies	Amount
			(Rupees in crores)			
1.	13	1995-96	7	52.11	6	1.93
2.	3	1994-95	2	0.31	1	0.82
3.	1	1993-94	-	-	1	0.54
4.	1	1990-91	-	-	1	0.01
Total	**18**		**9**	**52.42**	**9**	**3.30**

The administrative departments have to oversee and ensure that the accounts are finalised and adopted by the companies in the annual general meeting within time schedule prescribed in the Companies Act, 1956. Though the concerned administrative departments and officials of the Government were appraised quarterly by Audit of the position of arrears, sufficiently effective measures had not been taken by the Government for timely finalisation of accounts of 5 companies. The position of arrears in finalisation of accounts was

* The new company incorporated during 1995-96 had not submitted its account for the year.

last brought to to the notice of Chief Secretary to the Government in November 1996. As these companies did not adhere to the time schedule, the investment made in these companies and their accountability could not be ensured adequately.

1.2.5 Working results

1.2.5.1 Profit making companies

During the year, nine companies which finalised their accounts for 1995-96 or previous years, earned profit of Rs.52.42 crores. Of these, six companies earned profit for two successive years or more. In six companies, free reserves and surplus accumulated to Rs.19.28 crores.

1.2.5.2 Profits and dividend

Out of 13 companies which finalised their accounts for 1995-96 by October 1996, seven companies earned profit of Rs.52.11 crores on total share capital of Rs.237.15 crores. Companies which declared dividend for 1995-96 are detailed below:

Sl. No.	Name of company	Profits earned	Dividend declared	
			Percent	Amount
		(Amount: Rupees in lakhs)		
1.	Rajasthan State Industrial Development and Investment Corporation Limited	1726.22	1	140.40
2.	Rajasthan State Mines & Minerals Limited	1986.23	5	308.63
3.	Rajasthan State Bridge & Construction Corporation Limited	810.67	8	40.55
4.	Rajasthan State Ganganagar Sugar Mills Limited	16.64	5.85* 11**	7.59
5.	Rajasthan State Hotels Corporation Limited	42.78	5	5.34
	Total	**4582.54**		**502.51**

* On Cumulative Redeemable Preference Shares

** On Redeemable Preference Shares

1.2.5.3 Companies incurring losses

According to the latest available accounts (October 1996), five companies had eroded their paid-up capital as the accumulated losses of these companies had far exceeded their paid-up capital as shown in the table below. Of the nine companies incurring losses, eight suffered losses for two or more consecutive years.

Sl. No.	Name of company	Paid-up Capital	Accumulated loss	Remarks
		(Rupees in crores)		
1.	Hi-Tech Precision Glass Glass Limited	0.08	0.17	The manufacturing facility has been leased out; lease income is less than establishment expenses.
2.	Rajasthan State Agro Industries Corporation Limited	6.01	16.17	Losses due to low turnover and high overheads. Company is in the process of winding-up.
3.	Rajasthan State Granites and and Marbles Limited	0.19	0.51	Imported machinery was not suitable for processing local granite. Company under winding-up.
4.	Rajasthan Electronics Limited	0.30	2.10	Company is in the process of winding-up.
5.	Rajasthan State Handloom Development Corporation Limited	2.38	2.69	Low turnover and high overheads.
	Total	**8.96**	**21.64**	

1.2.5.4 Review of accounts

Under Section 619(4) of the Companies Act, 1956 the Comptroller and Auditor General of India has the right to comment upon or supplement the report of the Statutory Auditors. Accordingly, the audited annual accounts of Government companies are reviewed on a selective basis. Out of 20 accounts of

17 companies received for audit during the period from October 1995 to October 1996, 16 accounts of 13 companies were selected for review. As a result of such review, the following important comments were made in respect of accounts (1995-96) of one of these companies, *viz*, Rajasthan State Seeds Corporation Limited:

(i) Due to incorrect accounting of interest from banks on short term deposits alone, interest was understated bv Rs.31.95 lakhs; and

(ii) Providing of depreciation as per Income Tax Rules, 1962 instead of adopting the rates provided in Schedule XIV of the Companies Act, 1956 resulted in under-provision of depreciation by Rs.2.61 lakhs.

The financial results of all the 19 Government companies based on the latest available accounts are given in Annexure-III.

(a) Return on capital invested

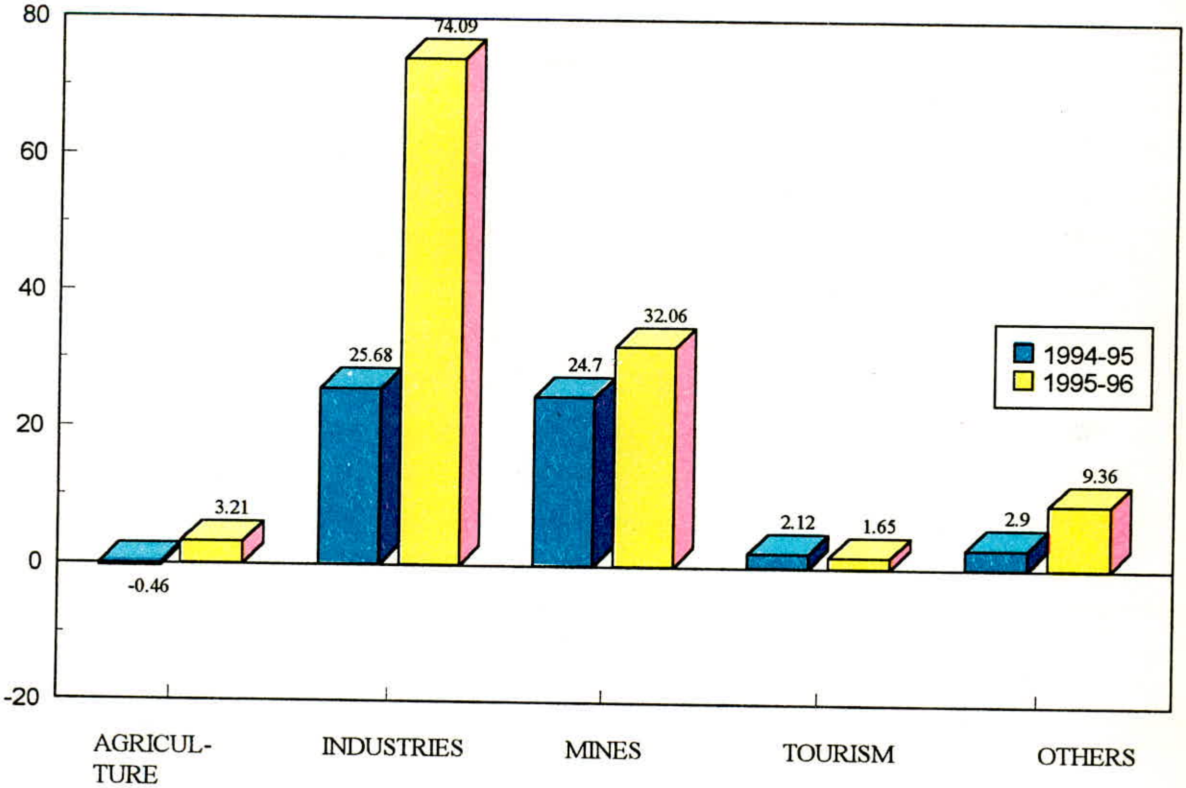
As the capital structure differs from company to company and rates of interest charged on long-term loans given to the companies are not uniform, it may be unrealistic to compare profit of the companies only on the basis of profit and loss as reflected in these accounts. Therefore, to compare the results on a uniform basis, capital invested comprising total of paid-up capital, long-term loans and free reserves less accumulated losses at the close of the financial year was adopted. Similarly, return was taken not only as the profit or loss (before tax and prior period adjustments) as disclosed in the accounts but also the interest paid on long-term loans. On this basis, the return on total investment of Rs.986.07 crores in 18 companies* amounted to Rs.120.37 crores (as per latest available accounts finalised upto October 1996), which works out to 12.21 *per cent* as compared to 6.46 *per cent* for 17 companies in the previous year. The return

* Excluding Rajasthan State Power Corporation Ltd. which was incorporated in April 1995.

CHART- II

RETURN ON CAPITAL INVESTED IN GOVERNMENT COMPANIES

(Rupees in crores)



(Refer paragraph 1.2.5.4 (a))

on capital invested in companies in different sectors was as follows:

Sector	No.of companies	Capital invested	Return on capital invested	Percentage of return on capital invested
		(Rupees in crores)		
Agriculture	3 (2)	25.57 (9.22)	3.21 {(-)0.46}	12.55 (Nil)
Forest & Environment	1	0.19 (0.19)	(-) 0.01 {(-)0.01}	(Nil) (Nil)
Ground Water	1	1.27 (1.27)	0.02 {(-)0.09}	1.82 (Nil)
Industries	4	673.31 (597.69)	74.09 (25.68)	11.00 (4.30)
Mines	4	208.90 (199.77)	32.06 (24.70)	15.35 (12.37)
Public Works	1	35.88 (6.16)	8.18 (1.85)	22.80 (30.03)
State Enterprises	2	10.48 (10.66)	1.17 (1.15)	11.16 (10.79)
Tourism	2	30.47 (24.84)	1.65 (2.12)	5.42 (8.53)
Total	**18** **(17)**	**986.07** **(849.80)**	**120.37** **(54.94)**	**12.21** **(6.46)**

(Note: Figures in brackets relate to previous year)

(b) Return on capital employed

Capital employed represents net fixed assets (excluding capital works-in-progress) *plus* working capital. Interest on borrowed funds is added to/ subtracted from the net profit/loss as disclosed in the profit and loss account. As per latest available accounts (October 1996), the total capital employed in

18 companies worked out to Rs.983.80 crores and the return thereon amounted to Rs.128.38 crores, (13.05 *per cent*) as compared to the return of Rs.61.14 crores for 17 companies (7.62 *per cent*) in the previous year.

Sector-wise details of the return on capital employed was as under:

Sector	No.of companies	Capital employed	Return on capital employed	Percentage of return on capital employed
		(Rupees in crores)		
Agriculture	3 (2)	20.88 (6.23)	5.66 (0.65)	27.11 (10.43)
Forest & Environment	1	0.06 (0.07)	(-)0.01 {(-) 0.01}	Nil (Nil)
Ground Water	1	1.19 (1.18)	0.02 {(-)0.09)}	1.68 (Nil)
Industries	4	671.07 (553.97)	74.35 (25.87)	11.08 (4.67)
Mines	4	212.33 (198.14)	35.93 (28.18)	16.92 (14.22)
Public Works	1	35.87 (6.12)	8.82 (3.05)	24.59 (49.84)
State Enterprises	2	19.01 (11.87)	1.96 (1.37)	10.31 (11.54)
Tourism	2	23.39 (25.27)	1.65 (2.12)	7.05 (8.38)
Total	**18** **(17)**	**983.80** **(802.85)**	**128.38** **(61.14)**	**13.05** **(7.62)**

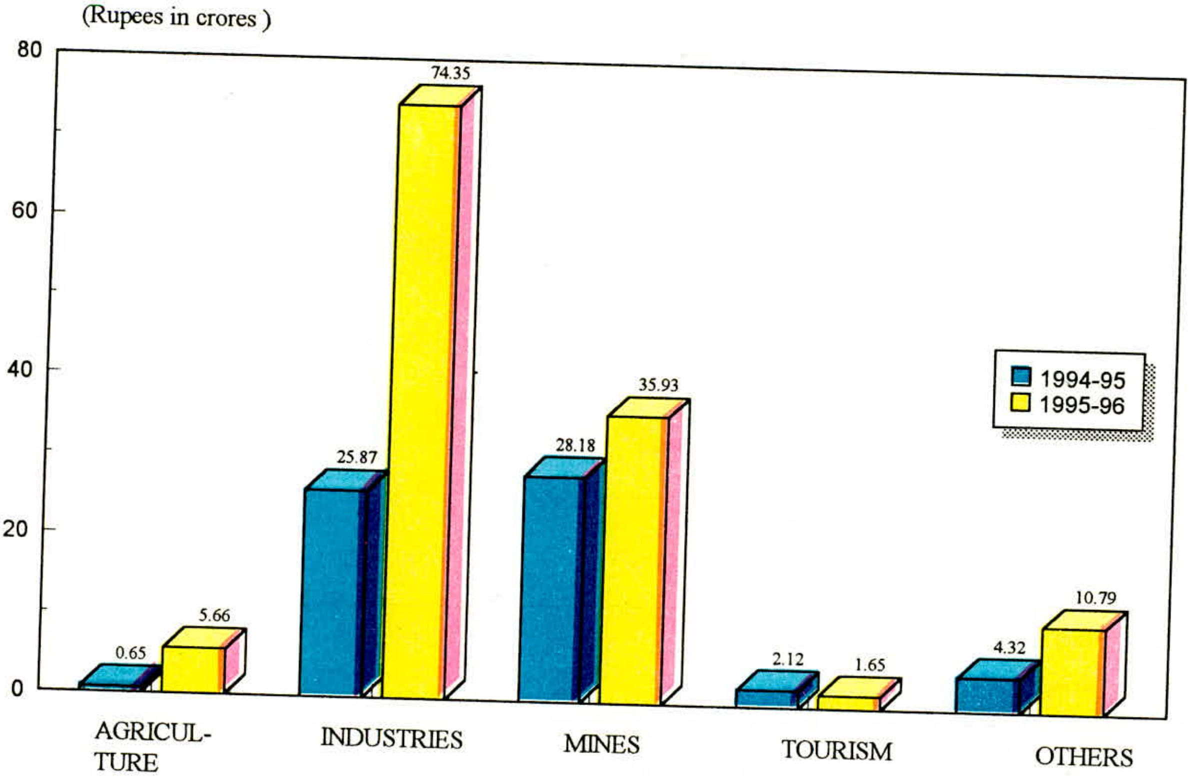
(Note: Figures in brackets relate to previous year)

1.2.6 Buy-back of shares by joint sector companies promoted by Government companies

The Rajasthan State Industrial Development and Investment Corporation Limited (RIICO) is engaged in the development/promotion of industries in the State by providing loans or making investments in their share capital. During 1995-96 it disinvested 3,91,500 shares of 9 units having face value of Rs.39.15 lakhs for Rs.85.23 lakhs.

CHART- III

RETURN ON CAPITAL EMPLOYED IN GOVERNMENT COMPANIES



(Refer paragraph 1.2.5.4 (b))

A review on 'Disinvestment of equity shares held in assisted units by RIICO' appearing in paragraph 2A of this Report gives a critical analysis of disinvestment activities of RIICO.

1.2.7 The Companies Act, 1956, empowers the Comptroller and Auditor General of India to issue directions to the Statutory Auditors of Government companies in regard to performance of their functions. In pursuance of the directives so issued, special reports of the Statutory Auditors on the accounts of 13 companies were received during the year.Some of the important points made by the Statutory Auditors in respect of the companies whose annual accounts were audited during the year are indicated below :

Sl. No.	Nature of defect	No. of companies in which defect was noticed	Reference to Sl. No. of companies as per Annexure-III.
1.	Improper maintenance of books of accounts	8	1,6,7,8,14,16,17,18
2.	Non-reconciliation of debtors/ creditors and other liabilities	10	1,4,6,7,10,12,13, 16,17,18
3.	Non-provision of liabilities resulting in over-statement of profit or under-statement of loss	12	1,4,5,6,7,9,10,11, 12,13,16,17
4.	Non-reconciliation of balances with Bank and P.D. Account	3	1,17,16
5.	Incurring of expenditure without sanction of proper authority	1	6
6.	Violation of provisions of Companies Act, 1956	5	2,5,13,16,18
7.	Non-giving the effect of shortages/ excesses as a result of physical verification	2	13,17
8.	Closing inventory/assets being not traceable	3	10,13,18

1.2.8 Capacity utilisation

The percentage of utilisation of the installed capacity of all the four manufacturing companies are given in Annexure-V. The figures computed by the companies have not been presented in terms of a standard man-hour unit of capacity or production, feasible, targeted and achieved. Monitoring in terms of such units is desirable.

1.2.9 619B Companies

As on 31 March 1996, there was no company covered under Section 619B of the Companies Act, 1956.

1.2.10 Other investments

Though the Government has invested Rs.10 lakhs and above in six companies, they are not subject to audit by the Comptroller and Auditor General of India as the Government or Government owned/controlled companies and corporations hold less than 51 *per cent* of shares. A list of these companies is given in Annexure-I.

1.3 Statutory corporations

1.3.1 General aspects

There were four Statutory corporations in the State as on 31 March 1996.

Audit arrangements of these corporations are shown below:

Sl. No.	Name of the Corporation	Statute under which constituted	Date of formation	Audit arrangements	Year upto which accounts finalised	Separate Audit Report placed in Legislature up to the year	Authority for audit by C&AG
1.	Rajasthan State Electricity Board	Electricity (Supply) Act, 1948	1 July 1957	CAG is the sole Auditor	1994-95	1994-95	Section 69(2) of the Act
2.	Rajasthan State Road Transport Corporation	Road Transport Corporations Act, 1950	1 October 1964	CAG is the sole Auditor	1994-95	1993-94	Section 33(2) of the Act
3.	Rajasthan Financial Corporation	State Financial Corporations Act, 1951	17 January 1955	Audit by Chartered Accountants and supplementary audit by CAG	1995-96	1994-95	Section 37(6) of the Act
4.	Rajasthan State Warehousing Corporation	Agriculture Produce (Development and Warehousing) Corportions Act, 1956(replaced by the Warehousing Corporations Act, 1962)	30 December 1957	Audit by Chartered Accountants and supplementary audit by CAG	1995-96	1994-95	Section 31(8) of the Act of 1962

1.3.2 Investment

The total investment in these corporations as on 31 March 1996 was Rs.5435.09 crores (Equity: Rs.1094.97 crores; Long-term loans: Rs.4340.12 crores) as against the total investment of Rs.4984.09 crores as on 31 March 1995

(Equity: Rs.804.25 crores; Long-term loans: Rs.4179.84 crores):

Department (Name of the corporation)	As at the end of 1995-96 Equity	1995-96 Loan	1994-95 Equity	1994-95 Loan	Debt-equity ratio in 1995-96	Remarks
			(Rupees in crores)			
Energy (Rajasthan State Electricity Board)	913.09*	3731.53*	623.09	3595.26	4.09:1*	
Transport (Rajasthan State Road Transport Corporation)	107.95*	37.89*	107.95	55.91	0.35:1*	
Industries (Rajasthan Financial Corporation)	67.53	568.90	67.53	526.97	8.42:1	
Agriculture (Rajasthan State Warehousing Corporation)	6.40	1.80	5.68	1.70	0.3:1	
Total	**1094.97**	**4340.12**	**804.25**	**4179.84**		

1.3.3 Profit/loss of the corporations

The position of profit earned/loss incurred by these four corporations based on their latest accounts is indicated in Annexure-VI.

1.3.4 Finalisation of accounts

According to the latest finalised accounts of the four corporations, they

* Provisional

earned profit of Rs.115.59 crores as indicated in the table below:

Sl. No.	Name of corporations	Year up to which accounts were finalised	Profit/ surplus	Loss/ deficit
			(Rupees in crores)	
1.	Rajasthan State Electricity Board (RSEB)	1994-95	77.07	-
2.	Rajasthan State Road Transport Corporation (RSRTC)	1994-95	24.16	-
3.	Rajasthan Financial Corporation (RFC)	1995-96	11.20*	-
4.	Rajasthan State Warehousing Corporation (RSWC)	1995-96	3.16	-
	Total		**115.59**	-

RSEB and RSRTC have not submitted their accounts for the year 1995-96 (October 1996).

1.3.5 Guarantee on loans

The guarantees given by the State Government against loans and credits given by banks *etc.* to the corporations for the preceding three years up to

* The profit for the year is after adding provision for tax (Rs.4.12 crores) to net profit.

1995-96 and outstanding thereagainst as on 31 March 1996 are shown in the table below:

Sl. No.	Guarantees	Amount guaranteed during			Guaranteed amount outstanding as on 31 March 1996 (Provisional)
		1993-94	1994-95	1995-96 (Provisional)	
		(Rupees in crores)			
1.	Cash credit from State Bank of India and other nationalised banks	Nil	Nil	Nil	Nil
2.	Loans from other sources	234.77	370.10**	459.01	1757.36
3.	Letters of credits opened by SBI in respect of imports	Nil	Nil	Nil	Nil
4.	Payment obligation under agreements with foreign consultants or contracts	Nil	Nil	Nil	Nil

Budgetary outgo of equity and loans

The outgo from the State Government to the four Statutory corporations during the years 1993-94 to 1995-96 in the form of equity capital and loans is detailed below:

Sl. No.		1993-94	1994-95	1995-96 (Provisional)
		(Rupees in crores)		
1.	Equity capital outgo from Budget	19.33	4.75	290.25
2.	Loans given from Budget	388.56	285.61	385.65

** Guarantees on bonds for Rs.19.00 crores awaited from State Government.

The position of guarantee commission paid/payable by the four corporations during 1995-96 and outstanding as on 31 March 1996 is indicated below:

Name of the corporation	Guarantee commission paid during 1995-96	Guarantee commission outstanding as on 31 March 1996
	(Rupees in crores)	
RSEB	9.71*	1.92*
RSRTC	0.04*	-
RFC	2.34	-
RSWC	0.01	-
Total	**12.10**	**1.92**

1.3.6 Subsidy

Subsidy received by two corporations during the last three years ending 1995-96 was as under :

Sl. No.	Name of the corporation	Subsidy received during		
		1993-94	1994-95	1995-96 (Provisional)
			(Rupees in crores)	
1.	RSEB	424.94	487.19	226.25
2.	RSWC	Nil	0.31	0.57
	Total	**424.94**	**487.50**	**226.82**

* Provisional

1.3.7 Working results of Statutory corporations

The working results of the Statutory corporations for the latest year for which accounts have been finalised are summarised in Annexure-VI. Salient points about the accounts and physical performance of these corporations are given below in paragraphs 1.4 to 1.7.

1.4 Rajasthan State Electricity Board

1.4.1 The table below summarises the financial position of the RSEB at the end of each of the three years up to 1994-95:

	Particulars	1992-93	1993-94	1994-95
			(Rupees in crores)	
A.	**Liabilities**			
	- Share capital	623.09	623.09	623.09
	- Loans from Government	1178.62	1536.27	1770.08
	- Other long-term loans including bonds	1057.04	1305.15	1825.18
	- Deposits from public	90.01	112.46	139.12
	- Reserves	303.09	349.90	421.90
	- Current liabilities and provisions	955.44	947.62	1184.92
	Total - A	**4207.29**	**4874.49**	**5964.29**
B.	**Assets**			
	- Fixed assets (Gross)	3252.87	3705.57	4103.33
	- *Less*: Depreciation	700.73	853.88	1058.46
	- Fixed assets (Net)	2552.14	2851.69	3044.87
	- Capital works-in-progress	538.42	785.38	789.81
	- Deferred cost	3.14	3.19	3.85
	- Current assets	584.10	774.86	1743.46
	- Accumulated loss	529.49	459.37	382.30
	Total - B	**4207.29**	**4874.49**	**5964.29**
C.	**Capital employed***	**2180.06**	**2678.07**	**3602.55**
D.	**Capital invested****	**3251.85**	**3926.87**	**4779.37**

* Capital employed represents net fixed assets (excluding capital works-in-progress) *plus* working capital.

** Capital invested represented long-term loans *plus* capital and free reserves.

1.4.2 The working results of the RSEB for the three years up to 1994-95 are summarised below:

Particulars			1992-93	1993-94	1994-95
				(Rupees in crores)	
1.	(a)	Revenue receipts	1250.01	1436.98	1797.82
	(b)	Subsidy from Government	286.47	424.94	489.82
		Total	**1536.48**	**1861.92**	**2287.64**
2.	Revenue expenditure*		1167.03	1430.19	1674.60
3.	Gross surplus (1-2)		369.45	431.73	613.04
4.	Utilisation				
	(a)	Depreciation	132.25	151.02	255.30
	(b)	Interest on			
		- State Government loans	101.42	144.81	183.94
		- Central Government loans	Nil	Nil	Nil
		- Other loans and bonds	120.31	142.15	203.52
	Total - (b)		**221.73**	**286.46**	**387.46**
	(c)	*Less*: Interest capitalised	42.58	59.70	77.79
	(d)	Net interest (b-c)	179.15	227.26	309.67
	(e)	Write-off of intangible assets	Nil	Nil	Nil
		Total {4(a)+4(d)}	**311.40**	**378.28**	**564.97**
5.	Prior period adjustments		(+) 6.99	(+) 16.67	(+) 29.00
6.	Net surplus(+)/Deficit(-) (3-4+5)		(+)65.04	(+)70.12	(+)77.07
7.	Total return on capital employed and capital invested (net surplus *plus* net interest)		244.19	297.38	386.74
8.	Percentage of return on:				
	(a)	Capital employed	11.20	11.10	10.73
	(b)	Capital invested	7.51	7.57	8.09

* Revenue expenditure does not include depreciation and interest on loans.

1.4.3 The table below indicates the operational performance of the RSEB during each of three years up to 1994-95:

Sl. No.	Particulars	1992-93	1993-94	1994-95*
			(In MW)	
1.	Installed capacity			
	(a) Thermal	765.00	975.00	975.00
	(b) Hydel	967.57	968.77	971.07
	(c) Diesel+Micro Hydel	-	-	3.00
	Total	**1732.57**	**1943.77**	**1949.07**
2.	Power generated		(In Mkwh)	
	(a) Thermal	4933.15	5146.52	4837.35
	(b) Hydel	3658.78	3382.01	3936.49
	(c) Diesel+Micro Hydel	-	-	-
	Total	**8591.93**	**8528.53**	**8773.84**
3.	*Less*: Auxiliary consumption	630.28	640.19	623.20
3A.	Norms	NA	NA	NA
4.	Net power generated	7961.65	7888.34	8150.64
5.	Power purchased	6704.85	7511.62	8272.86
6.	Total power available for sale (4+5)	14666.50	15399.96	16423.50
7.	Power sold	11077.99	11521.52	12323.13
8.	Transmission and distribution loss	3588.51	3878.44	4100.37
			(In number)	
9.	Units generated per KW of installed capacity	4959.07	4387.62	4501.55

* Figures were provided by RSEB.

Sl. No.	Particulars	1992-93		1993-94		1994-95*	
				(per cent)			
10.	Plant load factor	69.92		69.65		70.19	
	(a) Hydel (b) Thermal (c) Diesel+Micro Hydel	NA		NA		NA	
11.	Percentage of generation to installed capacity	80.96		71.91		73.21	
12.	Percentage of transmission and distribution losses to generation (8÷6)	24.47		25.18		24.97	
				(In numbers)			
13.	Villages/towns electrified at the end of the year	29,449		30,205		30,959	
14.	Pump sets/wells energised at the end of the year	4,29,171		4,52,044		4,76,948	
	(a) Private tubewells	NA		NA		NA	
	(b) State tubewells	NA		NA		NA	
15.	Connected load (MW)	6574.08		7189.20		7839.89	
16.	No.of consumers (in lakhs)	36.70		40.24		41.95	
17.	No. of employees	59,008		57,450		56,846	
18.	Employees' cost per Mkwh (Rs. in lakhs)	1.59		1.72		1.81	
19.	Break-up of sale of energy according to categories of consumers	% of Consumers	% of Revenue	% of Consumers	% of Revenue	% of Consumers	% of Revenue
	(a) Agriculture	29.26	9.04	30.57	8.46	31.54	6.98
	(b) Industrial	39.22	61.75	38.08	60.96	40.73	62.67
	(c) Commercial	4.36	6.79	4.68	7.16	5.05	7.64
	(d) Domestic	12.15	9.46	13.53	9.98	13.99	10.11
	(e) Others	15.01	12.96	13.14	13.44	8.69	12.60
				(In paise)			
20.	(a) Revenue per Kwh (excluding subsidy)	112.84		124.72		145.89	
	(b) Expenditure per Kwh	133.56		156.96		181.74	
	(c) Profit (+)/Loss(-)	(-)20.72		(-)32.24		(-)35.85	

* Figures as provided by RSEB.

1.5 Rajasthan State Road Transport Corporation

1.5.1 The financial position of the RSRTC at the close of each of the three years up to 1994-95 is tabulated below:

Particulars	1992-93	1993-94	1994-95
		(Rupees in crores)	
A. **Liabilities**			
Capital	87.90	107.95	107.95
Reserve and surplus	4.66	4.99	22.80
Borrowings	78.66	72.46	55.91
Trade dues and other liabilities	35.17	42.31	47.68
Total - A	**206.39**	**227.71**	**234.34**
B. **Assets**			
Gross block	183.63	228.83	259.82
Less: Depreciation reserve	68.69	80.01	88.80
Net fixed assets	114.94	148.82	171.02
Capital works-in-progress	0.84	1.15	1.61
Investment	2.05	8.30	5.00
Current assets, loans and advances	35.30	40.84	43.84
Intangible assets (Deferred revenue expenditure)	23.81	22.08	12.87
Accumulated loss	29.45	6.52	-
Total - B	**206.39**	**227.71**	**234.34**
C. **Capital employed***	**117.11**	**155.13**	**171.73**
D. **Capital invested****	**139.44**	**176.22**	**183.80**

* Capital employed represents net fixed assets *plus* working capital.

** Capital invested represents long term loans *plus* free reserves including subvention and grants.

1.5.2 Working results of the RSRTC for the three years up to 1994-95 are summarised below:

Sl. No.	Particulars	1992-93	1993-94	1994-95
			(Rupees in crores)	
1.	Total Revenue (Operating and non-operating)	270.08	336.18	386.97
2.	Total expenditure (Operating and non-operating)*	232.34	276.12	324.77
3.	Profit before depreciation, interest and dividend	(+)37.74	(+)60.06	(+)62.20
	Less			
	(a) Depreciation	16.61	20.90	25.86
	(b) Interest	13.32	15.36	10.56
	(c) Dividend as a charge	-	-	2.39
4.	Prior period adjustment	(-)1.89	(-)0.84	(+)0.77
5.	Net profit	(+) 5.92	(+) 22.96	(+)24.16
6.	Total return on			
	(a) Capital employed	19.24	38.32	34.72
	(b) Capital invested	13.82	31.97	31.98
7.	Percentage of return on			
	(a) Capital employed	16.43	24.70	20.22
	(b) Capital invested	9.91	18.14	17.40
8.	Net worth**	60.78	103.76	127.89

* Total expenditure does not include depreciation and interest on loans.

** Net worth represents paid up capital *plus* free reserve and surplus *less* intangible assets.

1.5.3 The table below indicates the physical performance of the RSRTC during each of three years up to 1995-96:

Sl. No.	Particulars	1993-94	1994-95	1995-96* (Provisional)
1.	Average number of vehicles held	3857	4164	4484
2.	Average number of vehicles on road	3443	3738	4049
3.	Fleet utilisation (percentage)	89	90	90
4.	Route kilometres at the end of the year	3,93,572	4,50,237	4,61,822
5.	Number of operating depots	42	43	44
6.	Kilometres covered (in lakhs)			
	(a) Gross kilometres			
	- Own buses	3871.59	4238.68	4579.79
	- Hired buses	418.45	502.82	559.50
	(b) Effective kilometres			
	- Own buses	3746.34	4094.86	4393.80
	- Hired buses	418.45	502.82	559.50
	(c) Dead Kilometres-Own buses	125.25	143.82	185.99
	(d) Percentage of dead kilometres to gross kilometres-Own buses	3.24	3.39	4.06
	(e) Norms	NA	NA	NA
7.	Average kilometres covered (Bus/day)			
	- Own buses	298	300	296
	- Hired buses	473	478	479
8.	Average revenue (paise/km.)			
	- Own buses	789	826	850
	- Hired buses	728	736	NA

* Figures as provided by RSRTC.

Sl. No.	Particulars	1993-94	1994-95	1995-96* (Provi-sional)
9.	Average expenditure (paise/km.)			
	- Own buses	767	811	833
	- Hired buses	364	395	NA
10.	Profit per kilometre (in paise)			
	- Own buses	22	15	17
11.	Average number of accidents per lakh kilometres	0.27	0.26	0.24
12.	Average number of break-downs per lakh kilometres	3	3	3
13.	Passenger kilometres scheduled (in crores)	2165.69	2390.79	2575.72
14.	Passenger kilometres operated (in crores)	1589.61	1757.23	1851.94
15.	Occupancy ratio (*per cent*)	73.4	73.5	71.9
16.	Break-even occupancy (*per cent*)	70.4	69.7	NA
17.	Fuel consumption (kms/litre)	4.75	4.75	4.80
	Norms	4.78	4.78	4.78
18.	Repairs and maintenance/km. (In Rupees)	0.60	0.57	NA
19.	Tyre cost/km. (In Rupees)			
	(a) New	0.45	0.47	NA
	(b) Retreaded	NA	NA	NA

* Figures as provided by RSRTC.

1.6 Rajasthan Financial Corporation

1.6.1 The financial position of the RFC at the end of each of the three years up to 1995-96 is given below:

Sl. No.	Particulars	1993-94	1994-95	1995-96
			(Rupees in crores)	
A.	**Liabilities**			
	Paid-up capital	63.03	67.53	67.53
	Reserves and surplus	25.41	27.26	34.26
	Borrowings	483.02@	526.97@	568.90@
	Trade dues and other liabilities and provisions	68.18	90.67	123.13
	Total - A	**639.64**	**712.43**	**793.82**
B.	**Assets**			
	Net fixed assets	1.75	2.49	3.52
	Investments (at cost)	0.14	0.12	0.06
	Loans and advances	533.79	574.61	628.19
	Other current assets	77.15	99.28	126.20
	Profit and loss account	26.81	35.93	35.85
	Total - B	**639.64**	**712.43**	**793.82**
	Capital employed*	**548.82**	**570.89**	**616.08**
	Net worth**	**61.63**	**58.86**	**65.94**
	Capital invested***	**571.46**	**595.11**	**637.04**

@ These include equity loan of Rs.23.55 crores.

* Capital employed represents mean of the aggregate of the opening and closing balances of paid-up capital, bonds, reserves and surplus, borrowings and deposits.

** Net worth represents paid-up capital *plus* reserves and surplus less intangible assets.

*** Capital invested represents paid-up capital *plus* long-term loans *plus* free reserves.

1.6.2 The following table gives details of the working results of the Rajasthan Financial Corporation for the three years up to 1995-96:

Sl. No.	Particulars	1993-94	1994-95	1995-96
			(Rupees in crores)	
1.	**Income**			
	(a) Interest and dividends	74.30	88.23	102.26
	(b) Other income	2.86	3.23	3.34
	Total (1)	**77.16**	**91.46**	105.60
2.	**Expenditure**			
	(a) Interest	50.10	57.38	60.56
	(b) Other financial expenses including salaries and other administrative expenses	17.67	22.94	26.43
	(c) Depreciation	0.15	0.17	0.23
	(d) Bad and doubtful debts	8.43	9.07	2.68
	Total (2)	**76.35**	**89.56**	**89.90**
3.	Profit before tax and provision	0.81	1.90	15.70
4.	(a) Provision for tax	-	-	4.12
	(b) Provision for bad and doubtful debts	9.00	9.17	4.50
5.	Net profit (+)/loss(-)	(-) 8.19	(-) 7.27	(+)7.08
6.	Special reserve	0.80	1.85	7.00
7.	Amount available for dividend	Nil	Nil	Nil
8.	Dividend (guaranteed) paid	3.64	3.75	4.02
9.	**Total return on:**			
	(a) Capital employed	**50.91**	**50.10**	**71.76**
	(b) Capital invested	**50.91**	**50.10**	**71.76**
10.	**Percentage of return on:**			
	(a) Capital employed	**9.28**	**8.78**	**11.65**
	(b) Capital invested	**8.91**	**8.42**	**11.26**

1.6.3 The following table indicates the position regarding receipt and disposal of applications of loans by the RFC during the three years up to 1995-96:

Sl. No.	Particulars of applications	1993-94 No.	1993-94 Amt.	1994-95 No.	1994-95 Amt.	1995-96 No.	1995-96 Amt.	Cumulative No.	Cumulative Amt.
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
					(Amount: Rupees in crores)				
1.	Pending at the beginning of the year	412	46.95	177	32.19	42	11.59	-	-
2.	Received during the year	2867	224.14	2441	249.40	2297	255.93	83643	2844.14
3.	Total (1+2)	3279	271.09	2618	281.59	2339	267.52	83643	2844.14
4.	Sanctioned	2168	165.77	1794	177.55	1770	163.44	63617	1751.60
5.	Rejected/Withdrawn/ Closed	934	60.16	782	88.99	495	64.69	19952	901.23
6.	Pending at the close of the year	177	32.19	42	11.59	74	23.75	74	23.75
7.	Loans disbursed	1804	106.32*	1534	120.72*	1411	131.66*	48471	1144.18*
8.	Amount outstanding at the close of the year (on cash basis)	-	533.79	-	574.61	-	628.19	-	-
9.	Amount overdue for recovery:								
	(a) Principal	-	86.69	-	92.50	-	95.31	-	-
	(b) Interest	-	71.44	-	76.95	-	83.09	-	-
	(c) Total	-	158.13	-	169.45	-	178.40	-	-
10.	**Percentage of overdue to total loans outstanding**	-	**29.33**	-	**29.49**	-	**28.40**	-	-

Note: The difference between the amount shown against item 3 and aggregate shown against items 4, 5 and 6 represents the difference between the amount of loan applied for and that sanctioned.

* These include loans disbursed to both new and old units.

Out of the outstanding amount of loan (including interest) of Rs.628.19 crores from loanees as on 31 March 1996, an amount of Rs.178.40 crores was overdue for recovery.

Further points in regard to overdue loans are given below:

(i) The age-wise analysis of the total overdue loans as on 31 March 1996 was as under:

Particulars	**Principal**	**Interest**	**Total**
		(Rupees in crores)	
Upto 1 year	16.12	11.18	27.30
Over 1 year	79.19	71.91	151.10
Total	**95.31**	**83.09**	**178.40**

(ii) The following table gives details of overdue amounts in suits filed and other cases at the close of each of the three years up to 1995-96:

Year	**Overdue amount**			**Percentage of overdue amount in suit filed cases to total overdue amount**
	In suits filed cases	**In other cases**	**Total**	
		(Rupees in crores)		
1993-94	9.70	148.43	158.13	6.1
1994-95	7.95	161.50	169.45	4.7
1995-96	7.41	170.99	178.40	4.2

As on 31 March 1996, 443 cases of suits involving Rs.7.41 crores were pending.

1.7 Rajasthan State Warehousing Corporation

1.7.1 The financial position of the RSWC at the end of three years upto 1995-96 is given below:

Sl. No.	Particulars	1993-94	1994-95	1995-96
			(Rupees in crores)	
A.	**Liabilities**			
	Paid-up capital	5.18	5.68	6.40
	Reserves and surplus	8.22	9.85	13.19
	Borrowings	1.47	1.70	1.80
	Trade dues and other liabilities	1.52	1.47	1.73
	Total - A	**16.39**	**18.70**	**23.12**
B.	**Assets**			
	Gross block	19.49	20.94	22.42
	Less: Depreciation	6.43	7.11	7.85
	Net fixed assets	13.06	13.83	14.57
	Capital works-in-progress	0.43	0.48	0.67
	Current assets, loans and advances	2.90	4.39	7.88
	Total - B	**16.39**	**18.70**	**23.12**
C.	**Capital employed***	**14.44**	**16.75**	**20.72**
D.	**Capital invested****	**14.52**	**16.53**	**20.07**

* Capital employed represents net fixed assets *plus* working capital.

** Capital invested represents paid-up capital *plus* long term loans *plus* free reserves and surplus.

1.7.2 The following table gives details of the working results of the RSWC for the three years up to 1995-96:

Sl. No.	Particulars	1993-94	1994-95	1995-96
			(Rupees in crores)	
1.	**Income**			
	Warehousing charges	5.06	6.08	7.77
	Other income	0.48	0.60	1.23
	Total - (1)	5.54	6.68	9.00
2.	**Expenditure**			
	Establishment charges	3.18	3.53	3.89
	Interest	0.26	0.22	0.21
	Godown rent	0.19	0.16	0.27
	Other expenses	1.34	1.31	1.47
	Total - (2)	4.97	5.22	5.84
3.	Profit	0.57	1.46	3.16
4.	Other appropriations, reserves *etc.*	0.48	1.30	2.80
5.	Amount available for dividend	0.09	0.16	0.36
6.	Dividend paid/provided	0.09	0.16	0.36
7.	**Total return on:**			
	(a) Capital employed	**0.83**	**1.68**	**3.37**
	(b) Capital invested	**0.83**	**1.68**	**3.37**
8.	**Percentage of return on:**			
	(a) Capital employed	**5.75**	**10.03**	**16.26**
	(b) Capital invested	**5.72**	**10.16**	**16.79**

1.7.3 The following table gives details of the storage capacity created, capacity utilised and other information about the performance of the RSWC during the three years up to 1995-96:

Sl. No.	Particulars	1993-94	1994-95	1995-96*
1.	Number of stations covered	77	78	78
			(In lakh tonnes)	
2.	Storage capacity created up to the end of the year;			
	(a) Owned	4.22	4.32	4.54
	(b) Hired	0.52	0.39	0.60
	Total - (2)	**4.74**	**4.71**	**5.14**
3.	Average storage capacity utilised during the year:			
	(a) Owned	2.78	2.86	3.67
	(b) Hired	0.48	0.35	0.54
	Total - (3)	**3.26**	**3.21**	**4.21**
4.	Utilisation of capacity available (*per cent*)	69	68	84
			(In Rupees)	
5.	Average revenue per tonne per year	170	208	213
6.	Average expenses per tonne per year	153	163	139
7.	Profit per tonne per year	17	45	74

* Figures provided by RSWC.

Chapter-II

REVIEWS RELATING TO GOVERNMENT COMPANIES

2A. Rajasthan State Industrial Development and Investment Corporation Limited (RIICO)

- Disinvestment of equity shares held in assisted units by RIICO

2B. Rajasthan Paryatan Vikas Nigam Limited

Rajasthan State Industrial Development and Investment Corporation Limited (RIICO)

(Disinvestment of equity shares held in assisted units by RIICO)

RAJASTHAN STATE INDUSTRIAL DEVELOPMENT AND INVESTMENT CORPORATION LIMITED (RIICO)

Disinvestment of equity shares held in assisted units by RIICO

HIGHLIGHTS

- **Rajasthan State Industrial Development and Investment Corporation Limited (RIICO), set up in 1979 to promote and finance industrial undertakings, has been investing in the shares of its assisted units. Despite 17 years of equity investment, RIICO has not evolved a consolidated policy and guidelines for deciding cases where shares should be purchased in an assisted unit and for governing disinvestment.**

(Paragraphs 2A.1 and 2A.4)

- **As investment in equities involves a much higher risk than on term loans, expectation of return from equities should be higher. RIICO's expectations on returns from equity and term loans is indicated by the respective rates of interest stipulated in the agreements relating to buy-back of shares (by the promoter) and term loans. Comparison of these rates indicates that RIICO's expectation from their investment in buy-back shares is approximately the same as from term loans. This low expectation of return was not commensurate with the risk involved in purchase of shares.**

(Paragraph 2A.6)

- **RIICO has not handled the disinvestment of its equity portfolio prudently as indicated by the following:**

(a) The average period of holding of a share till its disinvestment/write off was 16 years, which is too long for quick rotation of funds.

(Paragraph 2A.7.2.2)

(b) The slow disinvestment of equities and loss of opportunities of selling them when higher prices were available, contributed to a low annual return of 6 *per cent*. As the average annual return from dividends was just 1 *per cent*, the total average return from equity investments was 7 *per cent*. This compared poorly with term loans which yielded an average return of 16.44 *per cent*.

(Paragraphs 2A.7.2.3 and 2A.7.2.6)

(c) **The time gap between purchase of shares of a unit and the flow of dividend from it was on the average 9 years.**

(Paragraph 2A.9.3)

(d) **RIICO disinvested only such equities, the price of which was higher or equal to the purchase price, and continued to hold on to shares of companies performing poorly. This tendency contributed to :**

(i) **write-off of shares costing Rs.82.19 lakhs during the six years ending 1995-96,**

(Paragraph 2A.8)

(ii) **holding of shares (as on 31 March 1996) costing Rs.9.91 crores in 45 companies (out of 95 companies in portfolio), which were under rehabilitation/winding up,**

(Paragraph 2A.10(e))

(iii) **holding of shares (as on 31 March 1996) costing Rs.31.84 crores in 73 companies which had little liquidity.**

(Paragraph 2A.10(a))

(e) **RIICO had not been able to get the management of 4 companies, which were performing satisfactorily, to either get their shares listed or get them to buy the shares costing Rs.22.15 lakhs, even though buy back period had elapsed.**

(Paragraph 2A.10(d))

(f) **Though shares under non-buy back could have been sold in the market, RIICO preferred to disinvest these through the promoter. Since the latter was under no obligation to buy such shares, their rate of disinvestment indicated a rotation period of 29 years, against 11 years for shares held under buy back arrangement.**

(Paragraph 2A.12.4.2)

(g) **Lack of monitoring of share prices to facilitate disinvestment, contributed to RIICO tapping only an average of 13.85 *per cent* of the potential profits available. Test check revealed that RIICO did not disinvest its shareholding in 6 companies during the period of buoyancy in market**

prices despite the advice of their Finance Wing in January 1994. On a conservative basis, loss of opportunities to disinvest till March 1995 resulted in RIICO not realising a potential profit of Rs.12.00 crores, which was completely eroded by March 1996.

(Paragraphs 2A.11.1.5 and 2A.14)

(h) Average equity investment of RIICO held in unquoted shares was 26.60 *per cent.* In 15 companies (investment : Rs.275 lakhs), shares had remained unquoted during the period of 10 years preceding 31 March 1996.

(Paragraphs 2A.11.2.1.1 and 2A.11.2.1.2)

In two cases test-checked RIICO disinvested shares with reference to price determined as per buy back arrangement even after the period of this arrangement had lapsed and the market price of these shares was significantly higher. This resulted in RIICO forgoing a profit of Rs.2.40 crores in favour of the promoter.

(Paragraphs 2A.13.1 and 2A.13.2)

At the request of the promoter of Rajasthan Syntex Limited, RIICO decided to forego an offer (February 1994) from a private investment company for the purchase of 2 lakh shares at a price of Rs.126 per share and decided to freeze their sale for 3 years. While losing this opportunity of earning profit of Rs.2.32 crores, RIICO did not obtain any assurance from the promoter that he would buy them later at a price higher than that forgone. The price of this share fell to Rs.31 per share by 31 March 1996.

(Paragraph 2A.14.1)

2A.1 Introduction

Rajasthan State Industrial Development and Investment Corporation Limited (RIICO) was incorporated on 1 November 1979 with the principal objects to promote entrepreneurship and to aid, assist and finance industrial undertakings, projects or enterprises in the State. To meet this objective, RIICO is engaged in providing, *inter alia*, financial assistance to entrepreneurs by investing in shares of their companies. RIICO's avowed objective in holding equity is not long term investment but their quick recycling so as to promote maximum number of projects with the scarce funds available.

The equity participation scheme was started with the following objectives:

(i) to enable new entrepreneurs who were not able to mobilise the required equity capital for the project at the initial stage;

(ii) to attract the successful and reputed groups of the country to set-up industries in the State;

(iii) to stimulate the Capital Market; and

(iv) to promote joint-sector projects in areas prohibited for private sector or otherwise not considered attractive by the entrepreneurs ordinarily.

2A.2 Organisational set-up

RIICO is managed by a Board consisting of not less than seven and not more than fourteen Directors. The Managing Director is the Chief Executive of the company. Decisions of investment/disinvestment were taken by an Industrial Committee comprising Managing Director and 7 Directors nominated by the Board. In April 1991, an in-house committee consisting of the Managing Director, Executive Director, Financial Advisor, Advisor (Admn. & Manpower) and General Manager was formed for considering exclusively matters relating to disinvestment of shares by RIICO. Decisions taken by these committees were placed before the Board of Directors. In March 1996, RIICO entered into a Memorandum of Understanding with SCICI Securities Limited, Bombay for seeking their expertise for optimal management of RIICO's equity portfolio. Prior to this arrangement, RIICO did not have any scientific system for managing their disinvestment of equities.

2A.3 Scope of audit

A review of the activities of RIICO in respect of disinvestment of its equity interests in the companies financed by it was undertaken for the last 6 years (1990-91 to 1995-96) in audit during January to October 1996. The review covers test check of only those companies whose shares were disinvested during the period under review.

2A.4 Absence of policy/guidelines for equity investments

Assistance through equity involves a higher risk than through term loans, because unlike the latter there is no definite return attached to equity investments. Also, in case of liquidation equity investment is the last charge on the net assets of the company. Nevertheless, equity investment in a company can generate substantial returns if the company performs well and generates good profit. In this background, RIICO should have a set of guidelines so that risk in equity investment is minimised and funds are not locked up in not so liquid equities.

Even 17 years after its inception, RIICO does not have any consolidated policy framework for deciding cases where investment should be made, nor does it have a policy regarding disinvestment. Such decisions are made on a case-to-case basis. The Industrial Committee of RIICO in its meeting held on 26 December 1995 desired that a policy paper laying down broad eligibility conditions for sanction of equity be prepared. Such a paper had not been prepared (October 1996).

2A.5 Categories of equity investment

2A.5.1 Categorisation on basis of type of company

RIICO participated in the share capital of two types of companies- *viz.* (i) joint venture, where the equity investment of RIICO was not less than 26 *per cent* and the management was shared by nominating the Chairman and majority of directors on the Board of the unit, and (ii) assisted unit, where equity was around 10 *per cent* and the involvement of RIICO in management was limited to one or two directors on the Board of the assisted unit. No joint sector unit was promoted during the period covered under this review. However, as on 31 March 1996, RIICO's investment in 7 joint sector units amounted to Rs.405.46 lakhs. Of these 7 units, 1 unit (investment Rs.42.28 lakhs) was in the process of winding up, 4 units (investment: Rs.310.47 lakhs) were sustaining losses and only 2 units (investment: Rs.52.71 lakhs) were earning profits during 1990-91 to 1995-96.

2A.5.2 Categorisation on basis of resale arrangement

The equities purchased by RIICO can be classified into buy back shares and non-buy back shares. The former shares are those in which the promoter undertakes to buy the shares purchased by RIICO within a specified period (generally 3 to 7 years) at a price arrived at by compounding the cost price of the shares at a specified rate of interest, less dividend received, if any. In respect of non-buy back shares RIICO is free to disinvest in the market after the lock-in period. RIICO does not have any policy for guiding the flow of their equity investments between buy back (BB) and non-buy back (NBB) shares.

2A.6 Expectation of return on equity vis-a-vis term loans

One of the basic principles of financial investment is that higher the risk, higher should be the expected rate of return. RIICO assists new units/expansion of existing units through term loans and sometime invests in their equity also. As financing through equity involves higher risk than term loans, the rate of return expected through equity should normally be higher than the rate of interest charged by RIICO on its term loans. RIICO's expectation of return on equity is the compounded rate of interest stipulated in the buy back agreement; this has varied from time to time and its weighted average (over time) during 1990-96 is 17.24 *per cent* against the corresponding weighted average of 17.70 *per cent* in case of term loans.

Expectation of return was not commensurate with the risk involved in purchase of shares.

It has to be noted that expectation of return on equity would generally be quite different from the actual returns. However, at the time of investment, the investor is guided only by his expectation of return. At the time of investment, equity should be preferred over term loans only if the expected rate of return from it is high enough to compensate for the higher risk involved.

The normal pattern of growth of book value of a share of a company which performs successfully is that the book value grows at a slow rate initially, but the rate of growth increases with the passage of time. Therefore, such an expectation of a fixed rate of return on equity is at variance with the normal growth of book value. As brought out later in the review (paragraph 12), RIICO has had to offer several concessions to entrepreneurs to honour their buy-back arrangement. A graded scale of rising rate of interest with time (with an effective average higher than the rate of interest on term loans over the period of buy back) would not only be more natural, but could even act as an incentive to the promoter to buy back the shares held by RIICO at the earliest.

RIICO stated (November 1996) that their investment in equity is not based on expected rate of return but on making good the gap in promoter's contribution. This reply is not tenable because RIICO's investment in equity in each case is so small (just 10 *per cent*) that it can never be sure that the promoter would not be able to contribute towards the gap. As a prudent commercial organisation, RIICO can not afford to ignore its expected rate of return while making an equity investment.

2A.7 Comparison between returns from term loans and equity

2A.7.1 Returns from term loans

The table below indicates returns from term loans during 1991-92 to 1995-96 :

Year (1)	Loans out-standing at the beginning of the year (2)	Interest earned during the year (3)	Bad debts on loans written off (4)	Net income from term loans (3)-(4)=(5)	Percentage rate of return on loans (6)
			(Rupees in lakhs)		
1991-92	9143.23	1686.48	119.81	1566.67	17.13
1992-93	10838.39	2074.06	207.21	1866.85	17.22
1993-94	13006.22	2481.51	137.15	2344.36	18.02
1994-95	16674.44	2619.93	79.08	2540.85	15.24
1995-96	17230.93	2885.18	206.18	2679.00	15.55
Total	**66893.21**	**11747.16**	**749.43**	**10997.73**	**16.44**

Thus, the average return on term loans during the five years ending 1995-96 was 16.44 *per cent.*

2A.7.2 Returns from equities

Return on equity comprise income by way of dividends received and gains on disinvestment. It is important to note that mere appreciation in the market price of equities does not imply a profit because these fluctuate regularly on the stock market. Returns from disinvestment of shares should strictly be calculated with reference to the period of their holding. No such systematic data/analysis is maintained in RIICO (an analysis of a sample of disinvestments has been done by Audit in paragraph 2A.9). In its absence, a broad view of returns from equities based on annual returns vis-a-vis the cost of the equity portfolio at the beginning of the year may be taken. Such a view, however, gives an exaggerated picture of returns because it ignores the time lag between equity investment and flow of returns from dividends and through disinvestment. Nevertheless such data can give a revealing insight as depicted in the table below:

Sl. No.	Year	Cost value of equities at the beginning of the year	Cost value of equities disinvested	Profit on disinvestment	Cost of additional investments	Cost of equities written off	Cost value of equities at the close of the year	Dividend received	Total income on equity*	Percentage of equity disinvested*	Percentage return on equity portfolio*
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
					(Rupees in lakhs)						
1.	1990-91	2191.86 (102)	62.78 (7)	60.25 (7)	142.12 (11)	2.59 (1)	2268.61 (107)	45.57 (13)	103.23	2.86	4.71
2.	1991-92	2268.61 (107)	223.41 (12)	501.89 (12)	215.48 (11)	39.79 (6)	2220.89 (99)	61.24 (16)	523.34	9.85	23.07
3.	1992-93	2220.89 (99)	72.77 (9)	112.20 (9)	336.45 (7)	-	2484.57 (98)	60.36 (17)	172.56	3.28	7.77
4.	1993-94	2484.57 (98)	73.20 (8)	129.58 (8)	1161.46 (13)	5.35 (2)	3567.48 (98)	78.74 (17)	202.97	2.95	8.17
5.	1994-95	3567.48 (98)	248.92 (14)	362.30 (14)	492.20 (9)	3.33 (4)	3807.43 (92)	94.26 (16)	453.23	6.98	12.70
6.	1995-96	3807.43 (92)	40.90 (9)	44.33 (9)	763.24 (19)	31.13 (7)	4498.64 (96)	99.63 (15)	112.83	1.07	2.96
	Total	16540.84	721.98	1210.55	3110.95	82.19	18847.62	439.80	1568.16	4.36	9.48

Note:1. Column(c) includes unquoted and partly paid shares and column (f) includes cost of debentures converted into equity.

2. Figures in parenthesis indicate the number of companies.

* Equities in these columns refer to equity at the beginning of the year.

The above tables lead to some important conclusions as explained in the succeeding paragraphs.

2A.7.2.1 Even after ignoring the age of the equities in the portfolio, they generated an average return of only 9.48 *per cent* as compared to 16.44 *per cent* return from term loans. Thus RIICO's returns from equities compare very poorly with their return from term loans.

RIICO stated (November 1996) that it would not be appropriate to compare the returns from the two alternate mode of financing because the rate of interest on term loans is fixed with reference to the rate of refinance from Industrial Bank of India (IDBI) *etc.* while the returns from equity are related to the rate of interest under buy-back arrangement.

This reply is not tenable in view of the wide difference in the actual rate of return achieved between the two modes of financing, even though the expected rate of return from each was almost equal.

2A.7.2.2 The cost of equities disinvested or written off during the six years ending 1995-96 (Rs.804.17 lakhs) constituted 36.69 *per cent* of the cost of equities held at the beginning of 1990-91 (Rs.2191.86 lakhs). This indicates that at the present rate of disinvestment/write off, the average period of holding of equities would be around 16 years 4 months*. Since the buy-back agreements of RIICO stipulate a period of 3 to 7 years, the actual performance achieved indicates very slow rate of disinvestment.

> ***Average period of 16 years of holding of share till its disinvestment/write off was too long for rotation of funds.***

RIICO stated (November 1996) that disinvestment of equities had suffered due to bearish trend of the capital market during 1995-96 and that disinvestments would increase once the market sentiment improves.

This reply is not tenable because till RIICO entered into agreement with SCICI Securities Limited in March 1996, they did not have an adequate systems approach to disinvestment.

2A.7.2.3 The disinvestment of equities costing Rs.721.98 lakhs generated a net profit of Rs. 1128.36 lakhs (after accounting for Rs. 82.19 lakhs of equities written off). Thus, the aggregate average annual

> ***Disinvestment of equities generated an annual return of just 6 per cent.***

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* 2191.86 /804.17 x 6 years

compounded growth rate of equities which were disinvested after their average retention of 16 years 4 months was approximately 6 *per cent*[**].

2A.7.2.4 The average dividend received in a year (Rs.439.80 ÷ 6= Rs.73.30 lakhs) constituted only 2.65 *per cent* of the cost of equities held at the beginning of the year (Rs.16540.84 lakhs/6 = Rs.2756.81). A sample analysis of 10 cases of companies (refer paragraph 2A.9) indicates that flow of dividend from a company in which RIICO had made equity investment commenced after approximately 9 years. Co-relating the dividend of Rs.99.63 lakhs received during 1995-96 with the equity portfolio at the beginning of 1986-87 (Rs.1652.85 lakhs), it appears that the average dividend return per annum with reference to the cost of portfolio from which it accrues is about 6.03 *per cent*, but it begins to flow after 9 years.

RIICO stated (November 1996) that their major equity investment is in medium sector industries promoted mostly by first generation entrepreneurs, and at the time of investment declaration of dividend in initial years was not anticipated.

2A.7.2.5 Columns (i) and (c) of the above table indicate that during the five years ending 1995-96 dividend earned increased by a factor of 2.186 (Rs.99.63 lakhs ÷ Rs.45.57 lakhs) while equity portfolio grew by a factor of 1.737 (Rs.3807.43 lakhs ÷ Rs.2191.86 lakhs). Thus the growth of dividend in 5 years with reference to a constant level of equity is 1.258 times (2.186 ÷ 1.737). This translates to dividend income growing at an annual compounded growth rate of 4.7[*] *per cent* at a constant level of equity portfolio. To take into account the fact that dividend begins to flow after 9 years of investment, the flow of dividend from the 10th year till the 16th year (after which equities are on an average disinvested) must be equated with an assumed constant stream of dividend which flows from the first year of investment till the 16th year. For drawing such an equality it is necessary to adopt a discount factor which can reasonably be assumed as 20 *per cent* since it is broadly RIICO's rate of interest on term loans. On this basis, the dividend received during the 10th year to 16th year equals just 1 *per cent* of the equity invested.

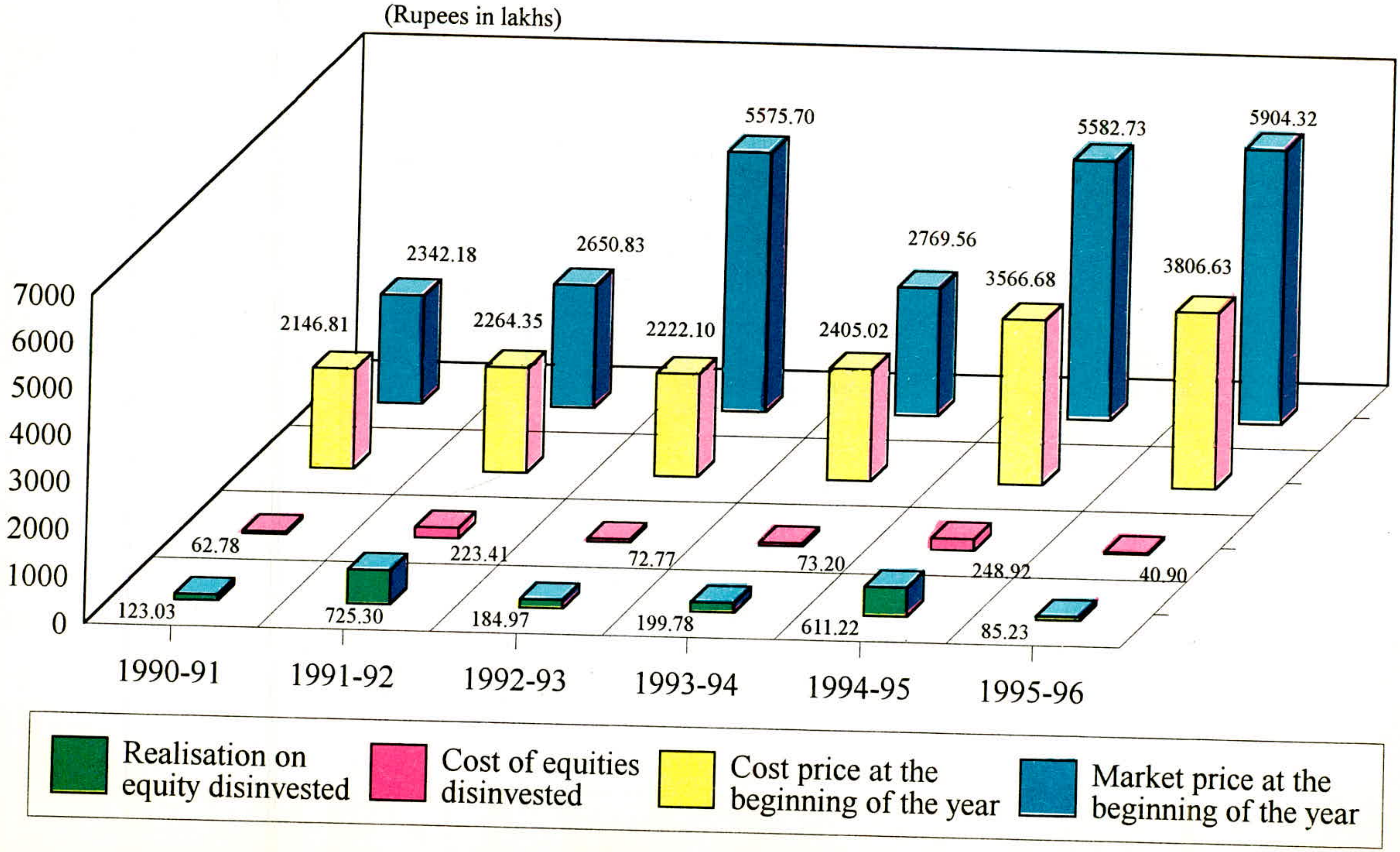
Dividend income generated an annual return of just 1 per cent from first year onwards.

** $721.98 \times (1.06)^{16} = 1834.08 \cong 721.98 + 1128.36$

* $\left(1+\frac{4.7}{100}\right)^5 = 1.258$

CHART - IV

EROSION DUE TO NON DISINVESTMENT



(Refer paragraph 2A.8)

2A.7.2.6 Since total returns from equity comprise returns from disinvestment (6 *per cent* as indicated in sub-paragraph 7.2.3 above) and dividend received (1 *per cent*), RIICO has broadly been earning just 7 *per cent* on its equity portfolio.

Annual return from equities was 7 per cent against 16.44 per cent from term loans.

Thus, the average returns from equity (7 *per cent*) have been just 43 *per cent* of the returns from term loans (16.44 *per cent*). In response, RIICO reiterated its reply indicated in para 2A.7.2.1, which has been found untenable.

Sub-paragraphs 2A.7.2.5 and 2A.7.2.6 above indicate that mere earning of dividend does not justify holding on to a share. Therefore, if a company is performing satisfactorily (as would be evidenced from its accounts), its shares should be disinvested unless there are good reasons to believe that their market price may appreciate significantly in the foreseeable future.

2A.8 Erosion due to non disinvestment

The table below indicates the percentage of disinvestment of fully-paid shares (both quoted and unquoted) with reference to their market value (unquoted shares were valued at cost price uptill 1994-95 and at book value for 1995-96):

Sl.No.	Year	Cost of equities at the begining of year	Market value of equities at the beginning of the year	Cost of equities disinvested	Realisation on equity disinvested	Percentage of equity disinvested in terms of cost	Percentage of market value of equity disinvested
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
				(Rupees in lakhs)			
1.	1990-91	2146.81	2342.18	62.78	123.03	2.92	5.25
2.	1991-92	2264.35	2650.83	223.41	725.30	9.87	27.36
3.	1992-93	2220.10	5575.70	72.77	184.97	3.28	3.32
4.	1993-94	2405.02	2769.56	73.20	199.78	3.04	7.21
5.	1994-95	3566.68	5582.73	248.92	611.22	6.98	10.95
6.	1995-96	3806.63	5904.32	40.90	85.23	1.07	1.44
		16409.59	24825.32	721.98	1929.53	4.4	7.77

Thus in each year the percentage of equity disinvested when measured in terms of market value was higher than that in terms of purchase price. This implies that RIICO has tended to disinvest such equities in their portfolio whose market price was higher than its purchase price, and continued to hold on to inferior shares of companies performing poorly. Such a policy appears to be short sighted because at times it may be prudent to disinvest shares of a company even at a loss if there is no expectation of the share price of the company improving in the foreseeable future. Test check in audit did not reveal any case where the shares of a company were sold at a price below its cost of acquisition. The tendency to hold on to the shares whose worth was much lower than the face value contributed ultimately to write off of shares costing Rs.82.19 lakhs during 1990-96.

Tendency to hold on to shares of companies performing badly contributed to write off of equities costing Rs.82.19 lakhs.

RIICO stated (November 1996) that as the net worth of the companies relating to these shares had become negative, their disinvestment was not possible.

2A.9 Internal Rate of Return on Equities disinvested

Internal rate of return (IRR) is that rate of interest which if applied in a compounded fashion to the amount invested in the equity would result in the inflow of the same amount of funds as were actually received by dividend and realisation on disinvestment. RIICO has no system of working out the IRR on equities that it disinvests. To get a broad view of the IRR that RIICO had earned on its disinvested shares, Audit selected a sample of shares of 10 companies (out of total of 46 companies) whose shares were disinvested during 1989-90 to

1995-96. The details of their investment, dividends received and profits on disinvestment are given below:

Sl. No.	Name of Company	Year of investment in equity	Total equity investment	Year of disinvestment	Amount realised on disinvestment	No. of years after which first dividend received	Total dividend received	Period of retention (years)	IRR	Year from which quoted	Time lag between being quoted & disinvestment (years)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
					(Rupees in lakhs)						
1.	Tirupati Fibres & Industries Ltd.	1981-82 to 1984-85	79.00	1989-90 to 1994-95	151.24	N/A**	Nil	13	5.97	1991-92	-
2.	Modern Threads (P) Ltd.	1980-81 to 1981-82	35.00	1994-95	162.01	11	24.50	14	13.60	Before 1983-84	11
3.	Jaipur Syntex Ltd.	1978-79 to 1981-82	31.80	1994-95	69.21	7	13.36	16	7.04	Before 1981-82	13
4.	Jaipur Polyspin Ltd.	1981-82	27.95	1993-94 to 1994-95	65.15	5	10.45	13	8.67	Before 1983-84	10
5.	Banswara Syntex Ltd.	1977-78	21.35	1992-93 to 1994-95	89.31	5	8.22	17	9.71	Before 1981-82	11
6.	Vikas Hybrids & Electronics Ltd.	1987-88	14.50	1991-92	25.38	N/A**	Nil	4	14.00	1988-89	3
7.	Ranjan Polysters Ltd.	1991-92	13.20	1994-95	19.00	3	1.58	3	14.00	Not quoted	N.A.
8.	Chem Caps Ltd.	1987-88	13.00	1992-93	24.29	N/A**	Nil	5	11.00	-do-	N.A.
9.	Reliance Chemotex Ltd.	1978-79 to 1979-80	12.50	1992-93	50.00	11	4.25	14	11.42	Before 1981-82	11
10.	Bhilwara Processors Ltd.	1977-78	5.00	1993-94	45.00	5	11.10	16	18.22*	Not quoted	N.A.
Total			**253.30**		**700.59**		**73.46**				

The above table indicates several important features as indicated in the succeeding paragraphs.

* High IRR is attributable to receipt of bonus shares.

** Not applicable since no dividend was declared.

2A.9.1 The weighted average period of holding of shares before their disinvestment was 12½ years against the corresponding average of 16 years 4 months for aggregate for all companies.

RIICO stated (November 1996) that delay in disinvestment of BB shares did not have any adverse impact because the price of disinvestment continued to increase at the agreed rate of interest.

This reply is not tenable because delay implied absence of receipt of funds by RIICO for further investment. Secondly RIICO generally had to grant concession to the agreed rate of interest and the longer the delay in disinvestment, higher was the amount of concession granted (refer paragraph 12).

2A.9.2 The weighted average IRR of equities of these 10 companies disinvested was 9.42 *per cent* against approximate average of 7 *per cent* for the aggregate shares disinvested.

RIICO accepting the IRR of 9.42 *per cent* stated (November 1996) that it would improve in future since the rate of interest under buy-back agreement had increased to 19 *per cent* with effect from May 1992.

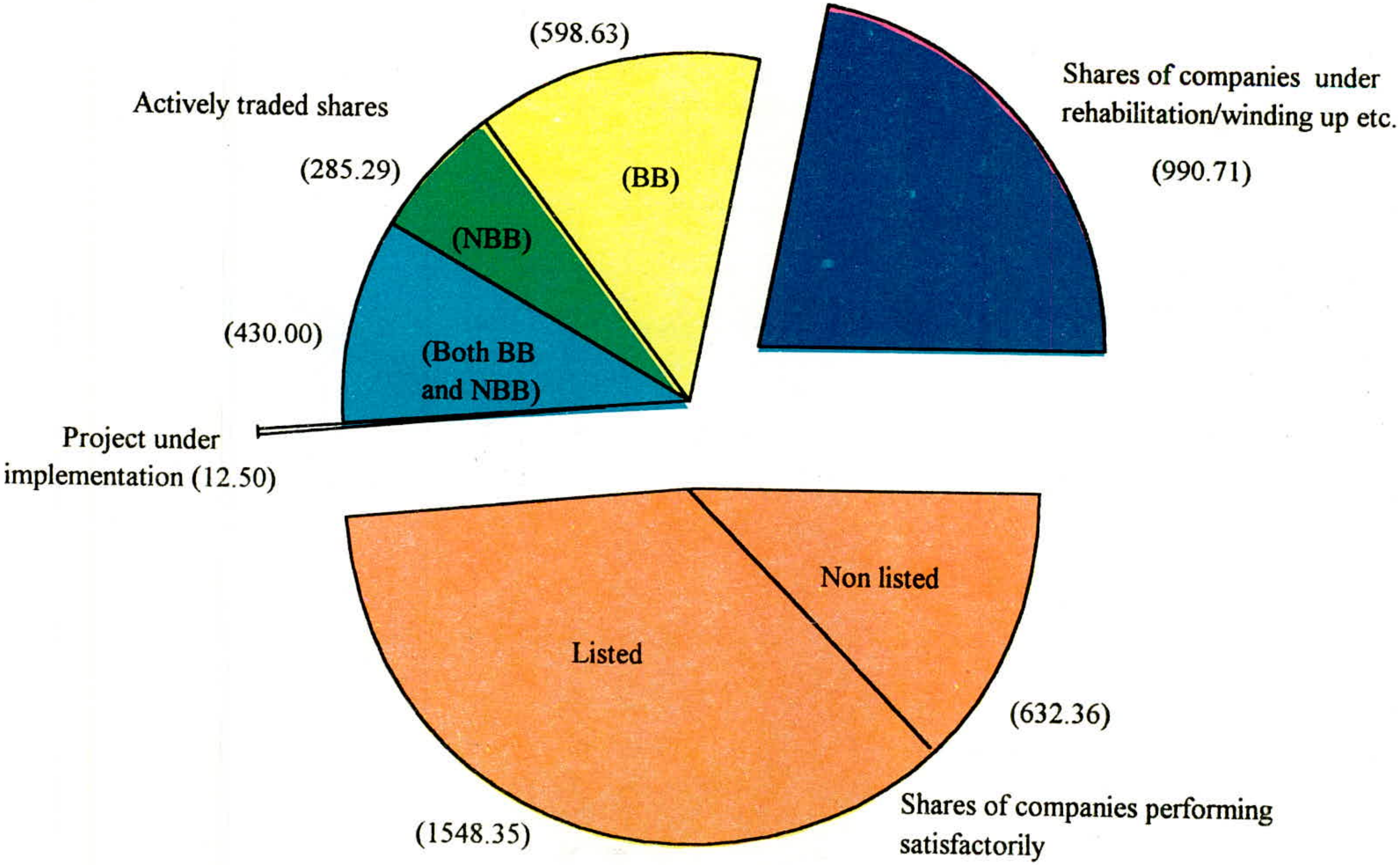
2A.9.3 The weighted average period after which dividend was received was 9 years 1 month (in respect of the three companies which did not pay any dividend till disinvestment it has been assumed that the dividend would have been received the following year) or, say 9 years.

CHART - V

ANALYSIS OF RIICO'S PORTFOLIO AS ON 31 MARCH 1996

(Basis : Cost Price)

(Parenthesis are Rupees in lakhs)



(Refer paragraph 2A.10)

2A.10 Large proportion of unsaleable shares in portfolio

As on 31 March 1996, the cost price of fully paid shares held by RIICO was Rs.4497.84 lakhs. This portolio as on 31 March 1996 as analysed by RIICO is depicted below :

		No. of companies	Cost price of equity held	Equity under buy back: Due	Equity under buy back: Not Due	Non-buy back	Market value
				(Rupees in lakhs)			
A.	Actively traded shares						
	(a) Buy-Back	12	598.63	12.40 (1)	586.23 (11)	-	438.19
	(b) Non Buy-Back	8	285.29	-	-	285.29 (8)	758.70
	(c) Both buy-back and Non buy-back	2	430.00	30.00 (1)	190.85 (1)	209.15 (2)	279.00
B.	Shares of Companies performing satisfactorily						
	B-I Listed shares	15	1548.35	123.25 (4)	40.00 (1)	1385.10 (13)	1177.62
	B-II Non Listed Shares	12	632.36	22.15 (4)	438.50 (5)	171.71 (3)	861.97
C.	Shares of Companies under rehabilitation/winding up *etc.*						
	C-I Listed	4	229.62	117.50 (3)	-	112.12 (2)	82.09
	C-II Listed but not traded	17	465.20	341.54 (12)	7.00 (1)	116.66 (7)	30.30*
	C-III Non Listed	24	295.89	178.77 (18)	10.50 (1)	106.62 (10)	20.96*
D.	Project under implementation	1	12.50	-	12.50 (1)	-	12.50**
	Total	**95**	**4497.84**	**825.61**	**1285.58**	**2386.65**	**3661.33**

(Note: figures in parenthesis indicate no. of companies)

The table above indicates the following:

(a) Shares of only 22 companies in which RIICO's investment was Rs.13.14 crores were being actively traded. Thus, shares costing Rs.31.84 crores held in 73 companies not being actively traded did not have much liquidity.

(b) Shares costing Rs.30 lakhs held in one company (Pacific Granities, Udaipur) whose shares were being actively traded and the period of buy back had elapsed, had not been disinvested. The promoter of this company had agreed (1 December 1994) to buy the shares of the unit @ Rs.50 per share, the price

* based on book value

** based on face value

offered by RIICO in October 1994. Meanwhile, the price of the share increased to Rs.62.50 per share and RIICO raised its sale price to the average price during the period 1 to 7 December 1994. The promoter did not respond to this offer and thereafter the price of this share fell sharply. The share was quoting around Rs.5 during October 1996.

RIICO stated (November 1996) that these shares would be disinvested when their price improves.

(c) Shares costing Rs.123.25 lakhs held in 4 companies which were performing satisfactorily had not been disinvested even though they were listed and the period of their buy-back had elapsed.

RIICO stated (November 1996) that efforts to disinvest these shares are in progress.

(d) RIICO had not been able to get the management of 4 companies which were performing satisfactorily to either get their shares listed or get them to buy RIICO's shares costing Rs.22.15 lakhs, even though their period of buy back had elapsed.

RIICO stated (November 1996) that the promoters of these companies were being pursued for necessary action.

(e) Equity investment aggregating Rs.9.91 crores was held in 45 companies which were under rehabilitation/winding-up.

Shares costing Rs.9.91 crores were held in 45 companies, which were under rehabilitation/ winding up.

(f) The total cost of equities whose buy back period was over as on 31 March 1996 but had not been disinvested was Rs.825.61 lakhs which comprised 18 *per cent* of the total cost of equities held (Rs.4497.84 lakhs) as on this date.

2A.11 Rotation of shares

2A.11.1 Quoted shares

2A.11.1.1 The table below indicates the change in the portfolio of quoted shares during the six years ending 1995-96 :

(Rs. in lakhs)

Sl. No.	Year	Cost price at the beginning of the year	Cost price of equities disinvested	Cost price of equities written off	Cost price of equities: Freshly acquired	Previously unquoted	Converted from (i) partly paid to fully paid, (ii)debentures etc.	Turning * unquoted	Net Addition (6)+(7)+(8)-(9)	Cost price at the close of the year (3)-(4)-(5)+(10)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1.	1990-91	1599.74 (44)	62.78 (7)	-	-	-	3.60 (1)	-	3.60 (1)	1540.56 (42)
2.	1991-92	1540.56 (42)	217.71 (10)	9.80 (1)	173.25 (5)	200.05 (5)	-	-	373.29 (10)	1686.34 (42)
3.	1992-93	1686.34 (42)	49.57 (6)	-	147.82 (2)	6.95 (1)	-	36.00 (1)	118.77 (2)	1755.54 (39)
4.	1993-94	1755.54 (39)	29.00 (1)	-	631.86 (5)	1.80 (1)	93.45 (2)	1.80 (1)	725.31 (7)	2451.85 (41)
5.	1994-95	2451.85 (41)	188.97 (9)	-	437.70 (6)	310.00 (2)	-	-	747.70 (8)	3010.58 (42)
6.	1995-96	3010.58 (42)	21.78 (5)	7.80 (1)	519.92 (15)	28.00 (2)	17.32 (1)	454.35 (15)	110.89 (3)	3091.89 (41)
	Total	12044.61	569.81	17.60		546.80		492.15		

(Note : figures in parenthesis indicate no. of companies)

* These represent cost of shares which were not quoted in the stock exchange during the relevant financial year.

2A.11.1.2 Comparison of column (4) of the above table with column (d) of the table in paragraph 7.2 indicates that 79** *per cent* of the disinvestment of equities is from the category of quoted shares. Therefore getting a share listed in the stock exchange imparts a strong impetus to its disinvestment.

RIICO stated (November 1996) that it prefers to invest in equity of a company at the time of its public issue, but market conditions may not always make this possible.

2A.11.1.3 Comparision of column (5) of the above table with column (g) of the table in paragraph 7.2 indicates that write off of quoted shares constituted 21 *per cent* (percentage of Rs.17.60 lakhs to Rs.82.19 lakhs) of aggregate equities written off. The amount of write off could have been reduced by timely action.

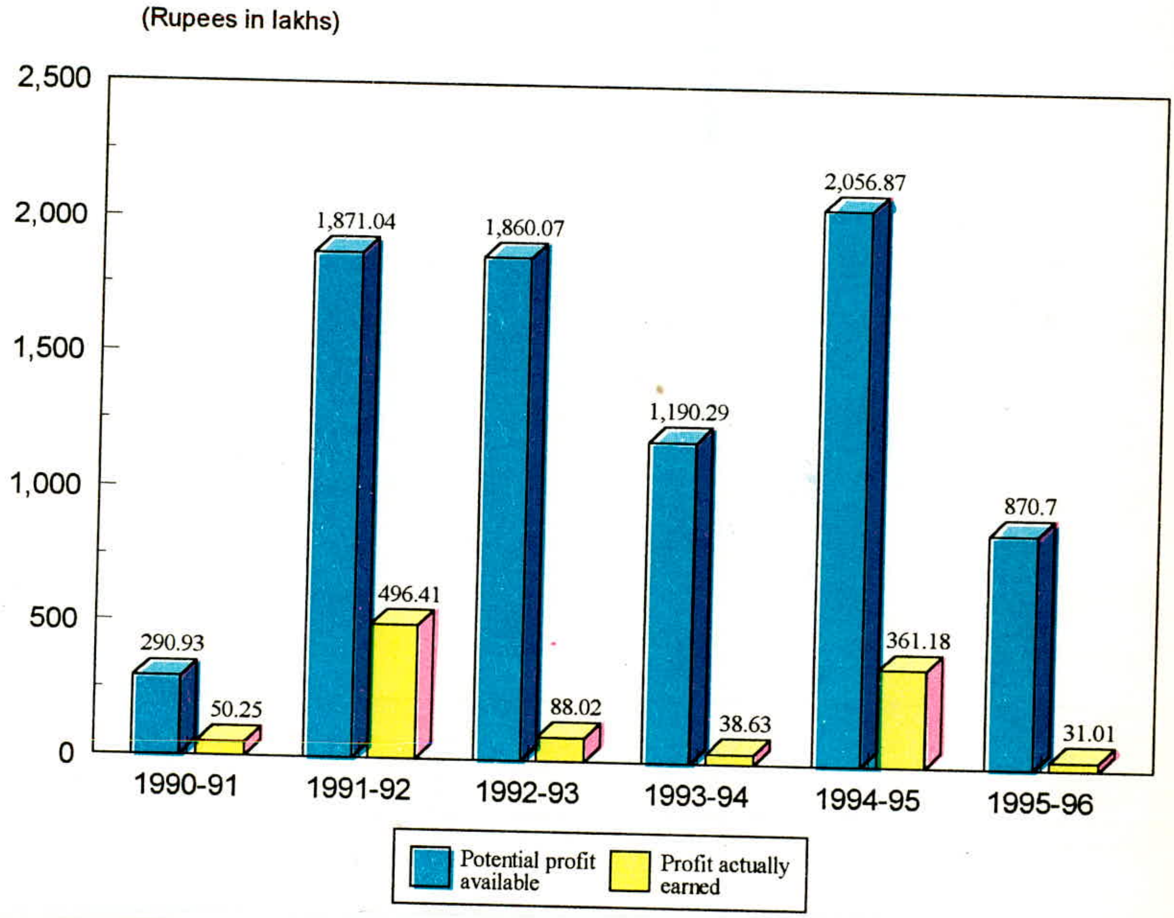
RIICO stated that the write off of quoted shares costing Rs.17.60 (in two companies) had to be done because these companies remained sick for many years during which there was no trading.

This reply is not tenable because RIICO through its nominated Director on the Board of these Companies should have foreseen the impending sickness and tried to cut its losses by selling their shares at whatever prices that could be fetched in the market.

** $\dfrac{\text{Rs.569.81 lakhs}}{\text{Rs.721.98 lakhs}} \times 100$

CHART - VI

REALISATION OF POTENTIAL PROFIT



(Refer paragraph 2A.11.1.5)

2A.11.1.4 Column (9) of the above table indicates the strong risk associated with holding on to quoted shares *viz.*, they may turn unquoted thereby becoming more difficult to disinvest. RIICO's portfolio comprises several shares which have a tendency to become unquoted. This again underlines the significance of quick disinvestment.

Lack of initiative in disinvestment contributed to quoted shares costing Rs.492.15 lakhs turning unquoted during 1995-96.

RIICO stated (November 1996) that the companies whose shares turned unquoted were sick and under rehabilitation for several years.

2A.11.1.5 Non-disinvestment despite favourable market rates

The market price of quoted equities fluctuate regualrly on the stock market. Therefore equities should be disinvested whenever the market rates are favourable. Since the bulk of RIICO's promotional efforts are through term loans, its criterion of disinvestment should be to disinvest an equity at a time when its expected appreciation in the next one year falls below the rate of interest on term loans (say 20 *per cent*). As quantification of such an expectation has an element of uncertainty, a margin of safety should be added to it. Whenever this criterion is not satisfied for a share, RIICO should disinvest it at the earliest.

The table below compares the percentage of profit actually earned with the potential profit that could have been earned due to the aggregate market value of quoted shares being higher than their cost price.

Sl. No.	Year	Cost price of equities			Market price of equities			Potential profit on disin-vestment	Profit actually earned	Percentage of		
		At begin-ning of year	At close of year	Average during the year	At begin-ning of year	At close of year	Average during year			Potenti-al profit available	Profit actually earned	Profit actually earned to potential profit
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(xii)	(xiii)
					(Rupees in lakhs)							
1.	1990-91	1599.74	1540.56	1570.15	1795.11	1927.04	1861.08	290.93	50.25	18.53	3.84	20.72
2.	1991-92	1540.56	1686.34	1613.45	1927.04	5041.94	3484.49	1871.04	496.41	115.97	30.77	26.53
3.	1992-93	1686.34	1755.54	1720.94	5041.94	2120.08	3581.01	1860.07	88.02	108.08	5.11	4.73
4.	1993-94	1755.54	2451.85	2103.70	2120.08	4467.90	3293.99	1190.29	38.63	56.58	1.84	3.25
5.	1994-95	2451.85	3010.58	2731.22	4467.90	5108.27	4788.09	2056.87	361.18	75.31	13.22	17.55
6.	1995-96	3010.58	3091.89	3051.24	5108.27	2735.60	3921.94	870.70	31.01	28.54	1.02	3.57
	Average of six years :	2007.44	2256.13	2131.78	3410.05	3566.81	3488.43	1356.65	179.25	67.17	9.30	13.85

From the above table, it would be seen that RIICO failed to derive optimal benefit from the potential profits accruing due to favourable market rates of shares. On an average, during the last six years it could book only 13.85 *per cent* of the potential profits. If the fact of regular fluctuations of quoted shares in the stock market is considered, it becomes obvious that during a financial year there were occasions when the market price was higher than the average price indicated in the above table. Viewed in this perspective, the average percentage of profits booked is even less than 13.85 *per cent* of the potential profit available. The continuous loss of opportunities for disinvestment is attributable to not monitoring the share prices and disinvesting them during an opportune period.

Absence of monitoring share prices contributed to tapping of only 13.85 per cent of the potential profit.

RIICO stated (November 1996) that their performance in disinvestment should be assessed by comparing the total profit actually earned during the six years (1990-91 to 1995-96) *i.e.* Rs.1065.50 lakhs (total of col.10) with the peak of potential profit *viz* Rs.2056.97 lakhs (during 1994-95).

This reply is not tenable because (a) the size of portfolio has been expanding with each year, (b) the composition of portfolio changes with every investment and disinvestment, and (c) cumulative profits are not comparable with potential profits of a single year.

Paragraph 2A.14 illustrates some cases of quoted shares which were not disinvested even though good opportunities at least for their part disinvestment existed.

2A.11.2 Unquoted shares

The table below indicates the change in the portfolio of cost of unquoted shares during the five years ending 1995-96 (figures in parenthesis indicate no. of companies) :

Sl. No.	Year	Cost at the beginning of the year	Unquoted shares becoming quoted during the year	Cost of unquoted shares disposed of	Cost of unquoted shares written off	Cost of investment in unquoted shares	Cost of previously quoted shares becoming unquoted	Partly paid shares/ debentures converted into unquoted shares	Cost of unquoted shares at the close of the year {(3)-(4)-(5) -(6)+(7)+(8) +(9)}
1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
				(Rupees in lakhs)					
1.	1991-92	723.78 (63)	200.05 (5)	5.70 (2)	29.97 (6)	42.22 (6)	-	3.48 (1)	533.76 (56)
2.	1992-93	533.76 (56)	6.95 (1)	23.20 (3)	-	45.00 (3)	36.00 (1)	64.87* (1)	649.48 (57)
3.	1993-94	649.48 (57)	1.80 (1)	41.20 (6)	5.35 (2)	511.90 (7)	1.80 (1)	-	1114.83 (56)
4.	1994-95	1114.83 (56)	310.00 (2)	59.95 (5)	3.33 (4)	54.50 (4)	-	-	796.05 (49)
5.	1995-96	796.05 (49)	28.00 (2)	19.12 (4)	23.33 (6)	226.00 (3)	454.35 (15)	-	1405.95 (54)
	Total	**3817.90**	**546.80**	**149.17**	**61.98**	**879.62**	**492.15**	**68.35**	**4500.07**

Column (4), (5) and (6) of the above table indicate that the flow out of the portfolio of unquoted shares is through one of the three routes *viz.*, conversion to quoted shares, disposal and write off. Comparison of the the total of these three routes during the five years ending 1995-96 with the cost of unquoted equities at the beginning of 1991-92 indicates that on the average a share remains unquoted for a period of 4 years 9 months[@] before it moves out of this portfolio.

* Cost of shares in one subsidiary company converted into public company.

@ $\frac{\text{Rs.723.78 lakhs}}{\text{Rs.(546.80 + 149.17 + 61.98) lakhs}} \times 5 \text{ years}$

Column (8) highlights an important risk associated with holding of unquoted shares *i.e.* if a quoted share is not disinvested, then there is a possibility of its trading becoming so thin that it ultimately ceases to be quoted. As already indicated, possibility of disinvestment of unquoted equities is significantly less than of quoted equities. Therefore return of a quoted share to unquoted portfolio gives a strong warning signal to its taking the path of ultimate write off. The fact that quoted shares costing Rs.492.15 lakhs turned unquoted during 1991-96 indicates that RIICO had not safeguarded itself against this risk.

2A.11.2.1 Large holding of unquoted shares

2A.11.2.1.1 Portfolio of unquoted shares

The table below compares the cost of unquoted equities *vis-a-vis* the total cost of equities held.

Sl. No.	Year	Total cost of equities held at the beginning of the year		Cost of unquoted shares at the beginning of the year		Percentage of unquoted shares in terms of	
		No.of companies	Cost (Rs.in lakhs)	No.of Companies	Cost (Rs.in lakhs)	No.of Companies	Cost (Rs. in lakhs)
1.	1990-91	100	2146.81	56	547.07	56.00	25.48
2.	1991-92	105	2264.35	63	723.78	60.00	31.96
3.	1992-93	98	2220.10	56	533.76	57.14	24.04
4.	1993-94	96	2405.02	57	649.48	59.38	27.01
5.	1994-95	97	3566.68	56	1114.83	57.73	31.26
6.	1995-96	91	3806.63	49	796.05	53.85	20.91
	Annual Average	98	2734.83	56	727	57.41	26.60

Thus, the average of unquoted equities held by RIICO comprised 26.60 *per cent* of the total portfolio but in terms of number of companies it was 57.41 *per cent.* This indicates that small equity investments of RIICO (which presumably were held in small companies) had a much stronger tendency to remain unquoted than large

RIICO's average holding of unquoted shares comprised 26.60 per cent of their portfolio.

equities held in bigger companies. This underlines a significant risk associated with equity investments in small companies. However, RIICO has no cut off limit of the size of a company below which equity investment would not be made by it.

RIICO stated (November 1996) that they have recently decided that except in the cases under Udyog Shree Scheme, equity assistance would not be extended unless the project size is more than Rs.10 crores.

2A.11.2.1.2. In the case of 15 companies in which equity investment aggregrated Rs.275 lakhs, it was noticed that their shares remained unlisted continuously for the 10 years preceding 31 March 1996.

RIICO stated (November 1996) that as these companies did not require further injection of huge funds, they had not gone for a public issue which is necessary condition for getting listed in a stock exchange.

This reply is untenable because RIICO's standarised 'Letter of Subscription' stipulates a specific date by which a company must arrange a public issue. Since prospect of disinvestment of shares held by RIICO is linked to the shares getting listed, such delay implies RIICO holding on to shares which have little liquidity.

2A.12 Concessions allowed on disinvestment

2A.12.1 As already indicated (refer paragraph 10) purchase of shares under buy back agreement constituted about half the equity investments made by RIICO. Though the stipulated period of buy back shares varied between 3 to 7 years, the average period of rotation of all shares was 16 years 4 months (refer paragraph 2A.7.2.2). The slower rotation of shares was partly on account of extensions granted in the buy back period. Another factor for slower rotation of the aggregate shares was the unusually long period in the disinvestment of shares not supported by any buy back agreement.

2A.12.2 The compounded rate of interest to be applied (after allowing for dividends received) as per buy back agreement had varied between 14 to 19 *per cent*. However, the actual returns received have been only 7 *per cent* (refer paragraph 2A.7.2.6). The shortfall in returns is partly due to the fact that concessions were often granted on the rate of interest stipulated in the buy back agreement to attract the promoter to buy back the shares. Another major factor for lower returns was that much greater concessions had to be given in respect of shares not supported by a buy back agreement to attract the promoter to buy them.

2A.12.3 The table below depicts 10 illustrative cases where various concessions were allowed to the promoters to buy back the shares:

S. No.	Name of Company	Year of investment	Amount disinvested under BB*	NBB*	Total	Month/ year of settlement	Concession allowed	Value of concession on account of interest (Rs. in lakhs)	Remarks
1.	Banswara Syntex Ltd.	1976-77 to 1977-78	9.15		9.15	July 1994	Interest rate reduced from 14 p.a. to 12.25 p.a.	23.52	These shares were due for buy back by June 1982 but were disinvested 12 years thereafter.
2.	Jaipur Syntex Ltd.	1978-79 to 1981-82	19.20		19.20	April 1994	Charging simple interest @ 12 *per cent* instead of compund interest on shares costing Rs.14.20 lakhs, and reduction from 14 *per cent* to 10 *per cent* on shares costing Rs.5.00 lakhs	65.39	The shares under BB were due by April 1984 (1.42 lakh shares) and January 1985 (0.5 lakh shares). These were disinvested after delay of 10 years.
3.	Tirupati Fibres & Industries Ltd.	1981-82 to 1984-85	53.00	26.00	79.00	February 1994	BB shares comprised 80,000 shares carrying 14 *per cent* interest and 4.5 lakh shares carrying 16 *per cent* interest. Interest was decreased to 10 *per cent* for both and frozen after 31 March. 1991 The NBB shares were disinvested at face value.	76.00 29.71 -	The buy back was to be completed in instalments by June 1989 but was completed 3½ years beyond this date. No profit was derived on NBB shares though they were held for approximately 10 years.
4.	Modern Threads (I) Ltd.	December 1981	35.00	-	35.00	March 1995	Interest rate reduced from 16 *per cent* to 12 *per cent* per annum.	85.00	In terms of extension granted in June 1987 these shares were due for buy back by October 1989 (1.50 lakh shares) and October 1991 (2 lakh shares). The period of holding of these shares was 13 years.

* BB and NBB denote buy back and non buy back portion of shares respectively.

S. No.	Name of Company	Year of investment	Amount disinvested under BB	NBB	Total	Month/ year of settlement	Concession allowed	Value of concession on account of Interest (Rs. in lakhs)	Remarks
5.	Shruti Synthetics Ltd.	February 1982	48.96	30.60	79.56	July 1991	1. Interest on BB shares was reduced from 16 *per cent* to (a) 12 *per cent* in respect of 2,57,400 shares sold in June 1988 and January 1990 (b) 10.5 *per cent* in respect of 2,32,200 shares sold in April 1992 2. The NBB shares were sold at face value to the promoter during 1991-92.	51.31	The shares of Rs.48.96 lakhs were due for buy back by June 1986 (1.8 lakh shares) and June 1988 (3.096 lakh shares) but were disinvested in stages during June 1988 to April 1992 after an average delay of 3 years. No profit was derived on the NBB shares though they were held for more than 9 years.
6.	Super Syncotex Ltd.	December 1982	54.25	-	54.25	October 1994	Rate of interest reduced from 16 to 12 *per cent* per annum in respect of 3.95 lakh shares and to 14 *per cent* per annum for 1,47,500 shares	49.99	The buy back was to be completed by June 1990, but was completed after 4¼ years beyond this date.
7.	Rajasthan Processors (I) Ltd.	February 1983	6.00	-	6.00	1992-93	Rate of interest reduced from 16 *per cent* to 12 *per cent.*	8.11	Half the shares were due for buy back by October 1985 and the balance by October 1987. Disinvestment was completed during March to July 1993 *i.e.* after a delay of more than 6 years.
8.	Rajasthan Cylinders & Containers	June 1983	3.75	-	3.75	March 1992	Interest rate reduced from 16 to 12 *per cent* per annum.	3.00	The shares were due for buy-back within 3 years but were disinvested after a delay of more than 5 years.
9.	Arvind Press Caps Ltd.	September 1985	2.70	-	2.70	September 1991	Rate of interest was reduced from 16 to 12 *per cent* per annum.	1.25	Out of 27,000 shares purchased by RIICO, 15,000 were to be bought back by May 1988 and the balance by May 1990. Thus disinvestment was delayed on the average by more than 2 years.
10.	Chem Caps Ltd.	March 1987	13.00	-	13.00	1992-93	Rate of interest reduced from 14 *per cent* to 11 *per cent*	4.21	Buy back was due in April 1992 but was completed in March 1993
	Total		245.01	56.60	301.61			397.49	

2A.12.4 The above table indicates the following :

2A.12.4.1 Concessions of interest aggregating Rs.397.49 lakhs had to be given to promoters of 10 companies to dispose of shares costing Rs.301.61 lakhs.

2A.12.4.2 The weighted average (with reference to cost of shares) period of disinvestment of shares under buy back was 11 years. Since the average period of rotation of shares in aggregate is 16 years, the corresponding rotation period of NBB shares is 29 years*. Thus shares not supported by a buy back agreement are far more difficult to disinvest.

RIICO stated (November 1996) that disinvestment of NBB shares could not be done due to bearish trend of the stock market since January 1995 and that these shares would be sold once the market picks up.

This reply is not tenable because the potential profit available on RIICO's portfolio on the stock market was more than 100 *per cent* during 1991-92 and 1992-93 (refer column (xi) in table in paragraph 2A.11.1.5) but the disinvestment was still relatively small.

2A.12.4.3 The weighted average return on buy back shares was 11 *per cent*. Since investments in BB and NBB shares was almost equal (refer table in paragraph 2A.10), and their aggregate return was 7 *per cent*, the average return from shares not under any buy back agreement was only 3 *per cent*.

Sub-paragraphs 2A.12.4.2 and 2A.12.4.3 above indicate that not only are non-buy back shares more difficult to disinvest, but also give a miniscule return. This calls into question RIICO's practice of not negotiating buy back agreements in respect of almost half of their equity investment.

Preference for disinvestment of non-buy back shares through promoters resulted in longer average disinvestment period of 29 years and a meagre weighted average return of 3 per cent.

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* $2/16 = 1/11 + 1/t$, where t is the time period for rotation of NBB shares.

The apparent reason for slow rotation of non-buy back shares is that RIICO always gives the promoter the first opportunity to buy them, while the promoter is under no obligation to buy them. The promoter would obviously take the initiative of buying these shares only after he has completed the purchase of shares under buy back agreement and when he anticipates that he can sell them at a substantial profit. Alternatively, the promoter may agree to purchase the non-buy back shares as part of package for the purchase of buy back shares. In such cases he would naturally pay much less for the non-buy back shares. The purchase of the non-buy back shares of Triupati Fibres and Industries Ltd. and Shruti Synthetics Ltd. (Sl.Nos.3 and 5 in the aforesaid table) illustrate this fact; in both these cases such shares were purchased by the promoters at face value after more than 9 years as part of a package deal.

RIICO stated (November 1996) that they had recently empanelled various brokers on the National Stock Exchange and the exchanges at Bombay, Delhi and Jaipur for offloading such equity in the open market.

2A.13 Disinvestment of equities below market price

2A.13.1 Vikas Hybrids and Electronics Limited (VHEL)

RIICO purchased (January 1987) 1.45 lakhs equity shares of Rs.10 each at par in Vikas Hybrids and Electronics Limited (VHEL) which set up a project for manufacturing hybrid-micro circuits at Bhiwadi, Alwar. In terms of the buy-back agreement (July 1987), 60,000 shares were to be bought back by the promoters within 2 years of commencement of the commercial production and 85,000 shares within 3 years, at a price calculated after adding interest @ 14 *per cent* per annum compounded annually from the date of investment, less dividends, if declared and paid to RIICO. VHEL commenced its commercial production on 5 April 1988; therefore the last dates for buy-back were 4 April 1990 and 4 April 1991 respectively. The promoter did not initiate any action to buy-back these shares by the stipulated dates. The shares of VHEL were quoted in the Delhi and Calcutta stock exchange from 1988-89 onwards. The price of these shares which was around Rs.14.50 on 31 March 1991 began to rise rapidly during 1991-92. Accordingly, in December 1991, the promoter deposited Rs.25 lakhs for their buy-back. Though RIICO was by then free to sell their shares of VHEL to any third party, it accepted the promoters offer and transferred their entire holding in April 1992 in favour of the persons nominated by the promoters at an average price of Rs.17.50 per share (Rs.0.38 lakh were deposited in April 1992). As on 31 March 1992, the quoted price of this share was of Rs.140 at Calcutta Stock Exchange and Rs.180 at Delhi Stock Exchange. Had RIICO disinvested the holding of 1,45,000 shares in the open market in small lots, even at the rate of Rs.140 per share (being quoted in the Calcutta Stock Exchange), it would have realised Rs.203.00 lakhs in place of Rs.25.38 lakhs and earned a profit of Rs.177.62 lakhs.

Government stated (June 1996) that the equity was on buy-back basis, and therefore, the market price of the share was not relevant in disinvestment of equity. This reply is not tenable because in terms of the buy-back agreement (8 July 1987), in the event of the failure of the entrepreneurs to buy-back the shares within the specified period, RIICO was free to sell the shares to any third party/public. Moreover, even if RIICO wanted to sell the shares to the promoter or his nominees it should have negotiated a price with him with reference to the ruling market price.

Shares of a company were sold at price determined by the buy back agreement even though it had lapsed and the prevalent market prices were significantly higher. Consequently, RIICO passed on their potential profit aggregating Rs.1.78 crores to the promoters.

The decision to sell shares as per terms of buy back agreement even after the lapse of agreement resulted in RIICO forgoing a potential profit of Rs.1.78 crores in favour of the promoter.

2A.13.2 Parasrampuria Synthetics Ltd. (PSL)

RIICO purchased (October 1984 to May 1985) an aggregate of 2,48,500 shares of Rs.10 each at par amounting to Rs.24.85 lakhs of Parasrampuria Synthetics Ltd. (PSL) under a buy-back agreement executed on 1 October 1984. Of these, 1,20,000 shares were to be bought back within 3 years and 1,28,500 within 5 years from the date of commencement of commercial production, at a price calculated after adding interest @ 14 *per cent* per annum compounded annually from the date of investment, less dividends, if any, declared and paid to RIICO. Accordingly, the buy back became due in the month of August 1988 and August 1990. The first lot of 1,20,000 shares was purchased back by the promoters during June to October 1989 for Rs.22.30 lakhs at an average price of of Rs.18.58 per share as per the terms of the buy back agreement after expiry of the due date in August 1988.

The promoter, however, again failed to adhere to the due date in August 1990 for buy back of the second lot of the 1,28,500 shares. He was allowed to buy back the shares in December 1990 strictly as per the terms of the agreement as though buy back had been made within the time schedule mentioned in the said agreement, for Rs.27.12 lakhs (including dividends received) at an average price of Rs.21.10 per share. Audit, however, noticed that during December 1990, the shares of PSL were being actively traded in Bombay at an average price of Rs.69 and since the buy back was effected after the BB period was over, RIICO could have disposed of these shares in the capital market and realise the gain due to increased rate of the shares. By not doing so, RIICO passed on a potential profit of Rs.61.55 lakhs to the promoter.

RIICO stated (November 1996) that even though the buy back agreement stipulates that in case the promoter does not purchase the equity within 45 days of the due date, RIICO will have the option of disinvesting them in the open market, this option had never been exercised. RIICO added that the clause of sale in the open market was added only to pressurise the promoters to buy back their shares by the due date.

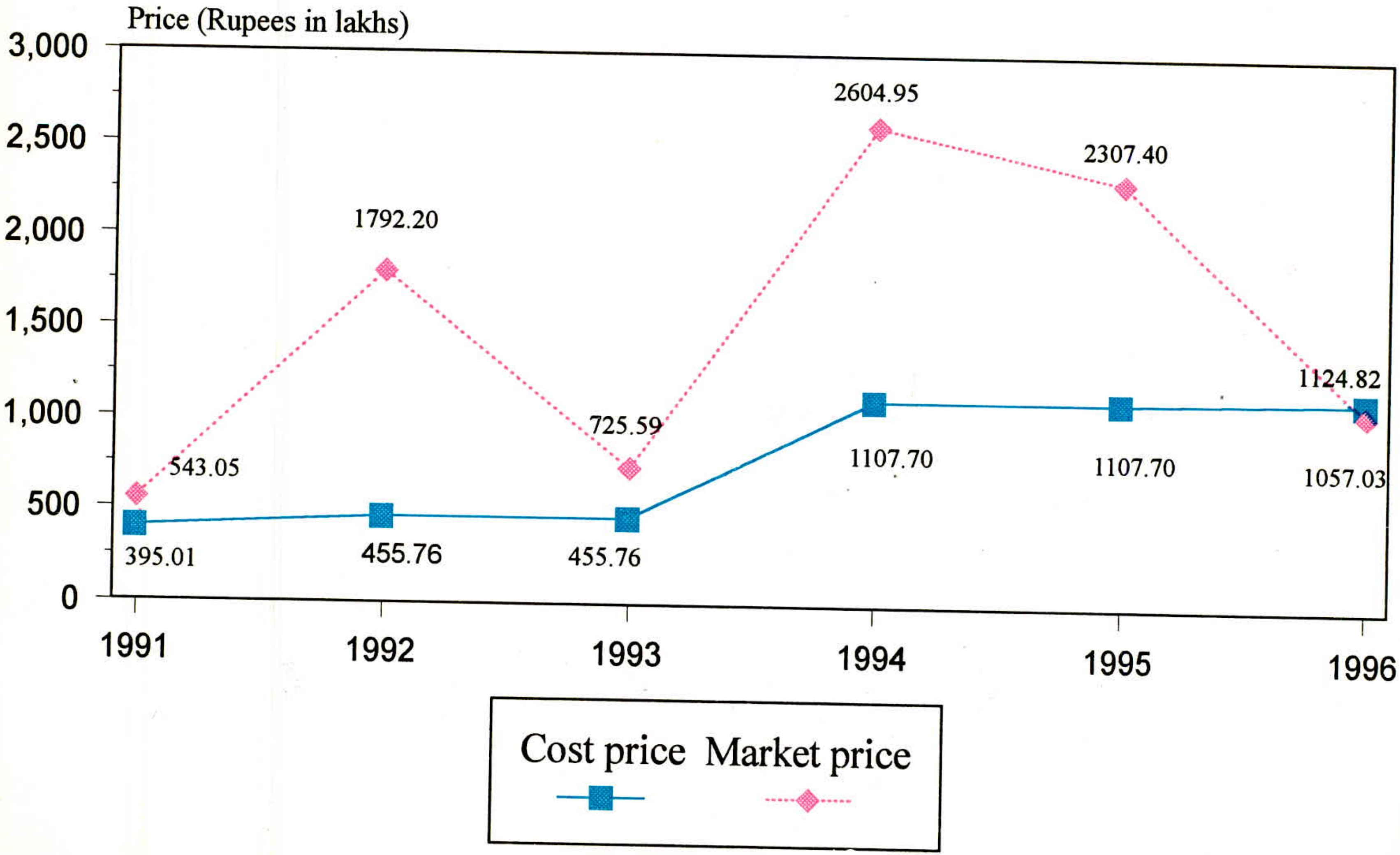
This reply is untenable in the context of frequent extensions besides concessions that had to be allowed to promoters to make them to buy RIICO's shares. By not exercising the option of disinvesting the shares in the open market, RIICO only encouraged the promoters to seek extensions and concessions.

2A.14 Non-disposal of non buy-back shares at opportune time

RIICO's objective of accelerating the pace of industrialisation demands quick recycling of its equity holding. To attain this objective and at the same time earn substantial profits, RIICO should disinvest atleast a part of shares not under buy back period whenever the market prices are reasonably favourable. The table below compares the market price of shares of a sample of 6 companies in RIICO's portfolio *vis-a-vis* the cost of their purchase and indicates the repeated

CHART - VII

NON-DISPOSAL OF SHARES



(Refer paragraph 2A.14)

opportunities (indicated by underlining) lost by RIICO in not disinvesting even a small part of its holding :

Sl. No.	Name of the Company	No.of shares held as on 31 March 1996	Price as on 31 March 1991 Cost	1991 Market	1992 Cost	1992 Market	1993 Cost	1993 Market	1994 Cost	1994 Market	1995 Cost	1995 Market	1996 Cost	1996 Market
							(Rupees in lakhs)							
1.	Shree Rajasthan Syntex Limited	2,43,800 equity shares of Rs.10 each and 2,43,800 equity shares of Rs.25 each	24.58	92.18	85.33	336.44	85.33	63.88	85.33	658.26	85.33	365.70	85.33	151.16
			*M/C :	3.75	M/C :	3.94			M/C:	7.71	M/C:	4.29		
2.	Kelvinator of India Ltd.	1,41,525 shares at an average price of Rs.26.33 per share	6.10	73.75	6.10	132.75	6.10	47.57	37.46	227.64	37.46	210.57	37.26	131.62
			M/C :	12.09	M/C:	21.76	M/C:	7.80	M/C:	6.08	M/C:	5.62		
3.	Modi Alkalies Ltd.	2,30,000 equity shares of Rs.10 each	23.00	43.70	23.00	161.00	23.00	54.63	23.00	42.55	23.00	41.40	23.00	18.40
			M/C:	1.90	M/C:	7.00	M/C:	2.38	M/C:	1.85	M/C:	1.80		
4.	Asil Industries Ltd.	43,300 equity shares of Rs.10 each and 43300 of Rs.40 each	4.33	2.17	4.33	7.25	4.33	7.25	4.33	49.80	4.33	52.83	21.65	26.85
					M/C:	1.67	M/C:	1.67	M/C:	11.50	M/C:	12.20		
5.	Derby Textiles Ltd.	5,20,000 equity shares of Rs.10 each	52.00	N.A.	52.00	187.20	52.00	52.26	52.00	83.20	52.00	114.40	52.00	78.00
					M/C:	3.60					M/C:	2.20		
6.	J.K Industries Limited	10,50,000 equity shares at an average price of Rs.86.24 per share	285.00	331.25	285.00	1600.00	285.00	500.00	905.58	1543.50	905.58	1522.50	905.58	651.00
					M/C:	5.61			M/C:	1.70	M/C:	1.68		
	Total		395.01	543.05	455.76	1792.20	455.76	725.59	1107.70	2604.95	1107.70	2307.40	1124.82	1057.03

The fact that not even a small disinvestment of shares was effected in any of the aforesaid cases even when their market prices were fluctuating widely indicates RIICO's indifference to tapping profits potentially available.

* M/C denotes Market Price ÷ Cost Price.

In view of uncertainties inherent in the future price of a share on the stock market, it is generally difficult to completely disinvest at the most opportune time. The above table indicates that during 1992-96, maximum potential profits were available towards the end of March 1994 (Rs.14.97 crores) and thereafter at the end of March 1995 (Rs.12.00 crores). Had RIICO been vigilant about market prices and active in disinvesting their holding even at the level of market prices prevalent at the end of March 1995, they could have earned a profit of Rs.12.00 crores. The loss of good disinvestment opportunities for earning this profit and thereafter earning interest on it @ 20 *per cent* per annum (available through term loans) was compounded by the fall in prices of all these shares which reduced their market value by Rs.12.50 crores by the end of March 1996. The holding of these shares during the whole 1994-95 without even a small disinvestment indicates lack of initiative by the top managment of RIICO especially since their Finance Wing had advised disinvestment in the light of buoyancy of the capital markets as early as January 1994.

Non disinvestment of shares for more than a year despite buoyancy in market prices, resulted in non-realisationof potential profit of Rs.12.00 crores which was completely eroded subsequently.

RIICO stated (November 1996) that no disinvestments could be done either because of expectation of higher prices in future or because efforts made to disinvest through promoters/mutual funds did not fructify into a sale.

The reply is not tenable because RIICO had to dispose of their entire holdings of shares in a Company (held in a single certificate) through a single transaction. Had RIICO arranged to get their holding split into several certificates then it would have had the option of selling in smaller lots. Such offers would naturally have received much greater response.

2A.14.1 Shree Rajasthan Syntex Limited (SRSL)

RIICO held in stock 4,87,600 shares of SRSL half of which were acquired at Rs.10 per share and the other half at Rs.25 per share during 1979 to 1982. In February 1994, Kreda Investment Private Limited, a Bombay based investment company, offered to purchase 2 lakh shares of SRSL at Rs.126 per share or 10 *per* *cent* less than the official closing market price on Bombay Stock Exchange subject to a maximum of Rs.130.50 per share. The offer was valid upto 4 March 1994. At the end of February 1994, the rate per share of SRSL was Rs.145 per share in Bombay Stock Exchange.

On the promoters' request, sale of shares involving profit of Rs.2.32 crores was shelved. Subsequently, the share price fell from Rs.126 to Rs.31.

The Chairman-cum-Managing Director (CMD), however, decided (May 1994) that the promoter may be asked to buy these shares at around the market price and in case he was not interested, these could be sold in the market. The promoter in turn, requested (November 1994) RIICO not to exercise their right to dispose of the shares in the market for a period of three years and that he would buy these shares in a phased manner within a period of two years thereafter.

RIICO agreed (February 1995) to defer the disinvestment of equity held by it for a period of three years, after which the promoters would have the first right on the offer of purchase, to be exercised and completed in a phased manner not exceeding 12-18 months, failing which RIICO would be free to off load the shares in the market. Before freezing the sale for three years, RIICO, however, did not enter into any agreement to safeguard their financial interest.

The decision of RIICO not to disinvest 2 lakh shares resulted in its losing an opportunity of earning a profit of Rs.2.32 crores which could have been utilised for financing other projects. Meanwhile, the price per share of SRSL had declined to Rs.31 by 31 March 1996.

Government stated (June 1996) that its policy has been not to destablise the entrepreneur and to give first option to the promoters. Further, its decision was in accordance with Industrial Policy of 1994 as per which, disinvestment of equity would not be done in case of units undertaking substantial expansion within the State.

The reply of the Government is not tenable because the aforesaid factors did not prevent RIICO from signing an agreement with the promoter binding the latter to buy the shares by a specified future date at a price comprising (a) the price of shares at which RIICO could have sold them (*i.e.* opportunity cost), and

(b) compounded rate of interest over the period for which disinvestment was delayed.

2A.15 System deficiencies

In spite of the fact that investment in the equity of other companies and extending financial assistance by way of loans to entrepreneurs is the main activity of RIICO involving substantial investment, no systematic records were found maintained depicting working results and financial health of the units financed. The system of nominating directors on the board of such units also was not effective inasmuch as up-to-date annual accounts were not obtained and analysed, so as to obtain a feed back about the performance and projections of each unit. There was absence of regular monitoring and stock market price analysis of the shares held in its portfolio by RIICO.

Internal audit of the investment and disinvestment activities was also not conducted, with the result, the defeciencies in this activity were not brought to the notice of the Board of Directors of RIICO.

Government stated (June 1996) that the status of equity cases were informed to Board through review notes from time to time. This system, however, can not substitute internal audit of the investment and disinvestment activities.

2A.16 Conclusion

(i) In view of the fact that RIICO faces great difficulties in getting the promoters to honour their committment of purchasing the shares in terms of the buy back agreement, there is a need to take fresh look at its terms and conditions to make it more effective.

(ii) RIICO should endeavour to sell its equity holding in market (in small lots if necessary) in assisted units wherever the promoter fails to purchase these shares within the stipulated time frame.

(iii) speed up mechanism for disinvestment to ensure a shorter period of rotation of equities.

CHAPTER-IIB

Rajasthan Paryatan Vikas Nigam Limited

RAJASTHAN PARYATAN VIKAS NIGAM LIMITED

HIGHLIGHTS

- Rajashtan Paryatan Vikas Nigam Limited (RPVN) was incorporated as a wholly owned Government company in November 1978 with the object of promoting tourism in the State. As on 31 March 1996, RPVN was running 34 hotels, 12 motels/ midways, two cafeterias, one transport unit and one package tour unit. In addition, RPVN was trading in beer and providing catering on "Palace on Wheels", a tourist train run by Railways.

(Paragraphs 2B.1 and 2B.2)

- The net profit of RPVN declined sharply from Rs.206.62 lakhs in 1992-93 to Rs.124.77 lakhs in 1993-94 and again to Rs.28.87 lakhs in 1994-95. This was largely on account of steep rise in personnel expenditure and Head Office administrative expenditure.

(Paragraph 2B.7.1)

- Profits earned by RPVN were mainly due to beer trade, which is not a core activity of RPVN. On the running of its hotels, motels *etc.*, RPVN has consistently incurred losses which increased sharply from Rs.19.75 lakhs in 1992-93 to Rs.232.97 lakhs in 1994-95.

(Paragraph 2B.7.2)

- The Budget Estimates (BE) of RPVN were approved after the commencement of the relevant financial year. Similarly, the Revised Estimates (RE) were often approved well after the close of the financial year. Moreover, against 3 months allowed for preparation of accounts, RPVN took 8 months to one year. Such delays weakened monitoring and control of expenditure.

(Paragraph 2B.8)

- RPVN's share in providing accommodation to both domestic and foreign tourists exhibits a declining trend.

(Paragraph 2B.9)

- The number of hotels, midways and cafeterias incurring losses increased from 43 *per cent* in 1990-91 to 70 *per cent* in 1994-95. The total

annual loss of such units also increased from Rs.17.49 lakhs in 1990-91 to Rs.75.13 lakhs in 1994-95. Nine hotels and motels incurred continuous losses in each of the five years from 1990-91 to 1994-95, which aggregated Rs.82.68 lakhs. Such losses were attributable to some of the units being located at uneconomical sites.

(Paragraphs 2B.10 and 2B.11)

- **As many as 10 out of 50 units providing accommodation had bed occupancy less than 20 *per cent* during 1994-95.**

(Paragraphs 2B.11.1)

- **During the period of five years up to 1994-95, 8 to 18 units out of 33 to 47 units providing catering services could not cover even the operational expenditure.**

(Paragraph 2B.12.1)

- **During 1990-91 to 1994-95, the aggregate expenditure on raw material for catering exceeded the normative cost by Rs.11.57 lakhs.**

(Paragraph 2B.13.1.1)

- **During the five years ending 1994-95, the expenditure on fuel exceeded the normative cost by Rs.43.56 lakhs.**

(Paragraph 2B.13.1.2)

- **Due to delay of 3 to 9 months in finalisation of tenders for purchase of catering raw material and resultant delay in revision of menu rates, RPVN sustained loss of revenue to the extent of Rs.24.18 lakhs.**

(Paragraph 2B.14)

- **Rs.1.09 crores were outstanding as on 31 March 1995 against private parties. Neither year-wise break-up of the outstandings was available nor were confirmations of the outstandings obtained from debtors.**

(Paragraph 2B.17)

- **Due to non-mutation of the plots in favour of Government of India, Central assistance towards expenditure of Rs.64.50 lakhs incurred by RPVN for the years 1985-86 to 1993-94 was yet (May 1996) to be received. This resulted in loss of interest of Rs.40.35 lakhs on the blocked funds upto 31 March 1996.**

(Paragraph 2B.19)

2B.1 Introduction

The Rajasthan Tourism Development Corporation Limited was incorporated as a wholly owned Government company in November 1978 with the object of promoting tourism in the State. Its name was changed to Rajasthan Paryatan Vikas Nigam Limited (RPVN) in November 1987.

2B.2 Objectives and activities

The main objects of the company are to :

- carry on the business of hotels, restaurants etc;
- establish and manage transport units, and
- attract tourists, both Indian and foreign.

Pursuant to its objectives, the activities of RPVN are as under :

- Establishment, development and execution of projects and schemes to facilitate and to accelerate development of tourism in the State.
- Acquisition, construction and running of hotels, restaurants, cafeteria, motels *etc.*, for providing boarding and lodging facilities to the tourists.
- Organising package tours and render facilities for transportation, entertainment, shopping *etc.*
- Acquiring, maintaining and developing places of tourists interest.
- Providing, distributing and selling tourists publicity material.
- Organising cultural activities, festivals *etc.*
- Providing catering on "Palace on Wheels" run by Railways.
- Sale of beer.

As on 31 March 1996, RPVN was running 34 hotels, 12 motels/ midways, two cafeterias, one transport unit and one package tour unit. During 1990-91 to 1995-96, 15 units were set-up, of which 13 were financed by Central assistance (Rs.149.15 lakhs), State assistance (Rs.39.40 lakhs) and RPVN's own funds (Rs.239.25 lakhs). The building of one unit at Deshnok was taken over in 1992-93 from District Rural Development Agency, Bikaner and the building of another unit at Ramdeora (district: Jaisalmer) was taken over in 1994-95 from Director of Tourism. RPVN spent Rs.0.85 lakh and Rs.0.77 lakh respectively on renovation *etc.* of these building to run hotels therein.

2B.3 Organisational set-up

The management of the RPVN is vested in the Board of Directors whose strength was 11 as on 31 March 1996. The Managing Director is the Chief Executive of RPVN and is assisted by an Executive Director, a General Manager (Finance) and an Additional Chief Engineer (Works).

2B.4 Scope of audit

The working of accommodation and catering facilities provided by RPVN was last reviewed in the Report of the Comptroller and Auditor General of India for the year 1986-87 (Commercial). The report was discussed in 1992-93 and the recommendations of the Committee on Public Undertakings on this review were awaited (October 1996). The present review covers the activities of RPVN for the five years ending 31 March 1995 based on a test check of records of eighteen (out of fifty units) conducted during August to December 1995. Results of the review are discussed in the succeeding paragraphs.

2B.5 Sources of funds

2B.5.1 Capital structure

As against the authorised capital of Rs.15 crores, the paid-up capital of RPVN as on 31 March 1995 was Rs.13.84 crores, which was wholly subscribed by the State Government.

2B.5.2 Borrowings

RPVN has raised loans carrying interest ranging from 7.5 to 13.5 *per cent* by issue of debentures from time to time; the amount outstanding as on 31 March 1995 was Rs.935.50 lakhs. The debentures are secured under guarantee by the Government of Rajasthan.

In addition, RPVN obtained a loan of Rs.5 crores in January 1995 from Tourism Finance Corporation of India Limited, New Delhi for contributing towards cost of "Palace on Wheels" for operation on broad gauge in collaboration with Railways.

2B.5.3 Central and State assistance

The Government of India, Department of Tourism provides assistance in the form of grant for construction of infrastructural facilities for tourists. In terms of the guidelines issued in October 1993, Central assistance covers 90 *per cent* of the sanctioned estimated or actual cost of civil works (including internal water supply and sanitary fittings) and internal electrification, whichever is less. The balance expenditure on the construction of hotels/ motels *etc.* has to be borne by the State Government/ RPVN. The State Government's contribution is normally limited to providing land free of cost and meeting expenditure on external power supply/water supply, compound wall/fencing, approach road *etc.* Therefore, RPVN has to incur all expenditure on furnishing *etc.*, besides 10 *per cent* of the cost of civil works.

Since inception the cost of capital works (including expenditure on expansion of existing units) incurred by RPVN (till 31 December 1995) was Rs.23.83 crores as per break-up indicated below:

	Rs. in crores
Central assistance	3.66
State assistance	1.05
RPVN's own funds	19.12
Total funds	**23.83**

2B.6 Financial position

The table below gives summarised financial position of RPVN at the end of the five years upto 1994-95:

		1990-91	1991-92	1992-93	1993-94	1994-95
	Liabilities :			(Rupees in lakhs)		
a)	Paid-up capital (including share application money)	1059.84	1153.84	1268.84	1383.84	1383.84
b)	Reserves and surplus	23.83	23.24	98.11	214.23	226.87
c)	Borrowings	741.28	805.50	870.50	870.50	1435.50
d)	Trade dues and other current liabilities (including provisions)	542.23	829.23	1122.44	1598.91	2034.59
	Total	**2367.18**	**2811.81**	**3359.89**	**4067.48**	**5080.80**
	Assets :					
a)	Fixed assets	1621.69	1816.18	1938.03	2267.49	2563.32
b)	Less : Depreciation	277.17	324.28	310.19	367.98	443.51
c)	Net fixed assets	1344.52	1491.90	1627.84	1899.51	2119.81
d)	Capital works-in-progress	42.80	74.90	82.57	92.87	91.85
e)	Capital goods lying in stores	10.39	2.68	10.86	9.79	6.11
f)	Project Broad Gauge "Palace on Wheels"*	-	-	-	-	822.90
g)	Current assets, loans and advances	756.29	1129.87	1638.62	2065.31	2029.52
h)	Intangible assets :					
	i) Miscellaneous expenditure	0.28	0.11	Nil	Nil	10.61
	ii) Accumulated loss	212.90	112.35	Nil	Nil	Nil
	Total	**2367.18**	**2811.81**	**3359.89**	**4067.48**	**5080.80**
	Capital Employed**	1558.57	1792.54	2144.01	2393.78	2150.77
	Net Worth***	870.49	1064.62	1366.95	1598.07	1600.10

* Represents capital expenditure in progress on construction of "Palace on Wheels" on broad guage incurred in 1994-95.

** Capital employed represents net fixed assets *plus* working capital.

*** Net worth represents paid-up capital *plus* reserves and surplus *less* intangible assets.

2B.7 Working results

2B.7.1 The working results of RPVN for the years 1990-95 are given below :

		1990-91	1991-92	1992-93	1993-94	1994-95
A.	**Income**			(Rupees in lakhs)		
a)	Operating income from units[1]					
i)	Accommodation	227.96	283.68	337.75	379.04	458.14
ii)	Catering	200.65	278.74	307.86	357.70	410.46
iii)	Bar	55.83	77.87	86.28	100.48	111.03
iv)	Transport and boating	46.16	76.88	86.29	94.52	87.63
v)	Others	131.84	209.09	273.66	241.82	156.95
	Total (i) to (v)	662.44 (35.4)	926.26 (36.4)	1091.84 (36.3)	1173.56 (29.7)	1224.21 (29.1)
b)	Income from beer trade	1198.05 (63.9)	1587.57 (62.4)	1859.45 (61.8)	2569.24 (64.9)	2948.16 (70.0)
c)	Non-operating income	1.61 (0.1)	3.11 (0.1)	3.62 (0.1)	5.37 (0.1)	8.94 (0.2)
d)	Interest on fixed deposits	11.16 (0.6)	28.82 (1.1)	53.32 (1.8)	48.17 (1.2)	30.89 (0.7)
e)	Income from sale of IMFL[2]	-	-	-	163.55 (4.1)	-
	Total: A	**1873.26**	**2545.76**	**3008.23**	**3959.89**	**4212.20**
B.	**Expenditure**					
f)	Operating expenditure of units	392.36 (22.8)	552.83 (23.9)	636.24 (23.7)	749.06 (20.3)	789.10 (19.6)
g)	Direct cost of beer sold	1061.50 (61.8)	1417.93 (61.2)	1644.58 (61.3)	2430.36 (65.7)	2615.10 (65.0)
h)	Personnel expenditure[3]	232.80 (13.6)	275.33 (11.9)	352.65 (13.2)	413.70 (11.1)	519.89 (12.9)
i)	Head Office administrative expenses [4]	20.70 (1.2)	54.99 (2.4)	32.25 (1.2)	86.86 (2.4)	84.84 (2.1)
j)	Expenses on directors	1.51 (0.1)	1.30 (0.1)	-	-	0.74

1 Including income from catering on "Palace on Wheels".

2 Indian Made Foreign Liquor.

3 Excluding staff cost relating to beer trade and catering on "Place on Wheels", which are included in B(f).

4 Does not include cost of staff in Head Office which included in B(h).

5. Figures in the bracket indicate percentages to the Total income (A)/Total expenditure(B).

k)	Loss on sale of fixed assets	1.61 (0.1)	1.24 (0.1)	4.00 (0.2)	6.33 (0.2)	3.04 (0.1)
l)	Provision for bad debts	2.00 (0.1)	3.00 (0.1)	2.00 (0.1)	3.00 (0.1)	-
m)	Guarantee commission to State Government	5.40 (0.3)	7.68 (0.3)	8.23 (0.3)	8.71 (0.2)	8.72 (0.3)
	Total: B	**1717.88**	**2314.30**	**2679.95**	**3698.02**	**4021.43**
	Profit before interest and depreciation (A-B)	155.38	231.46	328.28	261.87	190.77
	less :					
	Depreciation (C)	44.66	49.18	53.93	64.47	79.15
	Interest (D)	55.67	62.77	67.73	72.63	82.75
	Total: C+D	**100.33**	**111.95**	**121.66**	**137.10**	**161.90**
	Net profit after interest and depreciation (A)-(B+C+D)	55.05	119.51	206.62	124.77	28.87
	Prior period adjustments (Net)	(-)14.40	(-)18.95	(-)7.97	(-)8.05	(-)21.57
	Profit after prior period adjustments	**40.65**	**100.56**	**198.65**	**116.72**	**7.30**

The above table indicates that the most buoyant activity of RPVN since 1992-93 is beer trade.

Sharp decline in profits during 1993-94 and 1994-95 was mainly due to steep increase in personnel and head office administrative expenditure from 45 per cent of operating income during 1992-93 to 55 per cent during 1994-95.

The major contributory factors for sharp decline in profits during the years 1993-94 and 1994-95 were the steep increase in personnel expenditure and head office administrative expenses, which increased from 45 *per cent* of operating income of the units (excluding catering on 'Palace' on Wheels') during 1992-93 to 51.7 *per cent* and 55 *per cent* during 1993-94 and 1994-95 respectively. The increase in personnel expenditure was mainly on account of regularisation with effect from November 1994 of 241 casual/contract/trainees.

2B.7.2 The profits earned by RPVN were mainly from beer trade undertaken under licence from the State Excise Department and from catering activity on "Palace on Wheels" -a tourist train being run in collaboration with Railways. All other activities *viz.*, tourist hotels, catering services, *etc.* were running in losses as depicted in the following table :

Year	**Profit earned in**				
	Beer trade	**Catering on "Palace on Wheels"**	**Total (col.2+3)**	**Loss in 'other activities'**	**Profit of RPVN as a whole (Col 4-5)**
1	**2**	**3**	**4**	**5**	**6**
		(Rupees in lakhs)			
1990-91	92.81	20.70	113.51	58.46	55.05
1991-92	114.22	42.72	156.94	37.43	119.51
1992-93	155.64	70.73	226.37	19.75	206.62
1993-94	192.22	27.00	219.22	94.45	124.77
1994-95	245.93	15.91	261.84	232.97	28.87

Profits earned by RPVN were mainly due to beer trade and catering on "Palace on Wheels" - a tourist train. On its other activities, RPVN had incurred losses consistently.

Since beer trade is not a core activity of RPVN and for catering on "Palace on Wheels" RPVN receives 27.72 *per cent* of the earnings from sale of tickets by the Railways irrespective of the cost incurred in catering, the profits earned in these two activities, which more than compensate the losses in other activities, is not the true indicator of the financial and objective performance of RPVN. Further, the losses in other activities increased progressively from 1992-93 onwards.RPVN sustained losses in 'other activities' largely because of low occupancy in its tourists hotels, disproportionately high overhead expenses, excess consumption of raw material, fuel *etc.*, in catering as discussed in paragraphs 9 to 14.

2B.8 Budgetary control

Annexure VII which depicts the extent of variations in the actual revenue expenditure and income as compared to the budget, indicates the following:

(a) Instead of the Budget Estimates (BE) being approved atleast one month before the commencement of the financial year, these are approved even six months after the commencement of the financial year.

(b) The Revised Estimates (RE) were approved after the close of the financial year (except in 1994-95 when these were approved just 4 days before the close of the financial year).

(c) There is a wide variation between the actuals of income and expenditure with their corresponding BE and RE figures.

(d) Against three months allowed for preparation of Annual Accounts, RPVN took 8 months to one year.

RPVN has in the five years ending 1994-95 never came close to adhering to the time schedule prescribed for approval of Budget Estimates, Revised Estimates and Annual Accounts.

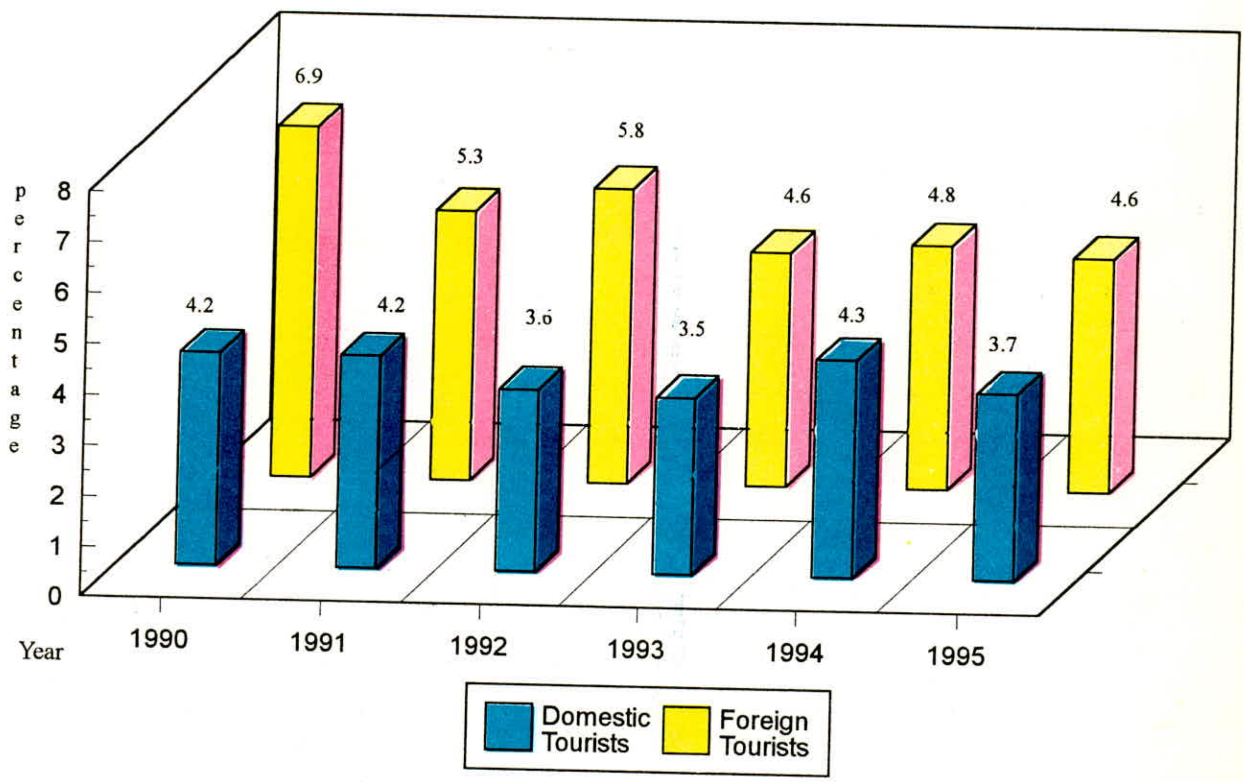
RPVN stated (November 1995) that due to delay in finalisation of the annual accounts, accurate budget estimates could not be framed. While in none of the five years up to 1994-95, RPVN could finalise and adopt their annual accounts by 30 September of the relevant year, as required in Section 210 of the Companies Act 1956, abnormal delays in each of the five years up to 1994-95 in preparation of original and revised budget estimates defeated the very purpose of preparation of the budget estimates and revised estimates. RPVN further stated (June 1996) that the variance in the budget estimates and actuals was due to political instability, riots, epidemic *etc.* However, the wide variations even with respect to the revised estimates would suggest that the techniques adopted for preparation of the estimates of income and expenditure required improvement. In the absence of timely preparation of BE and RE, the actual revenue/expenditure of RPVN could not be monitored against the planned levels.

2B.9 Growth of tourism and share of RPVN

The table below indicates growth of tourist traffic in Rajasthan *vis-a-vis* the accommodation availed of by them in the hotels of the RPVN during the

CHART - VIII

PERCENTAGE OF TOURISTS TO
RAJASTHAN AVAILING RPVN ACCOMMODATION



(Refer paragraph 2B.9)

period of six years upto 1995:

	Tourist Traffic*	1990	1991	1992	1993	1994	1995
				(Number in lakhs)			
A)	Number of foreign tourists who visited India	13.30	12.36	14.25	17.65	18.86	21.24
B)	Number of tourists who visited Rajasthan						
	a) Domestic	37.35	43.01	52.63	54.54	47.00	52.49
	b) Foreign	4.18	4.94	5.48	5.41	4.37	5.35
C)	Number of tourists who availed of accommodation in RPVN hotels						
	a) Domestic	1.58	1.79	1.90	1.91	2.03	1.96
	b) Foreign	0.29	0.26	0.32	0.25	0.21	0.25
D)	Percentage of foreign tourists in India who visited Rajasthan	31.4	40.0	38.5	30.7	23.2	25.2
E)	Percentage of tourists who availed of accommodation in RPVN Hotels						
	a) Domestic	4.2	4.2	3.6	3.5	4.3	3.7
	b) Foreign	6.9	5.3	5.8	4.6	4.8	4.6
F)	Percentage occupancy of beds in RPVN hotels in the financial year from 1990-91 to 1995-96	48.3	54.2	52.9	51.1	47.4	48.0

* Statistics of tourist traffic is maintained calender year wise.

The above table indicates that:

(i) the percentage of foreign tourists who visited Rajasthan during their stay in India declined from 40 *per cent* in 1991 to 25.2 *per cent* in 1995.

RPVN's share in providing accommodation to both domestic and foreign tourists exhibits a general declining trend since 1990.

(ii) RPVN's percentage share in providing hotel accommodation to both domestic and foreign tourists exhibits a declining trend since 1990. Reasons for low occupancy and lapses of the managment have further been discussed in Paragraph 11.

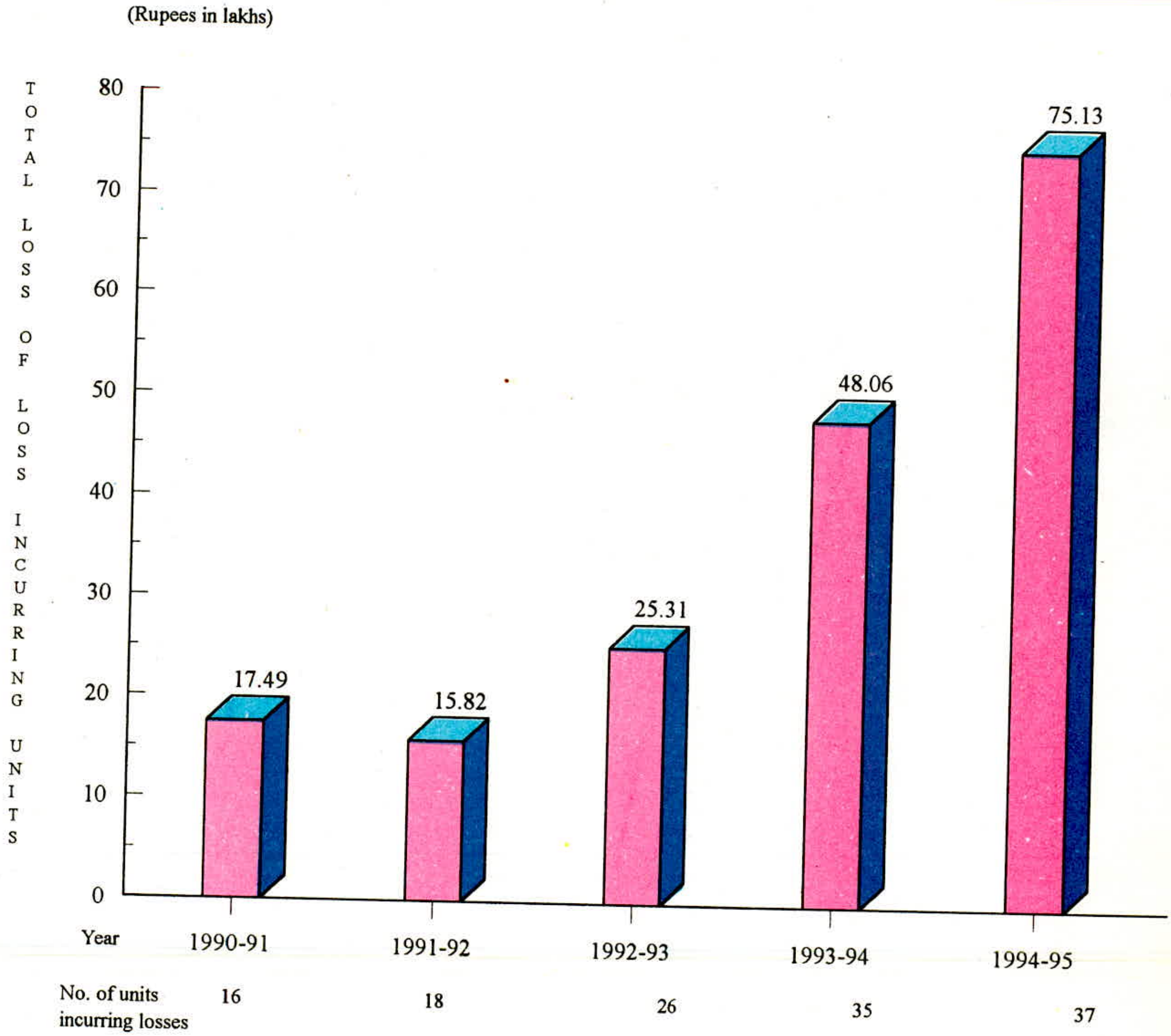
RPVN stated (November 1995) that due to (a) emergence of new hotels at most of the tourist centres, and (b) Ayodhya issue, riots in Bombay and panic of plague, the tourist traffic was adversely affected. Reply (a) indicates that RPVN has not been able to provide the quality of service expected by tourists. Reply (b) is justified in the context of flow of foreign tourists to India, but is not relevant to RPVN's declining share in providing accommodation to tourists.

In this context it was noticed that the Board of Directors of RPVN had in April 1996 agreed that the standard of services provided including cleanliness need to be raised in RPVN units.

2B.10 Operational performance

The operational performance of hotels, motels and cafeterias which sustained cash losses (exclusive of depreciation, proportionate head office expenses and other overheads) during the years from 1990-91 to 1994-95 are

CHART - IX
UNITS SUSTAINING LOSSES



(Refer paragraph 2B.10)

summarised below :

Year	Total number of units	Units incurring losses		
		Number of units	Percentage of number of units to total number of units	Amount (Rs. in lakhs)
1990-91	37	16	43	17.49
1991-92	42	18	43	15.82
1992-93	48	26	54	25.31
1993-94	50	35	70	48.06
1994-95	53	37	70	75.13
			Total	**181.81**

Seventy per cent of RPVN's hotels, motels and cafeterias incurred a loss during 1993-94 and 1994-95.

Thus, there has been a continuous increase in both the percentage of loss making units and the quantum of losses suffered by them. Units which incurred, in aggregate, a net cash loss during the period 1990-91 to 1994-95 are tabulated below:

Sl.No.	Name	1990-91	1991-92	1992-93	1993-94	1994-95	Total
			(Profit(+)/Loss(-))		(Rs. in lakhs)		
Units which incurred losses in each of the five years during 1990-91 to 1994-95							
A. Hotels							
1A	Tourist Hotel, Jaipur	(-)3.34	(-)2.28	(-)3.66	(-)6.03	(-)6.88	(-)22.19
2A	Jheel Tourist Village, Ramgarh	(-)1.92	(-)1.06	(-)3.80	(-)2.49	(-)2.01	(-)11.28
3A	Chambal, Kota	(-)1.36	(-)2.34	(-)1.75	(-)1.76	(-)0.51	(-)7.72
4A	Shilpi, Ranakpur	(-)0.26	(-)0.67	(-)0.08	(-)1.11	(-)2.35	(-)4.47
5A	Chetak, Haldighati	(-)0.02	(-)0.04	(-)0.03	(-)0.32	(-)0.18	(-)0.59
6A	Hotel, Swagatam, Jaipur	(-)4.38	(-)3.23	(-)1.81	(-)4.14	(-)6.86	(-)20.42
						Sub-total	**(-)66.67**

B. Motels/Midways/Cafeterias

1B	Motel, Barr	(-)1.32	(-)1.27	(-)1.58	(-)2.68	(-)2.11	(-)8.96
2B	Motel, Ratangarh	(-)1.34	(-)0.24	(-)0.12	(-)0.91	(-)1.67	(-)4.28
3B	Motel, Deogarh	(-)0.12	(-)0.21	(-)0.19	(-)0.67	(-)1.58	(-)2.77
						Sub-total	**(-)16.01**
						Total (A + B)	**(-)82.68**

Units which incurred losses in any of the four years during 1990-91 to 1994-95

C. Hotels

1C	Tourist Village, Pushkar	NA*	(-)1.03	(-)0.97	(-)3.49	(-)4.32	(-)9.81
2C	Dholamaru, Bikaner	(-)0.67	(+)0.78	(-)2.07	(-)1.82	(-)3.41	(-)7.19
3C	Chandrawati, Jhalawar	NA*	(-)0.13	(-)2.16	(-)1.89	(-)1.42	(-)5.60
4C	Panna, Chittorgarh	(-)0.64	(-)1.71	(-)0.70	(-)1.60	(+)0.92	(-)3.73
5C	Haveli, Fatehpur	NA*	(-)1.19	(-)0.22	(-)0.12	(-)0.55	(-)2.08
6C	Hotel, Jaisamand	(-)0.77	(-)0.88	(-)0.22	(-)0.01	(+)0.96	(-)0.92
						Sub-total	**(-)29.33**

D. Motels/Midways/ Cateterias

1D	Durg, Nahargarh	(-)0.13	(+)0.80	(-)0.13	(-)1.60	(-)2.96	(-)4.02
2D	Midway, Gulabpura	(+)0.14	(-)0.52	(-)0.32	(-)1.16	(-)1.17	(-)3.03
						Sub-total	**(-)7.05**
						Total (C + D)	**(-)36.38**

Units which incurred losses in any of the three years during 1990-91 to 1994-95

E. Hotels

1E	Gokul Nathdwara	(+)0.80	(-)0.65	(-)2.65	(+)0.06	(-)1.89	(-)4.33
2E	Karni, Deshnok	NA*	NA*	(-)0.05	(-)1.76	(-)2.11	(-)3.92
3E	Vrindavati, Bundi	NA*	NA*	(-)0.56	(-)1.61	(-)0.92	(-)3.09
4E	Van Vihar, Dholpur	NA*	(-)1.55	(+)0.19	(-)0.92	(-)0.77	(-)3.05
5E	Meenal, Alwar	NA*	NA*	(-)0.15	(-)0.62	(-)1.88	(-)2.65
						Sub-total	**(-)17.04**

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* Units not in operation during the year.

F. Motels/Midways/Cafeterias

1F	Midway, Shahpura	NA*	NA*	(-)0.59	(-)1.66	(-)1.78	(-)4.03
2F	Midway, Dholpur	NA*	NA*	(-)0.17	(-)1.23	(-)1.19	(-)2.59
3F	Menal, Chittorgarh	NA*	NA*	(-)0.46	(-)0.64	(-)0.84	(-)1.94
4F	Motel, Pokhran	(-)0.38	(+)0.41	(+)0.63	(-)0.45	(-)0.32	(-)0.11
						Sub-total	**(-)8.67**
						Total (E + F)	**(-)25.71**

The above table indicates that

(i) Nine units incurred continuous losses in each of the five years ending 1994-95, which aggregated Rs.82.68 lakhs.

Nine units incurred continuous losses in each of the five years ending 1994-95, which aggregated Rs.82.68 lakhs.

(ii) Three units (1C, 3C and 5C) which commenced operation in 1991-92 and another 6 units (2E, 3E, 5E, 1F, 2F and 3F) which commenced operations in 1992-93 incurred continuous losses to the extent of Rs.17.49 lakhs and Rs.18.22 lakhs respectively.

An agenda on units incurring continuous losses was put up to the Board of RPVN in August 1994. The Board decided (August 1994) that the employees of such units may be cautioned that in case their units do not start showing a profit, such units would be given on lease. Such a direction has not had any impact because the number of loss incurring units has shown an increasing trend with corresponding increase in quantum of losses suffered during 1994-95. RPVN introduced an incentive scheme for encouraging employees to make their units profitable in May 1995.

2B.11 Accommodation

2B.11.1 Low Occupancy

While the bed capacity in RPVN units , increased from 5.98 lakh beds in 1990-91 to 7.91 lakh beds in 1995-96, the occupancy percentage during this period ranged between 47.4 and 54.2 *per cent.*

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* Units not in operation during the year.

The table given below depicts the stratified break-up of the percentage of bed occupancy in the loss making units of RPVN and the total units providing accommodation :

Break-up of Occupancy	1990-91	1991-92	1992-93	1993-94	1994-95
	(Number of units)				
a) Below 20 *per cent*	3	2	2	4	10
b) Between 20 *per cent* and 40 *per cent*	5	4	7	6	7
c) Between 41 *per cent* and 60 *per cent*	2	4	5	14	10
d) 60 *per cent* and above	1	1	2	2	3
Units for which the information was not available	5	5	9	8	7
Total	**16**	**16**	**25**	**34**	**37**
units providing accommodation	**35**	**38**	**44**	**47**	**50**

RPVN has not worked out percentage break-even occupancy for each of its units.

As many as 10 out of 50 units providing accommodation had bed occupancy less than 20 per cent during 1994-95.

Government stated (July 1996) that low bed occupancy in several of their units is attributable to these being set up with Central assistance in distant places for promotion of tourism. This reply indicates that for availing Central assistance, which covers only a portion of the capital cost, RPVN has been undertaking long term liability in terms of supporting loss making units.

Scrutiny indicated that the proposals to the Central Government for seeking assistance for setting up of hotels *etc.* at identified sites were not preceded by any detailed survey regarding the volume of tourist traffic expected, projected bed occupancy and the consequent commercial viability.

In August 1994, the Board of Directors of RPVN noting the losses being incurred in accommodation and catering, had decided that a consultancy agency may be appointed to conduct a study to identify areas where RPVN was lagging. No such consultancy had been awarded despite lapse of two years.

2B.11.2 Uneconomic hotels and motels

Cases noticed in test check where the units suffered loss on account of their location at uneconomic sites *etc.*, are discussed below:

2B.11.2.1 Yatrika Khidmat, Ajmer

The hotel comprising 4 double beded rooms, one family room of 4 beds and 2 dormatories of 10 beds each was commissioned in June 1994 at a cost of Rs.36.62 lakhs (Central assistance Rs.26.99 lakhs, State assistance Rs.2.83 lakhs and RPVN's own funds Rs.6.80 lakhs). As the hotel is located at an isolated place, it had an occupancy of only 19.3 *per cent* during the period July 1994 to March 1995 and resulted in a loss of Rs.3.59 lakhs.

Scrutiny by audit (November 1996) revealed that the two dormatories of the hotel had been leased out to Food Craft Institute with effect from September 1996, but the terms and conditions of lease had not been finalised (October 1996). While this lease may help in reducing the recurring losses of the unit it does not help in promoting tourism, the main objective of RPVN.

2B.11.2.2 Jheel Tourist Village, Ramgarh

Paragraph 3B.4.2(i) of the Report of the Comptroller and Auditor General of India (Commercial) for the year 1986-87 brought out that this unit, constructed in 1982-83 by RPVN's own funds (Rs.23.92 lakhs), had incurred losses since its inception due to low occupancy. As there was no improvement in this situation, the unit was closed in March 1991. Consequently, the loss suffered by the unit during 1991-92 (expenditure on watch and ward etc.) declined to Rs.1.06 lakhs from a loss of Rs.1.92 lakhs suffered during 1990-91. In November 1992, RPVN, restarted the unit without any additional facilities and without considering the likely profits/losses that the unit would make. The unit suffered losses aggregating Rs.8.30 lakhs during the period 1992-93 to 1994-95.

Government stated (May 1996) that action for leasing out the unit has been initiated.

2B.11.2.3 Midway, Shahpura

Midway, Shahpura situated at a distance of 60 kilometres from Jaipur on Jaipur-Delhi highway (260 kms), was constructed in 1992-93 with two rooms. Four additional rooms were constructed during 1993-94 and 1994-95, raising the total cost to Rs.22.85 lakhs, which was met up by Government of India (Rs.6.61 lakhs), State Government (Rs.2.95 lakhs) and RPVN's own funds (Rs.13.29 lakhs).

The Chairman *cum* Managing Director of RPVN had opined (October 1989) that the passenger traffic between Jaipur and Delhi would not prefer to halt at Shahpura since it is just 60 kilometres away from Jaipur, as they would rather prefer to halt at Behror which is midway between Delhi and Jaipur. Nevertheless, midway at Shahpura was constructed at a cost of Rs.22.85 lakhs; the unit incurred losses aggregating Rs.4.03 lakhs during 1992-93 to 1994-95.

2B.11.2.4 Midway, Ratangarh

Midway Ratangarh located four kilometres away from Ratangarh (130 kms from Bikaner) on Jaipur-Bikaner (330 kms) highway was constructed at a cost of Rs.14.90 lakhs (RPVN's own funds Rs.14.82 lakhs and Central assistance Rs.0.08 lakh) and started functioning in 1985-86. Two rooms were constructed during 1989-90 and occupancy increased progressively from 29 *per cent* in 1990-91 to 54.5 *per cent* in 1992-93. Four additional rooms were constructed out of RPVN's own funds during 1993-94, whereupon the occupancy of the 6 rooms fell to 18.3 *per cent* in 1994-95. The increase in rooms was, therefore, not justified and contributed to increase in loss from Rs.0.91 lakh in 1993-94 to Rs.1.67 lakhs in 1994-95.

2B.11.2.5 Motel, Barr

Mention was made in para 3B.8 (ii) (b) of the Report of the Comptroller and Auditor General of India (Commercial) for the year 1986-87 that Motel, Barr constructed at a cost of Rs.3.71 lakhs out of RPVN's own funds incurred continuous losses since its inception primarily due to the fact that similar facilities were available at the bigger towns of Beawar and Jaitaran within a range of 20 kms. Despite the inherent locational disadvantage, two rooms were constructed at this site at a cost of Rs.2.51 lakhs during 1990-91. The occupancy of the rooms remained below 30 *per cent* during each of the 3 years ending 1994-95 and consequently the unit accumulated further losses aggregating Rs.8.96 lakhs during 1990-95.

2B.11.2.6 Cafeterias at Mehansar and Mandawa

The construction of cafeterias at Mehansar (cost : Rs.2.74 lakhs) and Mandawa (cost : Rs.1.41 lakhs) were compeleted in November 1989 and September 1989 respectively out of Central assistance. The Mandawa cafeteria remained inoperative till August 1994 when it was leased out for Rs.500 per month for a period of 5 years. The annual lease rent works out to only 4.3 *per cent* of the capital cost. The Mehansar cafeteria continues to be inoperative (December 1995) resulting in blocking of funds of Rs.2.74 lakhs. Had a proper prior survey of business potential been made after conducting a study of tourist traffic, blocking of funds could have been avoided.

2B.11.2.7 Tourist Hotel, Jaipur

The building of Tourist Hotel, Jaipur formerly a MLA's hostel, is in the heart of city (3 kms from Railway station and 1 km from Central bus stand) and was transferred to the Department of Tourism in November 1988. The latter handed over the first floor of the building comprising 55 rooms to RPVN, which runs it as an economy hotel (with a tarrif lower than that applicable to 'Gangaur' and 'Teej' of RPVN in Jaipur, which are near this hotel). RPVN incurred capital expenditure aggregating Rs.17.07 lakhs up to 1994-95 out of their own funds. Though the bed occupancy varied between 50 to 66 *per cent* during 1990-91 to 1994-95, the unit suffered loss in each of these years aggregating Rs.22.19 lakhs.

RPVN stated (June 1996) that as the building of the hotel is old and huge, its operational and maintenance expenditure was very high. This reply indicates the necessity of enhancing the tariff.

With reference to the instances referred in paragraph 11.2, Government stated (May 1996) that running of units in new areas, even if they are uneconomic, was part of the promotional efforts of RPVN. This reply is not tenable in view of the fact that RPVN cannot possibly sustain the ever increasing number of loss making units which show no sign of turning profitable after making huge capital investment (as mentioned in para 5.3).

2B.11.2.8 The seven cases mentioned in paragraph 2B.11.2 indicate that losses incurred by various hotels/motels were attributable to low occupancy, which in turn was on account of (a) standard of service being not up to the mark as noted by the Board of Directors, and (b) location of some units at uneconomical sites.

2B.12 Catering services

12.1 The number of units which could not cover even the operational expenditure (exclusive of electricity, water charges, repairs and maintenance of buildings and depreciation) in catering services and the losses suffered by them are given below :

During the five years upto 1994-95, 8 to 18 units providing catering services could not even cover their operational expenditure and incurred losses aggregating Rs.24.02 lakhs.

Year	Number of units		Operational		
	Total	Suffering operating losses	Income	Expenditure	Loss
				(Rs.in lakhs)	
1990-91	33	11	30.10	34.12	4.02
1991-92	34	8	13.30	15.14	1.84
1992-93	41	12	18.61	21.72	3.11
1993-94	44	18	65.59	73.50	7.91
1994-95	47	18	68.44	75.58	7.14
Total			196.04	220.06	24.02

Details of units which incurred losses in catering services in atleast three of the five years ending 1994-95 are tabulated below :

Sl.No.	Name of Hotels/ Motels	Loss during 1990-91	1991-92	1992-93	1993-94	1994-95	Total
		(Rupees in lakhs)					
	Loss in all 5 years						
1.	Swagatam Hotel, Jaipur	1.61	0.53	0.88	1.86	2.14	7.02
2.	Motel, Barr	0.39	0.53	0.68	1.08	0.89	3.57
	Loss in 4 out of 5 years						
1.	Midway, Dholpur	-	0.39	0.03	0.50	0.25	1.17
	Loss in 3 out of 5 years						
1.	Tourist Hotel, Jaipur	0.13	-	0.27	1.21	-	1.61
2.	Yatri Niwas, Deshnok	-	-	0.07	0.32	0.52	0.91
3.	Chandrawati Hotel, Jhalawar	-	0.06	0.43	0.15	-	0.64
4.	Hotel Shikhar, Mount Abu	0.26	-	-	0.20	0.13	0.59
5.	Hotel Chambal, Kota	-	0.04	-	0.17	0.07	0.28
6.	Durg Cafeteria, Nahargarh	0.16	-	-	0.97	0.69	1.82
7.	Menal, Chittorgarh	-	-	0.18	0.36	0.56	1.10
8.	Motel, Shahpura	-	-	0.11	0.20	0.21	0.52

Government stated (July 1996) that the losses were due to increase in establishment cost and purchase of catering raw material from co-operative stores without inviting tenders.

The losses in catering services, as analysed in audit, were on account of the following reasons :

- Setting of new motels without working out their economic viability and tourist potential.
- Non-revision of menu rates with the rise in the cost of raw materials.
- Non-fixation of norms for deployment of staff.

These aspects are discussed in subsequent paragraphs.

2B.13 Expenditure on catering

The category-wise percentages/norms of expenditure to sales fixed by RPVN in August 1991 were as under :

Items	Percentage of cost to sales
Raw material :	
Vegetarian	35
Non-vegetarian	50
Wastage and spices	5
Fuel :	
If gas is used	2
If coal is used	5
Establishment	20
Other expenses (Light, water, telephone and depreciation)	15
Profit	Not mentioned

The actual expenditure on catering in each hotel/motel was not compared by RPVN with the norms.

2B.13.1 Analysis of expenditure

The succeeding sub-paragraphs analyse the expenditure on various cost components of catering in all hotels of RPVN (except Hotel Swagatam, Jaipur which caters also to RPVN staff) as worked out in audit.

2B.13.1.1 Raw material

Details of units where the percentage of expenditure on raw material (including wastage and spices) to sales was more than 55 *per cent* (against norm of 40 *per cent* for vegetarian and 55 *per cent* for non-vegetarian) in atleast 2 of the

5 years ending 1994-95 are tabulated below:

Sl. No.	Name of Hotels/Motels	1990-91	1991-92	1992-93	1993-94	1994-95
		(Percentage of expenditure on raw material to sales)				
1.	Tourist Hotel, Jaipur	**63.7**	53.4	**66.0**	**72.6**	**66.0**
2.	Teej Hotel, Jaipur	**68.6**	**61.7**	**58.9**	54.5	**62.9**
3.	Shikhar Hotel, Mount Abu	**61.2**	52.6	54.4	**62.6**	**67.5**
4.	Chambal Hotel, Kota	**59.4**	**63.0**	**64.9**	**63.7**	**56.3**
5.	Motel, Barr	49.3	49.1	**58.4**	**80.2**	**75.8**
6.	Saras Hotel, Bharatpur	**57.0**	**63.5**	53.5	**59.0**	**60.6**

Management had not investigated the reasons of excess raw material cost (including wastages and spices), which amounted to Rs.11.57 lakhs during 1990-91 to 1994-95.

Government stated (May 1996) that the expenditure on raw material actually works out to 50 *per cent* of sales as food to the staff is provided at cost price and on the midways, free food is provided to drivers, conductors and tour operators. The reply does not explain why in some hotels the percentage of expenditure on raw materials to sales is excessively above norms.

2B.13.1.2 Fuel cost

Percentage consumption of fuel to sales in catering activity of the RPVN as a whole during each year from 1990-91 to 1994-95 was 5.4, 5.4, 6.2, 6.8 and 6.6 respectively. In 14 hotels/motels, cost of fuel consumed exceeded 7 *per cent* in atleast two of the five years ending 1994-95.

Consumption of fuel in excess of norm resulted in extra expenditure of Rs. 43.56 lakhs.

As in all the hotels/motels gas is used (small quantities of coal are used only for some special non-vegetarian items), adopting an average of 3 *per cent* of sales as a norm for fuel (consisting of both gas and coal), the cost of excess fuel works out to Rs.43.56 lakhs.

Government stated (May 1996) that as the cost of LPG had increased substantially and gas cylinders used in the hotels are procured at commercial rates, the actual expenditure was in excess of the prescribed norms. The reply does not explain why the fuel cost in some cases was as high as 7 *per cent* against the norm of 2 *per cent*. However, the reply indicates the necessity of revision of tariff/ norms for fuel consumption.

2B.14 Loss due to delay in approval of tenders and menu rates

As per the prescribed procedure, tenders for purchase of non-perishable catering raw material are invited and finalised by Head Office of RPVN. After approval of the tenders, menu rates of each item are worked out by each operating unit and sent to Head Office for approval.

Due to delay of 3 to 9 months in finalisation of tenders for purchase of catering raw material and resultant delay in revision of menu rates, RPVN sustained loss of potential revenue to the extent of Rs.24.18 lakhs.

Scrutiny of records of six units* revealed that there had been delay of 3 to 9 months in finalisation of tenders and consequent revision of menu rates. This delay caused loss of potential revenue to the extent of Rs.24.18 lakhs during October 1990 to September 1995 in these six units.

On being pointed out (August and September 1995), Government stated (May 1996) that to avoid such delays, with effect from 1 October 1995, (a) units had been authorised to increase menu rates by 10 *per cent*, and (b) procurement of raw material for catering had been delegated to the unit level.

2B.15 Repair and maintenance

The civil works wing of RPVN is responsible for the repairs and maintenance of buildings of the units and such expenditures are transferred to the relevant units. Test check revealed that the civil works wing had transferred debits of Rs.6.09 lakhs and Rs.0.55 lakh during 1994-95 to two units, but the Senior

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* Khadim, Ajmer; Midway Shahpura; Sarovar Pushkar; Gangaur, Jaipur; Kajri, Udaipur; and Midway, Behror.

Manager incharge of both these units contested (November 1995) the debits on the ground that no repairs/ maintenance had at all been carried out.

RPVN stated (November 1996) that a committee has been appointed to inquire into the matter.

Incidently, it was noticed that there is requirement that managers of the units should certify satisfactory completion of civil works before relevant debits towards cost of work are transferred. On being pointed out, RPVN agreed (November 1996) that such an internal control was necessary.

2B.16 Missing remittances

Funds transferred by units of RPVN to the Head Office through mail transfers/demand drafts during 1987-88 to 1993-94 amounting to Rs.1.55 lakhs had not been received so far (June 1996). This comprised Rs.0.79 lakh transferred during 1987-88 to 1991-92, and Rs.0.76 lakh during 1993-94.

Government stated (May 1996) that tracing of missing remittances were in progress.

2B.17 Sale on Credit

The outstanding against debtors increased from Rs.21.22 lakhs at the end of March 1987 to Rs.144.10 lakhs at the end of March 1995.

In reply to paragraph 3B.10 of the Report of the Comptroller and Auditor General of India (Commercial) for the year 1986-87, Government had stated (April 1987) that steps were being taken to formulate a policy for credit sales to minimise credit facility. Though such a policy has not been framed (October 1996), RPVN had issued orders in August 1992 prohibiting credit sales to private parties except with prior approval of Head Office.

The amount outstanding against debtors on account of credit facility increased from Rs.21.22 lakhs at the end of March 1987 to Rs.144.10 lakhs (including Rs.109.02 lakhs from private parties) at the end of March 1995. Scrutiny by audit revealed that none of the credit sales to private parties had the approval of Head Office.

Consolidated age-wise analysis of the outstandings were not available in the Head Office. Even confirmation of balances were not obtained. Test check of records of units revealed the following :

(a) In Durg Cafeteria, Nahargarh, Rs.1.37 lakhs were outstanding against private parties for periods earlier to 1989-90.

(b) In Transport unit, Jaipur an amount of Rs.1.68 lakhs was outstanding against private parties for the period 1982-83 to 1992-93. This included outstanding of Rs.0.76 lakh against an individual for the credit facility extended in October 1992 for a package tour.

(c) In Hotel Gangaur, Jaipur an amount of Rs.1.63 lakhs pertaining to the period from 1982-83 to 1994-95 was outstanding against private parties, of which Rs.1.10 lakhs pertained to the years 1982-83 to 1992-93.

(d) In Hotel Jhoomer Baori, Sawai Madhopur an amount of Rs.0.43 lakh was found irrecoverable as the travel agencies, through whom bookings were done, had closed or their whereabouts were not known.

(e) In Moomal Hotel, Jaisalmer credit facilities were allowed to travel agencies without obtaining bank guarantees. As a result, a sum of Rs.0.90 lakh (0.80 lakh for the years 1981-82 to 1987-88 and Rs.0.10 lakh for the years 1988-89 to 1991-92) was outstanding.

In view of the long passage of time, the possibility of recovering the outstandings in the aforesaid cases appear remote.

Government stated (May 1996) that recovery of dues was being pursued and that policy of credit sales would be got approved by the Board.

2B.18 Idle equipment

Water sports equipment purchased during 1992-93 at a cost of Rs.3.40 lakhs for starting such sports at Fateh Sagar lake, Udaipur was lying unutilised (June 1996) since necessary permission for this purpose was not granted by the local authorities.

Government stated (July 1996) that action to dispose of the equipment is being initiated.

2B.19 Construction works under Central Assistance Scheme

Under the Central Assistance Scheme, a part of the assistance is released before commencement of the work and the balance amount on furnishing (a) work completion certificates, (b) utilisation certificate, (c) account of the expenditure incurred, and (d) mutation of the plots for construction of hotels *etc.* in favour of Government of India.

It was noted that as on 31 May 1996 a sum of Rs.64.50 lakhs, was incurred by RPVN during 1985-86 to 1993-94 in excess over the part assistance released by Government of India. The release of the amounts was held up due to non-mutation of the plots in favour of Government of India. The blocked amounts over various years resulted in loss of interest of Rs.40.35 lakhs (calculated @ 18 *per cent* per annum) upto 31 March 1996.

Due to non-mutation of plots in favour of Government of India, Central assistance of Rs.64.50 lakhs was yet (May 1996) to be received.

Government stated (May 1996) that mutation of the plots in favour of Government of India was being pursued.

2B.20 Other points of interest

2B.20.1 Non-availment of Central Assistance

In August 1991, Government of India, Department of Tourism sanctioned Central Assistance of Rs.17.23 lakhs to RPVN representing 50 *per cent* of the ex-factory price of two A/C buses and simultaneously released Rs.8.50 lakhs. Anticipating that this Central Assistance would still be available, RPVN purchased four non A/C mini buses (instead of A/C buses) in March 1992. However, the Department of Tourism issued revised sanction (April 1992) of Rs.16.08 lakhs representing 50 *per cent* of the cost of 4 mini A/C buses. To avail the Central Assistance, initially RPVN tried to have the mini buses converted to A/C, but dropped the proposal in view of the high cost of modification involved in the basic structure of the buses. Thereafter, RPVN purchased two A/C mini buses in June 1994 at a cost of Rs.15.20 lakhs. However, RPVN could not obtain release of the balance Central Assistance because the vehicles were sanctioned for Visit India Year (1991-92), funds for which had since lapsed.

Thus non-compliance of the conditions of Central Assistance resulted in RPVN not being able to avail grant of Rs.8.73 lakhs.

2B.20.2 Infructuous expenditure

The buildings for hotels/motels of RPVN are constructed by its civil works wing under the supervision of an Additional Chief Engineer. Scrutiny in audit revealed that during the period from April 1991 to October 1995, in ten hotels/motels, the Managers/Asstt. Managers were posted at the construction stage of the buildings even up to 41 months earlier than the actual dates of their functioning. As during the construction period, the work is required to be supervised by the personnel of works division of RPVN, there was hardly any justification for posting of operational personnel of the rank of Managers/ Asstt. Managers so much in advance. During the period of such postings, these officers were not gainfully utilised, and thus, expenditure of Rs.4.51 lakhs incurred on their pay and allowances (excluding a period of six months in each case) proved largely infructuous.

RPVN stated (November 1995) that the Managers/Asstt. Managers were posted well in advance at the stage of construction so as to ensure that the construction work was being done as per the hotel norms and to take care of ancillary activities like applying for electricity, water and gas connections, installation of telephones, obtaining food licence from the municipalities and bar licence from the Excise Department, arrangement of kitchen equipments, lay out of garden and its maintenance and developing liason with local administration.

The reply is not convincing as for arranging the aforesaid facilities a period of six months is adequate.

2B.20.3 Leasing of Sarovar Cafeteria, Mount Abu

Sarovar Cafeteria at Mount Abu, which was transferred to RPVN in 1979 by the State Government, was leased out (April 1994) to Brij Hotels and Resorts (P) Limited, Agra (BHR) for a period of three years on a rent of Rs.2.20 lakhs per annum (to be paid quarterly) plus 10 *per cent* share of profit, with a minimum assurance of Rs.30,000 per annum. BHR did not pay the security deposit of Rs.30,000, nor did it render the account of the sales effected and profit earned as per the agreed terms and conditions. Except a payment of Rs.60,000, no further payments towards lease rent were received. Possession of the cafeteria was finally obtained back in June 1995.

On being pointed out in audit (December 1995), RPVN appointed (July 1996) an arbitrator for recovery of Rs.4.40 lakhs (including damages to building).

2B.21 Conclusion

RPVN has been consistently incurring losses on running of its hotels/motels and profits earned by it were mainly due to beer trade, which is not its core activity. There is a need to review the performance in regard to continuance of some hotels/motels incurring continuous losses owing to disadvantageous locations. In catering services, the aggregate operational expenditure consisting of raw material and fuel always exceeded the normative cost; effective measures need to be taken to make it profitable.

Chapter-III

REVIEW RELATING TO STATUTORY CORPORATION

RAJASTHAN STATE WAREHOUSING CORPORATION

CHAPTER-III

Rajasthan State Warehousing Corporation

RAJASTHAN STATE WAREHOUSING CORPORATION

HIGHLIGHTS

- Rajasthan State Warehousing Corporation (RSWC) was established in December 1957 with the object to provide scientific storage facility for agricultural commodities. RSWC acquires, builds and runs warehouses, and also acts an as agent of the Food Corporation of India (FCI) for procurement of foodgrains under the Support Price Scheme.

(Paragraphs 3.1 and 3.2)

- Profits earned by RSWC during 1990-91 to 1993-94 were lower than that during 1989-90 due to (a) low capacity utilisation in 29 to 36 warehousing centres (out of 77 to 78 centres); which contributed annual losses varying in aggregate between Rs.37.54 lakhs and Rs.62.85 lakhs in these warehouses, and (b) disproportionate increase in the establishment cost from 43 *per cent* of total income in 1989-90 to 57 *per cent* in 1993-94.

(Paragraph 3.7.1)

- Even by 1995-96 RSWC had not been able to utilise the available storage capacity of 1989-90. In contrast, the percentage of capacity utilisation in hired warehouses remained consistently and substantially higher than that of RSWC's own warehouses, thus indicating a mismatch between the distribution of storage capacity created and that required.

(Paragraph 3.8.1(i) and (ii))

- More than half of RSWC warehousing centres did not achieve the break-even capacity of 70 *per cent* during 1991-92 to 1994-95.

(Paragraph 3.8.1(v))

- Seventeen out of 77 to 78 warehousing centres of RSWC incurred losses in at least four out of the seven years ending 1995-96. Of these, 12 centres sustained losses mainly due to low capacity utilisation varying between 29 *per cent* to 50 *per cent.*

(Paragraph 3.9.1)

- By refusing to undertake procurement activity during *rabi* 1993-94, RSWC lost an opportunity of earning a profit of Rs.41.39 lakhs.

(Paragraph 3.10)

- Plots acquired by RSWC between 1984-85 to 1988-89 at four sites at an aggregate cost of Rs.8.77 lakhs for construction of godowns were lying unutilised (March 1996), resulting in loss of interest of Rs.11.39 lakhs on the blocked funds.

(Paragraph 3.11)

- RSWC failed to construct warehouses at Jaipur and continued to hire warehouses at Durgapura and Jhotwara at Jaipur. Despite 88 *per cent* average capacity utilisation during 1989-96 at Durgapura and 97 *per cent* average capacity utilisation during 1989-93 at Jhotwara, these godowns incurred aggregate loss of Rs.14.20 lakhs and Rs.2.37 lakhs respectively. This is indicative of an insufficient margin between their hire charges and the rates of storage charges recovered by RSWC.

(Paragraph 3.12)

3.1 Introduction

Rajasthan State Warehousing Corporation (RSWC) was established in December 1957 under the Agricultural Produce (Development and Warehousing) Corporations Act, 1956. Following the repeal of this Act by the Government of India in 1962 and its replacement by the Warehousing Corporations Act, 1962, RSWC was deemed to be a State Warehousing Corporation.

3.2 Objectives

The object of RSWC is to provide scientific storage facility for agricultural commodities. The main functions prescribed in the Warehousing Corporations Act, 1962, are to:

- acquire and build warehouses and godowns at such places within the State as it may, with the prior approval of the Central Warehousing Corporation (CWC), determine;

- run warehouses in the State for the storage of agricultural produce, seeds, manure, fertilisers, agricultural implements and notified commodities and to arrange facilities for their transportation to and from the warehouses; and

- act as an agent of the CWC or of the Government for the purchase, sale, storage and distribution of agricultural produce, seeds, manure, fertilisers, agricultural implements and notified commodities.

In addition, in terms of the Rajasthan State Warehousing Corporation Rules, 1975, RSWC also acts as an agent of the Food Corporation of India (FCI) and a nominee of the State Government for procurement of *kharif* and *rabi* foodgrains under the Support Price Scheme, and provides, at its discretion and on the request of the parties concerned, disinfestation services outside its warehouses in respect of agricultural produce or notified commodities.

3.3 Scope of audit

The working of RSWC was last reviewed in Chapter III of the Report of the Comptroller and Auditor General of India for the year 1988-89 (Commercial). This report has been deemed to be discussed (November 1995) by the Committee on Public Undertakings (COPU). The functioning and performance of RSWC during the period from 1989-90 to 1995-96 was reviewed by Audit between July 1995 and November 1995 and in October 1996. The results are discussed in the succeeding paragraphs.

3.4 Organisational structure

The general management and superintendence of RSWC is vested in the Board of Directors. The Chairman of the Board and the Managing Director are appointed by the State Government with the prior approval of CWC. As on 31 March 1996, the Board of Directors consisted of ten members including the Chairman and the Managing Director, five of whom were nominated by the CWC and the remaining five by the State Government.

The basic functional unit of RSWC is its warehouses, administered by warehouse managers. At the end of March 1996, RSWC was operating 360 warehouses (of which 226 were owned by RSWC and the remaining 134 were hired) at 78 centres in 28 of the 31 districts in the State. The average warehousing capacity available during 1995-96 was 5.01 lakh tonnes (RSWC's own warehouses: 4.44 lakh tonnes; hired: 0.57 lakh tonnes).

RSWC's Engineering Division is responsible for the construction and maintenance of the warehouses.

3.5 Financing arrangements

3.5.1 Share capital

The authorised share capital of RSWC as on 31 March 1996 was Rs.8 crores, divided into 8 lakh shares of Rs.100 each to be contributed equally by the State Government and CWC. The paid-up capital on this date was Rs.640.26 lakhs, of which Rs.332.63 lakhs were contributed by the State Government and Rs.307.63 lakhs by CWC. Balance capital of Rs.25 lakhs from CWC was received in July 1996.

3.5.2 Loans

RSWC has been obtaining loans for construction of warehouses under the refinance schemes of National Bank for Agriculture and Rural Development (NABARD) and State Government. The payment of interest and repayment of loans obtained from NABARD was guaranteed by the State Government. As on 31 March 1996, loans of Rs.179.85 lakhs (NABARD : Rs.99.87 lakhs and State Government : Rs.79.98 lakhs) were outstanding.

3.6 Financial position

The following table indicates the financial position of RSWC at the end of each of the seven years upto 1995-96:

Particulars	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
			(Rupees in crores)				
A. Liabilities							
(a) Paid-up capital	3.43	3.86	4.20	4.45	5.18	5.68	6.40
(b) Reserves and surplus	6.90	7.04	7.35	7.81	8.22	9.85	13.19
(c) Borrowings	3.23	2.93	2.47	2.22	1.47	1.70	1.80
(d) Trade dues and other liabilities	1.22	1.27	1.33	1.36	1.52	1.46	1.73
Total - A	**14.78**	**15.10**	**15.35**	**15.84**	**16.39**	**18.69**	**23.12**
B. Assets							
(a) Gross block	15.48	16.18	16.96	17.43	19.49	20.94	22.42
(b) Less: depreciation	3.88	4.57	5.19	5.80	6.43	7.11	7.85
(c) Net fixed assets	11.60	11.61	11.77	11.63	13.06	13.83	14.57
(d) Capital works-in-progress	0.73	0.69	0.66	1.32	0.43	0.47	0.67
(e) Current assets, loans and advances	2.45	2.80	2.92	2.89	2.90	4.39	7.88
Total - B	**14.78**	**15.10**	**15.35**	**15.84**	**16.39**	**18.69**	**23.12**
C. Capital employed*	12.83	13.15	13.36	13.16	14.44	16.75	20.72
D. Capital invested**	13.37	13.63	13.77	14.18	14.52	16.52	20.07

3.7 Working results

3.7.1 The working results of RSWC for each of the seven years upto 1995-96

* Capital employed represents net fixed assets (excluding capital works-in-progress) *plus* working capital.
** Capital invested represents paid-up capital *plus* long term loans *plus* free reserves and surplus.

are indicated in the following table:

Particulars	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
			(Rupees in crores)				
1. Income							
Warehousing charges	4.24	4.20	4.31	4.69	5.06	6.08	7.77
Other income	0.15	0.16	0.32	0.47	0.48	0.60	1.23
Total	**4.39**	**4.36**	**4.63**	**5.16**	**5.54**	**6.68**	**9.00**
2. Expenditure							
Establishment	1.88	2.16	2.46	2.91	3.18	3.53	3.81
Interest	0.38	0.36	0.39	0.34	0.26	0.22	0.21
Godown rent	0.13	0.17	0.15	0.17	0.19	0.16	0.27
Other expenses	1.24	1.25	1.21	1.26	1.34	1.31	1.55
Total	**3.63**	**3.94**	**4.21**	**4.68**	**4.97**	**5.22**	**5.84**
3. Profit*	0.76	0.42	0.42	0.48	0.57	1.46	3.16
4. Other appropriations, reserve *etc.*	0.63	0.31	0.34	0.40	0.48	1.30	2.80
5. Amount available for dividend	0.13	0.11	0.08	0.08	0.09	0.16	0.36
6. Dividend paid/ provided	0.13	0.11	0.08	0.08	0.09	0.16	0.36
7. Total return** on:							
- Capital employed	1.14	0.78	0.82	0.83	0.83	1.68	3.43
- Capital invested	1.14	0.78	0.82	0.83	0.83	1.68	3.43
8. Percentage of return on:							
- Capital employed	8.9	5.9	6.1	6.3	5.7	10.0	16.3
- Capital invested	8.5	5.7	5.9	5.8	5.7	10.2	16.8

Scrutiny by audit revealed that the profits during 1990-91 to 1993-94 were lower mainly due to:

* RSWC has since 1985-86 neither paid nor made any provision for Income Tax on the ground that its income is exempt from taxation. The matter is, however, under appeal in the Supreme Court.

** Total return has been worked out by adding interest to profit.

(a) low capacity utilisation (less than 70 *per cent*) in 29 to 36 warehousing centres out of 77 to 78 centres which resulted in annual losses varying between Rs.37.54 lakhs and Rs.62.85 lakhs, and

Profits during 1990-91 to 1993-94 were lower due to low capacity utilisation in 29 to 36, out of 77 to 78 warehousing centres and disproportionate increase in the establishment cost from 43 per cent of total income in 1989-90 to 57 per cent in 1993-94.

(b) disproportionate increase in the establishment cost, which increased progressively from 43 *per cent* of total income in 1989-90 to 57 *per cent* of total income in 1993-94.

In respect of (a) above, Government stated (June 1996) that to increase income from warehousing, an incentive scheme for RSWC staff (refer paragraph 13) to attract more stock from depositors was introduced with effect from 1992-93 and since then warehousing income had risen appreciably. This reply lacks conviction because percentage utilisation of available capacity in 1992-93 and 1994-95 was actually less than that in the corresponding previous years (refer Sl.No. 5 of table in paragraph 8.1). Analysis by audit indicated that income in 1992-93 was higher than 1991-92 largely because the storage of fertilizers (on which storage charges/tonne are higher) increased substantially during 1992-93 at the expense of food grains on which storage charges are lower. Increase in tariff in respect of some commodities with effect from 1 March 1992 and /1 April 1994 also contributed to higher income during 1992-93 and 1994-95.

Government also stated (June 1996) that if head offices expenses apportioned to warehouses are excluded, most of the centres running in losses would show profits. This reply is not tenable because prudent commercial policy dictates that actual profitability of a warehouse be determined only after deducting the allocated head office expenses.

In respect of (b) above, Government stated (June 1996) that the increase in the establishment cost was mainly due to increase in dearness allowance and that attempts were being made to control establishment cost.

The percentage of establishment cost to total income declined from 57 *per cent* in 1993-94 to 42 *per cent* in 1995-96. This indicates that efforts made for reducing establishment cost in the past were not fruitful.

3.8 Warehousing operations

3.8.1 Capacity utilisation

The following table depicts details relating to utilisation of the available warehousing capacity during the years from 1989-90 to 1995-96:

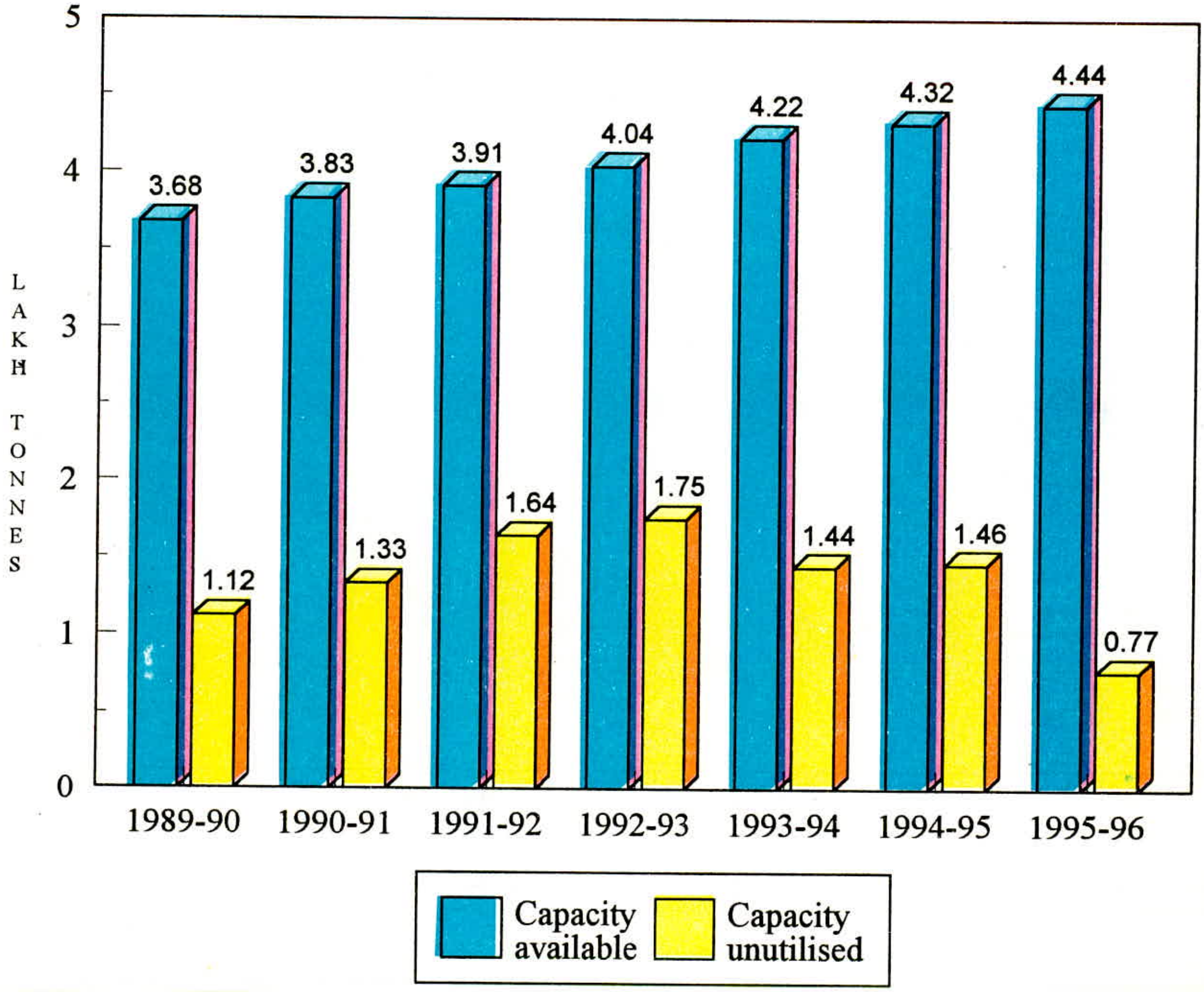
Particulars	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
1. No. of warehousing centres*	78	77	77	77	77	78	78
2. Number of warehouses*							
(a) own	205	207	211	214	216	218	226
(b) hired	83	52	50	59	63	45	134
	288	259	261	273	279	263	360
3. Average storage capacity available during the year			(In lakh tonnes)				
(a) Own warehouses	3.68	3.83	3.91	4.04	4.22	4.32	4.44
(b) Hired warehouses	0.64	0.66	0.59	0.54	0.52	0.39	0.57
Total	4.32	4.49	4.50	4.58	4.74	4.71	5.01
4. Average storage capacity utilised during the year							
(a) Own warehouses	2.56	2.50	2.27	2.29	2.78	2.86	3.67
(b) Hired warehouses	0.72**	0.65	0.62**	0.55**	0.48	0.35	0.54
Total	3.28	3.15	2.89	2.84	3.26	3.21	4.21
5. Percentage of utilisation of available capacity							
(a) Own warehouses	70	65	58	57	66	66	83
(b) Hired warehouses	113**	98	105**	102**	92	90	95
Total	76	70	64	62	69	68	84
			(In Rupees)				
6. Average expenditure per tonne per year***	111.0	125.0	145.7	164.8	152.6	162.6	137.0
7. Average income per tonne per year***	133.8	138.4	160.2	181.7	169.9	208.1	213.0
8. Profit per tonne	22.8	13.4	14.5	16.9	17.3	45.5	76.0

* Data on no. of warehousing centres and no. of warehouses is with reference to that at the end of the year.

** The storage capacity utilisation exceeds the capacity available due to storage exceeding the prescribed norms.

*** Average expenditure and average income per tonne has been worked out on the basis of capacity utilised.

CHART- X
STORAGE CAPACITY UNUTILISED
(OWN WAREHOUSES)



(Refer paragraph 3.8.1)

The table above reveals the following:

> ***There is a general locational mismatch between creation of godown capacity by RSWC and its actual requirement.***

(i) the percentage of capacity utilisation in hired warehouses has been consistently and substantially higher than that of RSWC's own warehouses. This indicates a general locational mismatch between the distribution of storage capacity created through RSWC's own warehouses and the actual distribution of storage capacity required. However, the reduction in gap between the percentage utilisation of owned and hired warehouses since 1991-92 indicates that the adverse impact of wrong selection of sites is on the decline.

> ***RSWC had created an additional capacity of 0.76 lakh tonnes between 1989-90 and 1995-96, but the capacity available in 1989-90 had not been fully utilised till 1995-96.***

(ii) RSWC increased the storage capacity of its warehouses progressively from 3.68 lakh tonnes in 1989-90 to 4.44 lakh tonnes in 1995-96. However, the capacity utilisation in 1995-96 of its own warehouses (3.67 lakh tonnes) was less than capacity existing in 1989-90 (3.68 lakh tonnes).

(iii) The annual storage during the period from 1990-91 to 1994-95 was less than the quantity stored during 1989-90 (3.28 lakh tonnes). This indicates that in physical terms, RSWC's business decreased during the period 1990-95.

(iv) The unutilised storage capacity of RSWC's own warehouses {3(a)-4(a)} increased from 1.12 lakh tonnes in 1989-90 to 1.46 lakh tonnes in 1994-95.

(v) The utilisation of the available storage capacity declined steadily from 76 *per cent* in 1989-90 to 62 *per cent* in 1992-93. Further analysis indicated that the capacity utilisation at 23 to 45 out of 78 warehousing centres during 1989-90 to 1995-96 remained less than the break-even percentage of 70 assessed by the State Bureau of Public Enterprises in November 1984. Of the 23 warehousing centres having less than 70 *per cent* capacity utilisation during 1995-96, 10 centres had such low capacity utilisation consistently for seven years, 3 centres for six years, and 5 centres for five years.

More than half of RSWC warehousing centres did not achieve the breakeven capacity of 70 per cent during 1991-92 to 1994-95.

Government attributed (June 1996) the low capacity utilisation to the dependence on the quantum of procurement activity of wheat under the Support Price Scheme, and non-availability of fertilizers/surplus agricultural produce with depositors.

Audit scrutiny, however, revealed that the low capacity utilisation was also because of inappropriate location of some of the warehouses and excessive storage capacity.

3.9 Construction of Warehouses

3.9.1 Warehousing facilities in Rajasthan for agricultural and related commodities is provided principally by FCI, Co-operative Department, Rajasthan State Agriculture Marketing Board, Rajasthan State Co-operative Bank Ltd., RSWC and CWC. The State Level Co-ordination Committee (SLCC) on construction of godowns is required to ensure proper co-ordination between these agencies to achieve the objective of balanced growth of warehousing capacity at various places vis-a-vis demand. The final decision to construct warehouses, however, lies with the concerned agencies. The warehousing centres of RSWC (except warehouses constructed by Public Works Department which were transferred to

RSWC) which had incurred losses over the past seven years are detailed in the table below:

S.No.	Warehousing Centre	Year of construction/ last augmentation*	Capacity at end of 1995-96	Profit(+)/Loss(-) (Rs.in lakhs) (Percentage capacity utilised) 1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	Net loss (Rs.in lakhs) (Percentage of average capacity utilised)
	A- centres which incurred losses in each of the seven years										
1.	Bhadra	1990-91	2000	(-)1.26 (17)	(-)1.64 (35)	(-)2.02 (13)	(-)2.55 (8)	(-)1.57 (45)	(-)2.71 (28)	(-)1.18 (54)	(-)12.93 (29)
2.	Nokha	1985-86	1800	(-)1.08 (13)	(-)0.87 (54)	(-)1.24 (18)	(-)1.69 (8)	(-)0.34 (49)	(-)0.27 (44)	(-)1.69 (31)	(-)7.18 (31)
3.	Niwai	1970-71	2000	(-)0.79 (33)	(-)1.80 (20)	(-)1.64 (24)	(-)1.45 (31)	(-)1.25 (38)	(-)0.97 (55)	(-)1.71 (54)	(-)9.61 (36)
4.	Kishangarh	1973-74 1987-88	1800 3600 5400	(-)1.37 (29)	(-)1.84 (32)	(-)2.29 (27)	(-)1.55 (37)	(-)0.12 (45)	(-)0.02 (43)	(-)0.87 (42)	(-)8.06 (36)
5.	Kapren	1980-81 1985-86 1991-92	2250 2250 2250 6750	(-)0.08 (69)	(-)1.34 (57)	(-)4.21 (32)	(-)4.05 (38)	(-)4.39 (33)	(-)4.51 (32)	(-)2.95 (47)	(-)21.53 (44)
6.	Sojat Road	1965-66	1800	(-)1.00 (41)	(-)1.01 (41)	(-)1.04 (50)	(-)0.98 (50)	(-)0.95 (48)	(-)0.43 (51)	(-)0.68 (69)	(-)6.09 (50)
								Total:A			**(-)65.40**
	B- Centres which incurred losses in six of the seven years										
7.	Kolayat	1985-86	2250	(-)1.07 (23)	(-)1.62 (41)	(-)2.40 (3)	(-)0.27 (46)	(-)1.88 (30)	(-)1.86 (27)	(+)1.24 (96)	(-)7.86 (38)
8.	Gulabpura	1972-73/ 1981-82	5950	(-)0.11 (52)	(-)0.03 (51)	(+)0.65 (57)	(-)2.16 (30)	(-)1.57 (40)	(-)2.54 (28)	(-)0.32 (53)	(-)6.08 (44)
9.	Phalodi	1988-89	3600	(-)0.91 (45)	(-)1.12 (33)	(-)1.28 (33)	(-)1.20 (53)	(-)1.41 (36)	(+)1.95 **(81)**	(-)0.71 (44)	(-)4.68 (46)

* Break up of capacity with reference to years of augmentation has been indicated only if last augmentation was after 1985-86.

10.	Anta	1972-73/ 1980-81	7400	(+)1.20 (71)	(-)0.36 (68)	(-)4.18 (25)	(-)3.06 (33)	(-)3.78 (43)	(-)0.97 (61)	(-)0.21 (75)	(-)11.36 (54)
11.	Keshorai Patan	1976-77 1977-78 1986-87	1800 1800 1800 5400	(+)1.59 (91)	(-)0.50 (68)	(-)1.32 (55)	(-)1.38 (60)	(-)0.91 (61)	(-)0.88 (61)	(-)0.37 (72)	(-)3.77 (67)
								Total:B			**(-)33.75**

C. Centres which incurred losses in five of the seven years

12.	Khajuwala	1985-86	3600	(+)0.16 (62)	(-)1.28 (44)	(-)1.37 (35)	(+)0.84 (64)	(-)0.74 (46)	(-)1.67 (33)	(-)1.04 (41)	(-)5.10 (46)
13.	Dablirathan	1975-76	5400	(-)0.91 (35)	(-)2.49 (28)	(-)3.84 (16)	(-)4.21 (12)	(-)0.73 (67)	(+)1.65 (80)	(+)3.29 (93)	(-)7.24 (47)
14.	Sadulsahar	1966-67 1978-79 1979-80 1981-82 1986-87	1800 2000 2250 2250 1800 10100	(+)1.45 (73)	(-)3.46 (36)	(-)5.01 (27)	(-)2.43 (41)	(-)0.88 (55)	(-)4.27 (31)	(+)3.89 (70)	(-)10.71 (48)
						Total:C					**(-)23.05**

D. Centres which incurred losses in four of the seven years.

15.	Atru		3600	(-)1.79 (1)	(-)1.60 (25)	(+)0.05 (52)	(-)0.68 (57)	(-)0.51 (62)	(+)0.88 (84)	(+)1.55 (98)	(-)2.10 (54)
16.	Srikaranpur	1963-64/ 1985-86	10800	(+)1.22 (59)	(+)0.18 (130)	(-)1.78 (42)	(-)2.62 (38)	(-)0.70 (62)	(-)4.59 (30)	(+)2.65 (69)	(-)5.64 (61)
17.	Sultanpur	1975-76/ 1978-79	3600	(+)2.02 (112)	(+)0.35 (88)	(-)1.39 (46)	(-)0.68 (61)	(-)1.20 (60)	(-)0.47 (70)	(+)0.20 (87)	(-)1.17 (75)
								Total:D			**(-)8.91**
								Grand Total:			**(-)131.11**
								Average capacity utilised:			**(47)**

Thus, 17 out of 78 warehousing centres sustained losses aggregating Rs.131.11 lakhs during the seven years ending 1995-96. Of these, 12 centres (Sl.No 1 to 9 and 12 to 14) sustained losses to the extent of Rs.107.07 lakhs mainly due to consistently low average capacity utilisation ranging between 29 *per cent* and 50 *per cent*. This indicates that before deciding upon their location and storage capacity, business potential and prospects were not adequately evaluated.

As many as 12 out of 78 warehousing centres could not achieve average capacity utilisation in excess of 50 per cent during the seven years ended 31 March 1996.

Further, augmentation of capacity at Kapren (completed during 1991-92 at a cost of Rs.13.69 lakhs) was not justified because its subsequent capacity utilisation remained below 50 *per cent* and the centre continued to incur losses regularly.

Government stated (June 1996) that storage capacity was created at various centres keeping in view the present and future requirements. This reply does not appear tenable in face of the fact that in as many as 12 centres out of 77/78 centres, the average capacity utilisation never exceeded 50 *per cent* during the seven years ending 1995-96.

3.9.2 Extra expenditure due to delay in placing work order

Against notice inviting tenders for repair of road, drainage and boundry wall at warehouse Baran (opened in May 1990), four quotations were received, of which the lowest was below RSWC's estimates. Though the award of work to the lowest tenderer was recommended (May 1990) by the Tender Committee, it could not be finalised as the Managing Director desired (May 1990) to know the PWD rates for such works at Baran. References to this effect were, therefore, made to Warehouse Manager, Baran and PWD. As no progress was made, work order was finally issued in October 1990 to the lowest tenderer. In response, the latter pointing out (Novermber 1990) that the validity period of 4 months of his offer had expired, refused to take up the work. Finally, fresh tenders were invited and work awarded in May 1991 at significantly higher rates, resulting in extra expenditure of Rs.1.12 lakhs.

Government stated (June 1996) that the rates received in 1991 were higher than those obtained in 1990 due to steep rise in prices. The fact, however, remains that it should have been possible to finalise the award of work in 1990 within the validity period of 4 months especially since the rates of lowest tenderer were lower than RSWC's own estimate.

3.10 Refusal to undertake procurement activity

RSWC has since 1973-74 been acting as an agent of the FCI and a nominee of the State Government for procurement of foodgrains under the Support Price Scheme. For effecting procurement, RSWC has to mobilise funds for purchase of foodgrains (till reimbursement is recieved from FCI) and incur expenses on handling and transport (H&T). Besides, expenses towards administrative expenses, bank interest, bank commission, octroi, mandi charges, *arat* and *tulai* are incurred. During 1992-93, FCI paid RSWC at the rate Rs. 4 per quintal towards administrative charges and Rs.7 per quintal towards H&T. Reimbursement of other charges is on normative or actual expenses as mutually decided. In the process of settlement of claims lodged by RSWC with FCI, differences arise on some small amounts and PSWC had outstanding claims aggregating Rs.3.94 lakhs against FCI in respect of the procurement done during the four years ending 1992-93. These comprised (i) Rs.0.05 lakh towards administrative charges, (ii) Rs.2.63 lakhs towards H&T, (iii) Rs.0.79 lakh towards octroi, (iv) Rs.0.23 lakh towards *arat* and *tulai,* (v) Rs.0.16 lakh towards bank commission, and (vi) Rs.0.08 lakh towards other expenses. The outstanding claim of Rs.3.94 lakh comprised only 0.16 *per cent* of the total reimbursementt (Rs.24.84 crores) received from FCI during these four years.

FCI allotted nine centres in Sriganganagar to RSWC for procurement of wheat during *rabi* 1993-94. In each of these centres, RSWC had their warehouses and staff. In response RSWC requested (February 1993) FCI to sanction an interest free advance of Rs.50 lakhs, Rs.10 per quintal towards administrative charges, Rs.15 per quintal towards H&T and the other items on actual basis. The demands raised by RSWC were *prima facie* unjustified for the following reasons:

(a) On the funds deployed by RSWC for procurement during 1991-92 and 1992-93, FCI had paid RSWC interest at the rate of 16.5 *per cent* and 19.5 *per cent*. Further, no claim of RSWC in respect of bank interest was outstanding against FCI for the period 1986-87 to 1992-93, which indicates that RSWC had been receiving fair compensation from FCI in this regard.

(b) Considering that for 1992-93, FCI and RSWC had agreed to rates of Rs.4 and Rs.7 towards administrative charges and H&T, the rates of Rs.10 and Rs.15 demanded by RSWC towards these elements were exorbitant. In fact even for procurement during 1994-95, RSWC had itself calculated that their actual expenditure on H&T was only Rs.6.27 per quintal. RSWC has never done any detailed costing of administrative expenses actually incurred in procurement of foodgrains. The reimbursement obtained has thus always been a matter of negotiation with the FCI.

(c) The actual expenses incurred by RSWC as administrative overheads in process of procurement is *prima facie* negligible. RSWC has never deployed extra staff for procurement as the field staff is adequate for this pupose. The only additional expenses incurred by RSWC in procurement, which normally extends to about six weeks, is on travelling expenses, printing and stationary, postage and telegram, and telephone and trunkcalls. In absence of any costing done by RSWC, audit made an estimate of these overheads which indicated that the maximum additional administrative expenditure would have been Rs.3 lakhs only. Though RSWC was requested (July 1996) by Audit to respond to this estimate specifically, RSWC only stated (November 1996) that they would consider appointing a cost accountant for working out cost of overheads *etc.* incurred in future.

FCI, Jaipur referred the demands to their H.O., from where no firm committment was received till the onset of procurement activity. On this pretext, RSWC in meeting (8 April 1993) with the State Government and FCI representative (in which FCI offered Rs.4.20 and Rs.7.20 per quintal towards administrative charges and H&T) decided not to take up the procurement. The 9 centres originally allotted to RSWC were consequently taken up by FCI who procured 10,56,900 quintals from these centres. Had RSWC done this procurement itself it would have earned an income of Rs.44.39 lakhs towards administrative charges , against which it would have incurred overhead expenses of Rs.3 lakhs only. Thus, RSWC lost an opportunity of earning of a profit of about Rs.41.39 lakhs even after excluding any savings that may have accrued from H & T.

Refusal to take up procurement of wheat during rabi 1993-94 resulted in RSWC losing an opportunity to earn an additional profit of Rs.41.39 lakhs.

Government stated (June 1996) that refusal of RSWC to take up procurement during 1993-94 had resulted in FCI settling the old claims of RSWC. This reply is not tenable because the settlement of outstanding claims of Rs.35.59 lakhs pertaining to 1973-74 to 1992-93 was done in June 1995 *i.e.,* even after RSWC had taken up procurement during *rabi* 1994-95. Further, in the settlement, RSWC had agreed to forego Rs.19.46 lakhs (relating to the period 1973-74 to 1989-90) out of Rs.35.59 lakhs shown outstanding against FCI. Even if it is accepted that the refusal of RSWC to take up procurement during 1993-94 had improved its bargaining position which in turn facilitated the settlement of outstanding dues, then the resultant payment of Rs.16.13 lakhs received from FCI compares poorly with the opportunity of profit of Rs.41.39 lakhs foregone.

3.11 Acquisition of land

In accordance with the guidelines issued by RSWC in July 1979, the location of warehouses is to be decided after inspection of the sites and with due regard to certain specified factors such as their proximity to railway station, availability of water and electricity, availability of land free from encumberances *etc*. Certain points relating to the acquisition of land for construction of godowns noticed in audit are mentioned in th succeeding paragraphs.

Four plots acquired between 1984-85 to 1988-89 for construction of godowns with storage capacity of 80,100 M.T. remained unutilised as per details given below:

S.No.	Location	District	Month/year of payment	Year of acquisition	Nature of land	Cost (In Rupees)	Proposed capacity (In M.T.)
1.	Sisawali	Baran	November 1984	1984-85	Free hold	10,737	5,400
2.	Dantore	Bikaner	August 1984	1985-86	Lease hold	3,99,000	32,400
3.	Loonkaransar	-do-	March 1985	1985-86	Lease hold	2,22,222	14,850
4.	Ramsingpur	Sriganga-nagar	May 1988	1988-89	Free hold	2,45,191	27,450
					Total	8,77,150	80,100

Plots acquired between 1984-85 and 1988-89 at four locations at a cost of Rs.8.77 lakhs for construction of godowns were lying unutilised (March 1996) resulting in loss of interest of Rs.11.39 lakhs on the blocked funds.

The fact that the above plots have been lying vacant for more than 7 to 11 years indicates that these were acquired without adequately considering the necessity of construction of warehouses at these sites. This resulted in blocking of funds amounting to Rs.8.77 lakhs and resulted in loss of interest of Rs.11.39 lakhs (calculated @ 12.5 *per cent* per annum) upto 31 March 1996.

Government stated (June 1996) that plots of land are purchased/acquired as per local necessity and future business prospects.

3.12 Hiring of warehouses

(a) RSWC has been hiring private godowns from Krishi Upaj Mandies, PWD, private parties *etc.* at places where either RSWC does not have its own godown or where the storage capacity available in its own godowns is insufficient. During the years 1989-90 to 1995-96, RSWC hired 50 to 134 godowns.

(b) Mention was made in paragraph 3.9.4 of the Report of the Comptroller and Auditor General of India (Commercial) for the year 1988-89 that two warehouses at Durgapura, Jaipur were hired by RSWC in August 1982 initially for a period of three years from Rajasthan Industrial Company (RIC), on a monthly rent of 60 paise per square feet. These warehouses continue to be on rent with RSWC and their monthly rent was revised from time to time. Similarly, RSWC had hired three warehouses of 1000 MT capacity each from Rajasthan State Co-operative Marketing Federation Ltd., Jaipur (RAJFED) at Jaipur (Jhotwara) in May 1985, January 1986 and September 1988 respectively.

RSWC did not make serious efforts for obtaining land for construction of warehouses at Jaipur and continued to hire warehouses at Durgapura and Jhotwara at Jaipur.

The warehouses at Durgapura and Jhotwara incurred losses despite high average capacity utilisation. The losses at Durgapura aggregated Rs.14.20 lakhs during 1989-96 despite average capacity utilisation of 88 *per cent*. Similarly, at Jhotwara, aggregate loss of Rs.2.37 lakhs was incurred during 1989-93 despite the average capacity utilisation of 97 *per cent* during this period. Incurring of losses at these warehouses inspite of exceptionally high capacity utilisation is indicative of an insufficient margin between their hire charges and the rates of storage charges recovered by RSWC.

Despite 88 per cent average capacity utilisation during 1989-96 in the hired warehouses at Durgapura and 97 per cent average capacity utilisation during 1989-93 in the hired warehouses at Jhotwara, RSWC incurred aggregate loss of Rs.14.20 lakhs and Rs.2.37 lakhs respectively at these warehouses indicating insufficient margin between the hire charges and the rates of storage charges.

Government stated (June 1996) that in spite of constant efforts, required land could not be obtained in Jaipur for construction of warehouses and therefore, RSWC had to hire these warehouses . Scrutiny of records relating to acquisition of land at Jaipur for construction of warehouses, however, revealed that RSWC had never pursued this matter to finality. Some of the missed opportunities are indicated below:

(i) In August 1984, a private party offered 76 *bighas* 13 *biswas* of land located at Dher ke Balaji, 4 kms from Jaipur Railway Station @ Rs.15/sq. yard. On inspection, the Estate Officer, RSWC found this land suitable, and an Agenda note was prepared for placing before the meeting of Board of Directors to be held on 21 September 1984. However, the minutes of this meeting make no reference to discussion on this subject.

(ii) In August 1989, Jaipur Development Authority invited RSWC to a meeting for including the latter's requirement in the Master Plan for Jaipur. However, no officer from RSWC attended the same.

Scrutiny of current records reveal that no serious efforts are even now being made by RSWC to acquire land for construction of warehouses at Jaipur or in its vicinity.

(c) The following hired warehouses also resulted in losses :

S.No.	Warehousing Centres	Capacity at end of 1995-96	Profit(+)/Loss(-) (Percentage capacity utilised)							(Rs. in lakhs)
			1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	Net loss
1.	Balotra	1000	(-)0.64 (56)	(-)0.67 (58)	(-)1.02 (41)	(-)1.26 (28)	(-)0.98 (39)	(-)0.94 (62)	(-)1.79 (45)	(-)7.30 (47)
2.	Lalsot	1620	(+)0.27 (92)	(-)0.33 (74)	(-)0.62 (59)	(-)0.44 (89)	(-)0.66 (95)	(-)0.85 (79)	(-)0.11 (104)	(-)2.74 (85)
3.	Bilara	2230	(-)0.14 (88)	(-)0.85 (77)	(-)0.98 (81)	(-)0.77 (101)	(-)0.62 (92)	(-)1.46 (68)	(-)1.78 (64)	(-)6.60 (82)
4.	Beawar	1000	(-)0.35 (95)	(-)0.28 (87)	(+)0.19 (103)	(-)0.47 (95)	(-)0.37 (99)	(-)0.32 (92)	(-)0.49 (98)	(-)2.09 (95)
									Total:	(-)18.73

RSWC/Government stated (June and September 1996) that while the warehouse at Lalsot was hired from PWD for which no rent is being paid, those at other places have been taken on nominal rent from Krishi Upaj Mandies and Co-operative societies. Government attributed the losses of those centres to their small capacity, but justified retaining them on grounds of public interest.

This reply is not tenable because Krishi Upaj Mandies/ Co-operative societies also run warehouses and hiring of their unviable warehouses by RSWC does not appear prudent. Further, the hiring of the warehouse at Balotra has been in excess of requirement.

3.13 Incentive scheme

In order to motivate the staff of its warehouses to increase income from storage charges through higher utilisation of storage capacity, an incentive scheme was introduced by RSWC in July 1992. The basis of the scheme was that, warehouses which achieve storage income of 20 *per cent* in excess of the average income in the previous three years would be assigned incentive which would be 50 *per cent* of such excess. The assigned incentive is then distributed amongst the staff of the warehouse in proportion to their basic pay. The scheme has been continued beyond 1992-93 with minor modification introduced annually.

The very rationale of the scheme appears to rest on the assumption that growth of storage income beyond 20 *per cent* of the levels achieved (represented by the average of the three years ending 1991-92) is strongly dependent on the motivation and efficiency of the field staff. Such a nexus may have very little validity. Firstly, a depositor would not store his goods in a warehouse unless it is out of necessity. Secondly, the bulk of storage (average 78 *per cent* during 1989-90 to 1991-92) in the warehouses is on account of FCI, Government departments/undertakings and co-operative sector. Such organisations decide on storage of their goods essentially on the basis of lowest storage rates obtained and/or locational advantage of a warehouse. The field staff of RSWC can hardly be expected to influence the choice of such organisations in getting them to use their warehouses. Only a small portion (22 *per cent* in the three years ending 1990-91) of the actual storage in RSWC warehouses is done by traders and producers, whose selection of a warehouse may be influenced by the quality of services provided by the field staff. The incentive scheme ignores this aspect. In fact, the utilisation of storage capacity by traders and producers in RSWC warehouses has declined from 25 *per cent* and 4 *per cent* in 1992-93 (when the incentive scheme was introduced) to 20 *per cent* and 2 *per cent* respectively in 1995-96.

Another major flaw in the incentive scheme is that it disregards the fact that it is relatively easy for warehouses to increase their income if their capacity utilisation in the previous years was low. On the other hand, staff of warehouses which had already reached capacity utilisation of 90 *per cent* and above had hardly any scope of getting incentive. Therefore, if the rationale of incentive scheme (*i.e.,* a direct relationship exists between motivation of field staff and the growth in income from warehouses) was valid, then the same rationale as applied in scheme has resulted in the motivated staff being denied incentive. As a consequence, staff of 24 warehouses which had achieved capacity utilisation in excess of 95 *per cent* (including 14 warehouses which achieved capacity utilisation above 100 *per cent)* were ineligible for incentive during 1992-93 to 1994-95. On the other hand, incentive aggregating Rs.2.97 lakhs was distributed during 1992-93 to 1994-95 to staff of 14 warehouses where capacity utilisation was less than 60 *per cent* in the relevant year.

Audit scrutiny indicated cases of quantum leap in improvement which was purely fortuitous. For instance at Kolayat and Khajuwala, the average capacity utilisation during the three years preceding 1992-93 was only 22 and 47 *per cent.* However, as consequence of Indira Gandhi Canal works being taken up in this area during 1992-93, these warehouses were used for storing cement and their capacity utilisation increased to 46 and 61 *per cent* respectively. The staff of these warehouses received incentive aggregating Rs.1.16 lakhs during 1992-93, of which the share of the two managers aggregated Rs.63,194. After the canal work was completed in the area, the capacity utilisation during 1994-95 declined to 27 and 33 *per cent* at Kolayat and Khajuwala respectively. This case illustrates that the field staff cannot substantially influence increase of capacity utilisation in their warehouses.

Thus, the incentive scheme involving payment of Rs.17.98 lakhs to staff during 1992-93 to 1994-95 (provision of Rs.7.50 lakhs had been made for payment for 1995-96) required modification to remove the anomolies pointed out above.

RSWC/Government stated (June and September 1996) that the incentive scheme had resulted in increase of storage income, recovery of dues, reduction in demand for additional staff *etc.*

Government reply is acceptable with regard to necessity of an incentive scheme. However, the existing lacunae in the scheme in its present form as pointed out above need to be removed.

Chapter-IV

Miscellaneous Topics of Interest relating to

4A. Government companies

4B. Statutory corporations

CHAPTER-IV

Miscellaneous topics of interest

Miscellaneous topics of interest relating to Government companies and Statutory corporations

4A. GOVERNMENT COMPANIES

4A.1 Rajasthan State Agro Industries Corporation Limited

4A.1.1 Avoidable payment of power factor surcharge

According to the Tariff for Supply of Electricity issued by the Rajasthan State Electricity Board (RSEB), consumers having connections under Tariff Schedule LP/HT-1 (applicable to large industrial consumers having connected load above 125 KVA) are required to maintain prescribed power factor (0.85 increased to 0.90 from billing month March 1994), failing which, they are liable to pay surcharge at the prescribed rates.

The Agriculture Implement Factory (AIF) of the Rajasthan State Agro Industries Corporation Limited (RSAIC) at Jhotwara, Jaipur had a connected load of 175 KVA since November 1977. A test check of the electricity bills paid by AIF revealed that during May 1990 to 23 February 1996, the power factor varied between 0.28 to 0.76. Consequently, AIF had to pay RSEB a sum of Rs.4.45 lakhs towards power factor surcharge during this period.

On the matter being pointed out, Government stated (August 1996) that from 24 February 1996, the connected load has been got reduced to 100 KVA. This reply is not tenable because reduction in the connected load will not improve the power factor, for which adequate shunt capacitors are required. For the further period up to October 1996, AIF paid Rs.0.38 lakh as power factor surcharge.

4A.1.2 Infructuous expenditure on manufacture of 'bukkhars'

Rajasthan State Agro Industries Corporation Limited (RSAIC) received (February to May 1992) demands from the Agriculture Department for supply of 2825 numbers of '*bukkhars*' (an agricultural implement used for preparing land for sowing) to their various centres located in Ajmer, Jaipur and Dausa districts for meeting their requirement for *kharif* 1992-93. The '*bukkhars*' were to be supplied by 15 May 1992.

During 1991-92 and 1992-93, RSAIC manufactured 2307 '*bukkhars*', but supplied only 1776 '*bukkhars*' during 1991-92 to 1994-95 due to less receipt of demand from the indenting offices of Agriculture Department. Further, these indenting offices returned 888 '*bukkhars*' during the years 1991-92 to 1995-96 on grounds of their being unuseful/defective.

On being pointed out (January 1996), RSAIC stated (May 1996) that the main reason for return of '*bukkhars*' was that the indenting offices of the Agriculture Department had over-assessed their requirement. The Government, however, stated (June 1996) that the '*bukkhars*' were returned because they were not found suitable in the field.

Thus, 1419 '*bukkhars*' valued at Rs. 11.98 lakhs were lying (July 1996) in stock with RSAIC despite passage of three *kharif* seasons during 1993-96. In addition, 250 '*bukkhars*' valued at Rs. 1.48 lakhs were lying (July 1996) in work-in-progress since 1992-93. On the blocked amount of Rs. 13.46 lakhs, RSAIC suffered a loss of Rs. 7.27 lakhs as interest during 1993-94 to 1995-96 (calculated @ 18 *per cent*).

4A.1.3 Manufacture of Self Propelled Reapers

The Rajasthan State Agro Industries Corporation Limited (RSAIC) took up manufacture of 'Self Propelled Reapers' (an agricultural equipment used for harvesting wheat, paddy *etc.*) at the initiative of the Agriculture Department of the State Government.

During 1992-93 and 1993-94, RSAIC manufactured 47 reapers (value: Rs.14.02 lakhs) and forwarded them to their field units for onward sale through Agriculture Department. All the 47 reapers were, however, returned by the farmers/Agriculture Department during 1992-93 to 1995-96 on the ground that their axle, gear box, handle *etc.* broke down frequently. Of these, only four reapers (value: Rs.1.63 lakhs) could be sold in May 1995. Besides 43 reapers (value: Rs.12.39 lakhs), reaper parts valued at Rs.4.22 lakhs were lying (March 1996) with RSAIC.

Scrutiny in audit revealed that out of 15 reapers supplied at Hanumangarh and Kota, 12 were returned by the farmers between April 1993 and January 1994 for the aforesaid reasons. However, no steps were taken to improve the design/manufacturing process and 26 more reapers (including eleven without engines) were manufactured during February/March 1994. This resulted in further rejection of reapers supplied.

Government stated (June 1996) that since 'Self Propelled Reapers' were a new item of production there were some defects initially, which were subsequently removed. Government's reply is not tenable because 43 out of the 47 reapers were lying unsold (October 1996). Further, the production of reapers was discontinued from 1994-95.

4A.2 Rajasthan State Industrial Development and Investment Corporation Limited

4A.2.1 Acquisition of encroached land

For development of Phase-III of the Industrial Area, Kishangarh, State Government allotted (December 1989) on lease basis, 650 *bighas* 2 *biswas* of land to Rajasthan State Industrial Development and Investment Corporation Limited (RIICO). The cost of the land (Rs.32.50 lakhs) was paid by RIICO in January 1990. RIICO could, however, obtain possession of 440 *bighas* 13 *biswas* of land on 2 March 1990 and 100 *bighas* and 6 *biswas* on 5 May 1990. The possession of the remaining 109 *bighas* 3 *biswas* of land was yet to be obtained (June 1996).

Government stated (July 1996) that out of 109 *bighas* and 3 *biswas* of land, possession of 31 *bighas* and 5 *biswas* was expected in near future but the possession of remaining 77 *bighas* and 18 *biswas* of land was not possible because of it being used as residential area, playground *etc.* Government added that Collector, Ajmer had agreed to allot alternate land near Silora (Kishangarh) or at other suitable place in future.

The reply is not tenable because at the time of making payment (January 1990) towards cost of land, RIICO was aware of the encroachments and should logically have limited it to only that portion of land whose clear possession was possible.

Payment of the cost of the entire land resulted in blocking of Rs.5.38 lakhs for over six years, and consequent loss of interest of Rs.3.87 lakhs, besides potential revenue that would have accrued on 109 *bighas* 3 *biswas* of land.

4A.2.2 Allotment of land at concessional rate

In terms of its Office Orders (21 November 1988 and 7 August 1992), the Rajasthan State Industrial Development and Investment Corporation Limited (RIICO) has, in respect of commercial plots, to charge four times the development charges or auction price, whichever is higher.

The Life Insurance Corporation of India (LIC) applied (15 February 1993) for allotment of a plot of 4,000 sq. metres in Odela Industrial Area, Dholpur for establishment of its branch office. The Regional Manager ,RIICO, Bharatpur sought clarification from the Head Office regarding the rate to be charged in view of the following:

(i) that the present rate of Rs. 50/sq.metre was likely to revised in view of the proposed strengthening of existing infrastructure, and

(ii) the prevalent rate in the Growth Centre, Dholpur, adjacent to the Odela Industrial Area was in Rs. 100/sq.metre.

Pending receipt of the aforesaid clarification, the Regional Manager, Bharatpur directed (24 February 1993) the Assistant Regional Manager, Dholpur to advise LIC that the proposed rate of allotment would be Rs.400/sq.metre . However, at their Head Office, RIICO decided (March 1993) to allot the land at the normal rate of Rs. 50/sq.metre on the following grounds:

(a) RIICO has been allotting land at prevailing rate of development charge to Government organisations, and

(b) the establishment of the LIC office would be helpful to the industries located in RIICO's industrial area.

Accordingly, a plot measuring 2,916 sq.metres was allotted to LIC in March 1994 at a price of Rs. 50/sq.metre. This decision was contrary to the Office Orders of November 1988 and August 1992 since these do not afford any relaxation in rates to Government organisations. The ground that location of LIC's office in RIICO's industrial area would be helpful to industries is not at all tenable since industrial workers *etc.* can get life insurance policies through any LIC office. Moreover, a plot measuring 2000 sq.metres had earlier been allotted (September 1991) to LIC in Ambaji Industrial Area, Abu Road for establishment of a branch office at four times the prevalent rate of development charges by treating LIC as a commercial organisation. The incorrect allotment of plot at Rs.50/sq.metre instead of Rs.200/sq.metre chargeable resulted in loss of Rs.4.37 lakhs.

Government stated (July 1996) that since allotment of plot to LIC would indirectly benefit the entrepreneurs/industrial workers, it would not be appropriate to treat LIC as a commercial organisation. This reply is not tenable in view of the allotment of land to LIC at four times the normal rate at Abu Road as indicated above.

4A.2.3 Loss due to allotment of plot at pre-revised rate

In terms of Office Order dated 2 April 1993, issued by the Regional Manager, Rajasthan State Industrial Development and Investment Corporation Limited (RIICO), Bharatpur, pending revision, the prevalent rate of development charges (Rs.50 per square metre) for allotment of plots in Industrial Area, Dholpur would be provisional. The order also stipulated that the applications for allotment of land would have to be accompanied by an undertaking that the rates of allotment when finally decided would be binding on the allottee.

In November 1994, Sika Qualerete Private Limited (SQPL) applied to Head Office, RIICO for a plot measuring 12,000 square metres in Industrial Area, Dholpur along with the 25 *per cent* development charges (Rs.1.50 lakhs) but without the necessary undertaking. While this application was under process, the rate of development charges of the Industrial Area was revised to Rs.70 per square metre with effect from 3 December 1994. Accordingly, in February 1995 the Regional Manager, Bharatpur asked SQPL to deposit Rs.60,000 representing the difference on the 25 *per cent* of the development charges on account of revision in rates. SQPL paid this amount on 13 February 1995 to Regional Manager, Bharatpur but requested the Head Office not to charge the revised rate as they had deposited the 25 *per cent* advance prior to the revision in rate. The plot was thereafter allotted (March 1995) by Head Office, RIICO at the pre-revised rate of Rs.50 per square metre.

Scrutiny in audit revealed that while processing the application of allotment of land to SQPL, the fact that the rate of Rs.50 per square metre was provisional and the prescribed undertaking had not been received was omitted to be considered. This omission resulted in under charge of development charges amounting to Rs.2.40 lakhs.

On being pointed out (March 1996) Government stated (June 1996) that since SQPL had applied for allotment prior to the revision in charges and had also deposited the 25 *per cent* development charges at the prevalent rate, the plot was allotted at the pre-revised rate.

This reply is not tenable in view of the fact that the provisional rate of Rs.50 per square metre was pending revision since April 1993.

4A.2.4 Loss due to restoration of cancelled plot at old rate

In terms of the Rajasthan State Industrial Development and Investment Corporation Limited (RIICO) Disposal of Land Rules 1979, an application for allotment of land has to be accompanied with 25 *per cent* development charges of the area applied for and the balance 75 *per cent* amount is payable within 90 days of the issue of allotment order. Standing Orders No.1 and 2 issued by RIICO in September and November 1991 respectively, regulate the payment of the balance in situations where a revision of development charges takes place before it is paid. These Standing Orders stipulate, *inter alia*, the following:

(i) No extension would be granted in payment of 75 *per cent* development charges in areas where these have already been revised.

(ii) In case the balance development charges are not deposited within the stipulated period, the allotment has to be immediately cancelled.

(iii) Where the area has been declared as `developed', restoration of cancelled plots shall be on the basis of revised rates.

(iv) Where area has not been developed and the allottee fails to pay the balance development charges then interest @ 19 *per cent* would be charged till the area is developed after which revised rate would be recovered.

Anusika Industries Limited, Jaipur (AIL) paid 25 *per cent* development charges alongwith its application for allotment of a plot in the Industrial Area, Bindayaka, Jaipur. AIL was allotted a plot in July 1994 and had to pay the balance 75 *per cent* development charges @ Rs.125 per square metre within 90 days of the issue of letter of allotment *i.e.* by 19 October 1994.

AIL deposited another 25 *per cent* development charges in August 1994 and requested that (a) the possession of plot be handed over, and (b) extension till 31 January 1995 for payment of the balance 50 *per cent* be allowed. RIICO allowed AIL the extension for payment and in relaxation of general provisions, possession of the plot measuring 19,062 square metres was handed over in August 1994.

AIL, having failed to deposit the balance payment of development charges by 31 January 1995, was allowed further extension till 31 March 1995. With effect from 22 April 1995, the rate of development charges in respect of industrial area, Bindayaka was revised from Rs.125 to Rs.250 per square metre. As the allottee had not paid the balance amount, the allotment of plot was cancelled on 2 June 1995.

The allottee thereupon requested for extension up to 30 September 1995 for paying the balance amount. In processing this request, RIICO failed to take cognizance of Standing Orders of September/November 1991 and the Managing Director allowed (July 1995) restoration of the cancelled plot at the original rate of Rs.125 per square metre, with interest @ 19 *per cent* over the period of delay. Since, Bindayaka had been declared as developed with effect from 22 April 1994, restoration at old rate was incorrect.

Restoration of a cancelled plot at pre-revised rate resulted in RIICO foregoing revenue of Rs.21.86 lakhs.

AIL deposited the balance amount at pre-revised rate in September 1995 along with interest of Rs.1.97 lakhs for the period 19 October 1994 to 30 September 1995. Thus, the restoration of cancelled plot resulted in RIICO foregoing revenue of Rs.21.86 lakhs (Rs.125x19,062 square metres (-) Rs.1,96,995).

Government stated (July 1996) that the Managing Director under the Rules *ibid*, is competent to restore cancelled plot at old rates, on the appeal submitted by the entrepreneur. This reply is not tenable because the Rules *ibid* empower the Managing Director only to restore the cancelled plot, but such restoration has to be governed by the Standing Orders.

4A.2.5 Premature construction of water reservoirs

The approved estimates (November 1990) for development of Phase-III of Industrial Area, Kishangarh included provision for establishment of a water supply system of 5 lakh litres per day. While according the technical sanction (June 1991), the Engineering Wing of RIICO pointed out that in view of the rocky terrain of the area, which indicated low availability of ground water, the construction of Ground Level Reservoir (GLR) and Clear Water Reservoir (CWR) should not be taken up by the Regional Manager, Ajmer till discharge of the required yield of water was confirmed.

During December 1991 and January 1992, four tube wells were bored at a cost of Rs.1.22 lakhs, from which a total discharge of 2.40 lakh litres per day was expected. In view of the shortfall, RIICO requested (July 1992) the Bisalpur Water Supply Pariyojana (BWSP) to make adequate provision for supply of water for the industrial area.

Meanwhile, the allottees of the industrial plots had been approaching RIICO for permission to dig their own bore wells for meeting their requirement and RIICO granted such permission from March 1991 onwards.

In October 1992, RIICO awarded contracts for construction of GLR and CWR, which were completed by May 1993 at a total cost of Rs.7.96 lakhs. No contracts have so far (October 1996) been awarded for purchase of pumps, pipes *etc.* Thus, the two reservoirs are lying unutilised since May 1993. The decision to get the reservoirs constructed was premature because -

(a) water from BWSP was not expected for another 3 to 4 years;

(b) allottee units had been/were being granted permission to dig their own bore wells (80 allottees got permission till September 1996), and

(c) scheme for supply of water could not have been implemented till water was received from BWSP.

On being pointed out (May 1996), Government stated that the two reservoirs would be used once supply from BWSP commences.

This reply is not tenable in view of BWSP's response (March 1995) that the possibility of use of GLR and CWR hinges on their being found technically suitable. The blocking of funds in their construction involved loss of interest (calculated at @ 18 *per cent*) of Rs.5.01 lakhs for 3½ years (May 1993 to November 1996).

4A.3 Rajasthan State Mineral Development Corporation Limited

4A.3.1 Avoidable extra expenditure in excavation contracts

Rajasthan State Mineral Development Corporation Limited (RSMDC) awarded (September 1992) contracts for excavation of Run of Mine (ROM) limestone (including clay/waste, murram) from its Sanu Limestone Mines to crushing plant for a period of five years to Ankur Mining Private Limited (6.25 lakh cubic metres per year) and G.S. Atwal & Company (Engineers) Private Limited (3.75 lakh cubic metres per year). As per the agreements executed (September 1992) with the contractors, the combined rate payable for excavation (*in situ* measurement) and transportation upto a distance of 1.5 kilometres was Rs.38.50 per cubic metre and for distance between 1.5 to 2 kilometres, Rs.42.00 per cubic metre.

In April 1994 *i.e.* more than 1½ years after the commencement of the contract, Ankur Mining Private Limited (AMPL) represented that as they were incurring losses in execution of work, instead of pit measurement (in cubic metres), payment be made on the basis of tonnage of finished product *viz., gitti* obtained after crushing. On this representation, the Project Manager (Contracts) opined (19 April 1994) that pit measurement (in cubic metre) was the universal method and it was not advisable to abolish it in RSMDC. The Chief Mining Engineer, RSMDC, however, proposed (30 April 1994) that since quite often there were disputes with the contractors regarding the volume of *in situ* excavation (in cubic metres), payment may be made on the basis of weight of *gitties* produced and for this purpose, a conversion factor be calculated. This change was approved (2 May 1994), in principle by the Chairman-cum-Managing Director (CMD).

The Project Manager (Lime Stone), who was asked to suggest a suitable conversion factor, in his letter dated 23 September 1994 (written while camping at Jaipur) to the Chief Mining Engineer, submitted the following three alternative conversion factors :

	Basis	Conversion factor* (in MT/cu.m.)
(1)	Past results	0.81
(2)	Engineers India Limited (EIL) report	0.765
(3)	Field trials	0.752

On the same day, the matter was submitted by the Chief Mining Engineer to the CMD stating that due to location and the layer mined, the average conversion factor varied between 0.752 to 0.81 on different basis. On 24 September 1994, the CMD approved a conversion factor of 0.76.

For the quantity executed upto 16 October 1994 by AMPL and upto 26 October 1994 by G.S. Atwal & Company Private Limited, payments were made as per the original contract. Novation agreements were executed with Ankur Mining Private Limited (on 1 November 1994) and G.S. Atwal & Company (Engineers) Private Limited (on 1 February 1995), and payments thereafter, were made on the basis of production (in tonnes) of finished product.

In this connection, the following observations are made:

(i) The mode of measurement was simple and clearly defined in the contract. All levels were to be taken by theodolites/level instrument and the representative of the contractor was always associated in the measurement taken by the committee consisting of Mines Manager, Mining Engineer and the Surveyor. In case of dispute in measurement, the contractor could deploy his own surveyor. This aspect was stressed by the Project Manager (Lime Stone) in his letter (May 1994) to the Management while giving his opinion against the change in mode of measurement.

* A lower conversion factor implies that for 1 MT of *gitti*, the presumed excavation of ROM was higher; this would lead to higher payment to the contractor.

(ii) Change in the mode of measurement of the work (awarded after due invitation of tenders) during the currency of the contracts was against established commercial practice and negated the sanctity of tenders.

(iii) While the change in the mode of measurement was demanded by AMPL, similar change was also allowed to the other contractor *viz.*, G.S. Atwal & Company (Engineers) Private Limited, who had not even requested for such a change.

(iv) In an excavation contract, the payment should logically be linked with the volume of excavation of ROM. Linking payment with the finished product is illogical because this depends upon the composition of the layer being mined, extent of overburden *etc.* This is evidenced by the fact that the production of *gitties* (in MT) per cu.m. of ROM varied in Sanu Mines in the range of 0.66 and 1.05 during 1992-93 and 1993-94.

(v) In view of variations in conversion factor worked out on different basis, it should logically have been based on the past average (1992-94) because the conversion factor so worked out would even out the variation in layers mined. Regardless of the demerits of changing the methodology of payment, the average conversion factor should have been 0.81 MT/cu. m.

Thus, due to making payments on the basis of conversion factor of 0.76 instead of 0.81, RSMDC incurred avoidable extra expenditure of Rs.13.44 lakhs during the period from October 1994 till September 1995 and would continue to incur during currency of the contracts.

On being pointed out (December 1995) in audit, the RSMDC stated that a Committee was constituted (November 1995) to look into the matter of change in the mode of measurement of work done and the report submitted by the Committee was under consideration of the Management. Its final outcome was awaited (October 1996).

The matter was reported to Government in March 1996; their reply was awaited (November 1996).

4A.4 Rajasthan State Bridge and Construction Corporation Limited

4A.4.1 Avoidable payment of energy charges

Rajasthan State Bridge and Construction Corporation Limited (RSBCC) obtained (February 1989) an electric connection under High Tension Tariff-I (HTT-I) for its newly constructed hot-mix plant at Jaipur from Rajasthan State Electricity Board (RSEB). The contract demand as per the agreement executed (February 1989) was 130 KVA, with sanctioned load of 106.25 KW *i.e.* 142.426 HP (1 HP = 0.746 KW). The agreement, initially valid for three years and thereafter renewable annually, could be terminated by either party by giving a six months' notice after the initial 2½ years of the commencement of the agreement. As per the Tariff *ibid*, minimum charges corresponding to 110 units per KVA per month *i.e.* 14,300 units were payable monthly.

Scrutiny of records revealed that there was a sharp fall in utilisation of electricity against the contracted demand after July 1990. During August 1990 to August 1991, the maximum recorded demand in a month varied between 66 KVA and 86 KVA (average : 82 KVA) and the energy consumption varied between 2898 and 7704 units (average : 5883 units). As RSBCC had since August 1990 been paying minimum energy charges far in excess of their actual consumption, they should have, immediately on the expiry of the 2½ year period (August 1991), given a six months' notice for reduction of the contracted demand and opted for Medium Industrial Service (MIS) connection. This would have enabled RSBCC to obtain a connection up to 125 KVA with minimum charges of only 40 units per HP (43.82 units per KVA) *i.e.* 5478 units per month. However, RSBCC did not consider reduction in the contracted demand even thereafter, despite the fact that during April 1992 to March 1996 their maximum recorded demand varied between 52 and 81 KVA (average : 68 KVA) and the energy consumption between 2045 and 11,376 units (average : 6751 units). As a consequence of not opting for the maximum permissible demand (up to 125 KVA) under MIS, RSBCC incurred Rs.5.88 lakhs as avoidable extra expenditure towards energy charges.

Government stated (August 1996) that since the combined connected load of all the equipments necessary for the running of the hot-mix plant was 119

KVA, and another 12 KVA was required for campus lighting, the connection had to be obtained under HTT-I.

This reply is not tenable because the maximum recorded demand during August 1990 to March 1996 never exceeded 86 KVA. This contradicts Government's contention that running of all the equipments (whose connected load adds up to 119 KVA) simultaneously was necessary. Even otherwise, a separate connection for campus lighting would have reduced the connected load to a level within the limit of a MIS connection.

4A.4.2 Excess purchase of grit and *bajri*

The Rajasthan State Bridge and Construction Corporation Limited (RSBCC) was awarded the work of construction of building for Power House-I, Pugal Hydel Scheme on Indira Gandhi Main Canal by Rajasthan State Electricity Board (RSEB) in April 1991. According to the Bill of Quantities (BOQ) supplied by RSEB, the requirement of grit and *bajri* for this work was estimated by RSBCC at 4382.50 cu.m. and 2250.50 cu.m. respectively. The construction was to be taken up only after receipt of necessary drawings from RSEB, which would have also indicated a firm estimate of requirement of construction material.

The concerned Resident Engineer of RSBCC had proposed (August 1991) that not more than 40 *per cent* of the total requirement of grit and *bajri* would be stored at a time. Nevertheless, 4363.50 cu.m. of grit and 2260.20 cu.m. of *bajri* representing the total estimated requirement were purchased between August 1991 and April 1992. However, on receipt of necessary drawings of the civil structures in May 1992, it became apparent that the consumption of grit and *bajri* would be less. Consequently, on completion of the work (June 1995) 981.91 cu.m. of grit (cost : Rs.4.22 lakhs @ Rs.430 per cu.m.) and 393.69 cu.m. of *bajri* (cost : Rs.1.02 lakhs @ Rs.260 per cu.m.) became surplus.

To utilise the excess grit, RSBCC decided to transfer it to Suratgarh, where it had secured a contract on cost plus basis from the Rajasthan State Electricity Board (RSEB). During January to August 1996, 930.15 cu.m. (out of 981.91 cu.m.) of grit was transported through tippers of RSBCC/trucks hired from private parties at a total cost of Rs.2.87 lakhs. Thus, the cost of delivery of grit at Suratgarh was Rs.6.87 lakhs against which cost of grit at the rate approved for the work at Suratgarh was Rs.4.75 lakhs (930.15 cu.m. @ Rs.511 per cu.m.) only. Accordingly, the total loss on 930.15 cu.m. of grit works out to Rs.2.12 lakhs.

Out of the surplus 393.69 cu.m. of *bajri*, 88.20 cu.m. was transported to Suratgarh in August 1996. According to Resident Engineer, RSBCC, Suratgarh (September 1996) the *bajri* received was of unsatisfactory quality as it got mixed with sand with the passage of time. He, therefore, decided (September 1996) that no further quantity would be transported from Pugal.

The excess *bajri* (305.49 cu.m.) continues (September 1996) to remain unutilised at Pugal. Attempts to auction it in August 1996 was not fruitful as it elicited a highest bid of Rs.18 per cu.m. only. Thus, its value had fallen from Rs.0.79 lakh to Rs.0.05 lakh entailing a loss of Rs.0.74 lakh.

The blocking of funds in the excess quantity of grit (Rs.4.22 lakhs for the period May 1992 to December 1995) and *bajri* (Rs.1.02 lakhs for the period May 1992 to July 1996) resulted in loss of interest (calculated @ 18 *per cent*) aggregating Rs.3.51 lakhs.

Thus, the procurement of grit and *bajri* in excess of requirement resulted in a total loss of Rs.6.37 lakhs.

The matter was reported to Government/RSBCC in May 1996. While the reply from the Government had not been received (October 1996), the RSBCC stated (August 1996) that the surplus grit has been transferred to Suratgarh and since its total cost (including transportation from Pugal) shall be booked to the work, there would be no loss to RSBCC. Further, RSBCC stated that the balance *bajri* would be used on other works.

The reply is not tenable as the Superintending Engineer, Suratgarh Thermal Power Station, RSEB informed Audit (September 1996) that the payment of material would be restricted to the extent of prevailing tender/supply rates. The utilisation of the balance *bajri* appears unlikely in view of the deterioration of its quality as reported in September 1996 *i.e.* after receipt of RSBCC's reply.

4B. STATUTORY CORPORATIONS

4B.1 Rajasthan State Electricity Board

4B.1.1 Avoidable blocking of funds

On a request (April 1993) by the Rajasthan State Electricity Board (RSEB) for acquisition of land in village Kyarda Khurd, (tehsil: Hindaun; district: Sawaimadhopur) for construction of a 220 KV Grid Sub-Station (GSS), the State Government issued (September 1993) a Notification for acquisition of 6.60 hectares of land and appointed the Sub-Divisional Officer (SDO), Hindaun as the Land Acquisition Officer(LAO).

In December 1993, the LAO assessed the approximate cost of 5.607 hectares of land (estimated cost of the balance land was to be furnished later) as Rs.1.05 crores and asked the RSEB to deposit 80 *per cent* of this amount. The break-up of the cost of land is depicted below:

Category of land	Area	Percentage of total area	Rate	Amount (Rs.in lakhs)	Percentage of total cost
Commercial	591 sq.yd.	11.0	Rs.1000/ sq.yd.	5.91	66.9
Commercial	6780 sq.yd.		Rs.950/ sq.yd.	64.41	
Residential undeveloped	445 sq.yd.	0.7	Rs.350/ sq.yd.	1.56	1.5
Agriculture	59257 sq.yd. (4.83 hectares)	88.3	Rs.56/ sq.yd. (Rs.1.7 lakhs/bigha)	33.18	31.6
Total :	**67073 sq.yd. (5.607 hectares)**	**100.00**		**105.06**	**100.00**

Thus, commercial land though comprising only 11 *per cent* of the area had a cost element 66.9 *per cent*. Therefore, RSEB should have reviewed their requirement and explored the possibility of redesigning the layout of the GSS so as to avoid acquisition of commercial land. Instead, RSEB paid Rs. 83.37 lakhs representing approximately 80 *per cent* of the demand to the LAO in March 1994. The latter distributed this to the respective owners of the land under acquisition by April 1994.

The acquisition of land at exorbitant rates was severely criticised in the local press during April 1994. In this backgroud, RSEB reviewed their requirement of land and reduced it (August 1994) to 3.64 hectares only, which excluded almost the entire commercial area. The LAO accordingly issued award (October 1995) for the reduced area at a cost of Rs.35.03 lakhs. Against the acquired land, RSEB paid the balance due to the LAO in January 1996 for onward payment to *khatedars etc.* In respect of the land not acquired, RSEB had to recover Rs.60.53 lakhs (out of the advance of Rs.83.37 lakhs) which had been distributed to the *khatedars etc.* by April 1994. RSEB accordingly requested (November 1995) the LAO to obtain the refund from them. Necessary notices were issued by the LAO to the concerned *khatedars etc.*, belatedly in April 1996.

Failure to assess the actual requirement of land for a Grid Sub-Station before making advance payment resulted in loss of interest of Rs.21.79 lakhs

Had RSEB assessed its actual requirement of land for the GSS accurately before making the advance payment, blocking up of funds to the extent ofRs. 60.53 lakhs and consequent loss of interest of Rs. 21.79 lakhs (calculated @ 18 *per cent*) for the period of two years from April 1994 to March 1996 could have been avoided. This loss of interest will continue to be sustained by RSEB till the recovery of the amounts from the concerned *khatedars etc.* is effected as arrears of land revenue.

The matter was reported to Government/RSEB in April 1996. While reply from Government was awaited, RSEB stated (November 1996) that some *khatedars* from whom Rs.48.16 lakhs were recoverable, had obtained stay from the High Court. RSEB added that recovery of the balance amount (Rs.12.37 lakhs) was in progress.

4B.1.2 Extra expenditure in purchase of distribution transformers

Rajasthan State Electricity Board (RSEB) issued (April 1991) a Tender Notice (TN) 1456 for purchase of, *inter alia*, 63 KVA transformers with stipulated date of 20 June 1991 for receipt and opening of tenders. Meanwhile, due to acute shortage, RSEB decided (May 1991) to place additional orders on the successful suppliers against their last TN 1416 provided the transformers were offered for inspection latest by 20 June 1991. Electra (Jaipur) Limited

(EJL), on whom an order of 130 transformers (63 KVA) was placed (1 June 1991) at a unit rate of Rs.22,127 ex-works (inclusive of excise duty but exclusive of sales tax) informed RSEB (12 June 1991) that they had the transformers in stock with them but their specifications varied from those in TN 1416 in respect of two stipulations *viz.* these had 4 tie rods* against 8, and 4 dove-tail spacers** to a circle against 6 stipulated. EJL also clarified as to why they consider these differences to be insignificant.

The concerned Superintending Engineer (Procurement) recommended (18 June 1991) the purchase of the transformers offered by EJL to the Chief Engineer (Materials Management) on the ground they had successfully withstood the severity of the short circuit test. However, he recommended a deduction of Rs.100 per transformer due to the savings in respect of lesser tie rods (Rs.80) and spacers (Rs.20). The CE(MM), however, did not take any decision on the matter and the file was returned on 16 July 1991 with the remarks that the case would be examined when called for.

Meanwhile, in the first week of July 1991, the Rupee was devalued which would have led to increase in prices of steel lamination, brass *etc.* As such increases would have increased the price (in terms of the price variation formula) of transformers to be ordered under TN 1456, it became all the more imperative to finalise the additional purchases under TN 1416 placed on 1 June 1991. On 17 July 1991, EJL informed RSEB that if clearance of despatch was not given by 20 July 1991, the order of transformers on them may be treated as cancelled. Even at this stage, RSEB took no decision and on 22 July 1991, EJL informed RSEB that their transformers would now be diverted to other State Electricity Boards. RSEB finally conveyed the cancellation of their order without any financial liability on either side in September 1992.

In October 1991, RSEB placed an order on EJL for 620 transformers of 63 KVA against TN 1456 at a significantly higher unit price of Rs.24,330 (exclusive of excise duty and sales tax) with the usual price variation clause. These transformers were delivered during November 1991 to March 1992.

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* these are mild steel rods used to support and press the high and low voltage windings of the transformer.

** these are made of press board and placed between windings.

Scrutiny in audit (February 1995) indicated that the deviation in technical specifications was not a sufficient ground for indecision on the transformers offered by EJL in June 1991 for the following reasons:

(a) TN 1456 issued in April 1991 had stipulated a specification of 4 tie rods against 8 in TN 1416. This implies that RSEB was satisfied of the sufficiency of 4 tie rods even before the additional order of transformers was placed on EJL in June 1991 against TN 1416.

(b) Though 6 spacers were also stipulated in TN 1456, EJL offered transformers with 4 spacers thereagainst and these were accepted by RSEB after due inspection in November 1991. This implies that the explanation of EJL, advanced as early as June 1991 (against the additional order against TN 1416) that the 4 spacers in the transformers being bigger than when 6 are used, have the same bearing capacity, was finally accepted by RSEB.

(c) RSEB should have had an open mind to acceptance of transformers with minor differences in specifications especially because the lead time available to the suppliers for offering the transformers for inspection was only 20 days. This factor became even more important after devaluation of the Rupee in July 1991.

Had the 130 transformers been purchased against TN 1416 with a corresponding reduction in the order against TN 1456, RSEB could have avoided extra expenditure of Rs.9.37 lakhs.

The matter was reported to Government/RSEB in November 1995. Government stated (October 1996) that acceptance of the transformers against the additional order placed (1 June 1991) on EJL could not be communicated for the following reasons:

(i) The transformers offered were not according to the specifications.

(ii) Tenders against another TN-1456 had been opened on 20 June 1991 and it was considered appropriate to compare the rates with the rates of TN-1416.

Reply (i) is not tenable in view of (a), (b) and (c) above. Reply (ii) also lacks conviction because even till 20 July 1991 *i.e.* one month after the opening of the tenders, RSEB could not ascertain whether the prices against TN 1456 were indeed lower than TN-1416.

4B.1.3 Idle investment on mini hydel project at Charanwala

The Charanwala mini hydel scheme involving the setting up one unit of 2 MW capacity on Charanwala branch of Indira Gandhi Main Canal, was approved by the Central Electricity Authority in October 1983 at an estimated cost of Rs.2.86 crores.

On the basis of discharge into Indira Gandhi Nahar Pariyojana (IGNP), the availability of discharge in the Charanwala branch was estimated (July 1984) at 987.61 cusecs.On this basis, the power potential was expected to be 1.8 MW. The scheme was expected to give a return of 12 *per cent* after third year of its commissioning and was sanctioned by the Planning Commission in August 1984.

Following reduction in the designed discharge of the Charanwala branch to 567.78 cusecs by the IGNP in July 1985, the proposed capacity of the power house was further reduced (August 1985) from 1.8 to 1.2 M.W. The construction of the power house commenced during 1986-87 and was completed in December 1993 at a cost of Rs.4.96 crores.

The power house was commissioned on 23 December 1993 by arranging extra water in the canal from IGNP authorities. However, after commissioning, the discharge in the canal never exceeded 150 cusecs, because of which the power house has not been operated (June 1996). IGNP attributed (October 1995) the low discharge to the fact that the requirement of crop water down stream of the power house was low, due to that area being thinly populated. IGNP also stated that the discharge may increase to 300 cusecs by October 1996, but there was no possibility of it increasing to the designed level (567.78 cusecs) in another five years.

The supplier of the equipment of the project clarified (November 1995) that generation on discharge of 250 cusecs would be approximately 450 KW (38 *per cent* of designed capacity) and to generate 600 KW atleast 321 cusecs of discharge would be required. Therefore, approximately 550 KW may be generated from October 1996 provided the discharge rises to 300 cusecs by then.

Thus, by constucting the power house with reference to the designed discharge of the Charanwala branch without examining as to when IGNP expected the designed level of discharge to be achieved, RSEB needlessly commissioned the project around three years ahead of requirement. This resulted in idle expenditure of Rs. 4.96 crores for 2½ years (up to June 1996) causing loss of interest of Rs. 2.23 crores.

Premature construction of a mini hydel power house without examining as to when the designed level of discharge of water would commence, resulted in loss of interest of Rs.2.23 crores.

Further, due to non-operation of the power house, the performance guarantees in respect of various machines/equipment available for a period of 12 months from the date of commissioning or 18 months from the date of supply of last equipment at site had already expired. Again, expenditure on pay and allowances of Rs.4.50 lakhs on the skeleton staff (one Assistant Engineer, one Junior Engineer, two helpers and four guards) posted at site for maintenance, and watch and ward for the period June 1994 to June 1996, was also rendered infructuous.

RSEB stated (October 1996) that the project had to be completed by them by December 1993 because this was the target set by the State Level Monitoring Committee (SLMC). Further, RSEB added that after commissioning of the project they have been regularly pursuing the IGNP for release of adequate discharge. This reply was endorsed (November 1996) by the Government.

This reply is not tenable because RSEB should have apprised the SLMC regarding the demerits of completing the project without adequate discharge in the canal. Further, RSEB ought to have maintained a proper liaison with IGNP regarding the planned schedule for the increase in the level of discharge in future years.

4B.2 Rajasthan State Road Transport Corporation

4B.2.1 Delay in allotment of buses to depots

In July 1993, Rajasthan State Road Transport Corporation (RSRTC) decided that instead of all fabricated buses being transported to Head Office from the body builders, they would be despatched straight to the depots to which they have been allotted. In term of this decision, intimation regarding the designated depot of despatch was required to be given to the body builder before the final inspection of buses at his works.

Scrutiny in audit (December 1995) revealed that due to delay in intimation of allotment of buses to various depots, the body builders despatched (between 18 June 1995 and 1 August 1995) 38 buses directly to Head Office of RSRTC. Of these, 14 buses remained idle at the Head Office for 31 to 53 days, 19 buses for 21 to 30 days, and 5 buses for less than 21 days before they were finally allotted to depots. Consequently RSRTC lost potential income of Rs.11.09 lakhs.

Government/RSRTC attributed (September 1996) the delay in allotment of buses to the cumulative effect of (i) delay in deciding the norms of old buses which would be converted for city service, and (ii) delay in receipt of demand for new buses caused due to delay in condemnation of old buses. This reply is indicative of weaknesses in the process of decision making within the RSRTC.

4B.2.2 Excess payment

The Rajasthan State Road Transport Corporation (RSRTC) set up under the Road Transport Corporations (RTC) Act, 1950 had been receiving capital contribution from Government of India (GOI) and the State Government in the form of loans in perpetuity bearing concessional rate of interest at 6.25 *per cent* per annum.

An amendment to the RTC Act, 1950 in 1982 allowed the GOI and the respective State Governments to convert the loan capital contributed to State Road Transport Undertakings into equity capital. In April 1993, GOI, Ministry of Surface Transport conveyed their approval for the conversion of their loan capital along with interest liability as on 31 March 1992 in to equity capital, with a stipulation of payment of a minimum of 3 *per cent* dividend out of profits. Formal orders for the conversion were to be issued by GOI after the State Governments also agreed to the conversion of their loan capital into equity.

In response, the State Government in consultation with RSRTC, conveyed (August 1993) its concurrence for conversion of its loan capital contribution into equity capital. Accordingly, the GOI issued orders for the conversion of their loans into equity in April 1994. Formal sanction for conversion of the State's share of loan capital of Rs.5502.50 lakhs as on 31 March 1992 into equity was, however, issued by the State Government on 11 December 1995.

The State Government, while sanctioning (August 1993) the capital contribution of Rs.600 lakhs for the year 1993-94 to RSRTC, had deducted an amount of Rs.381.65 lakhs towards interest for the year 1992-93. On the retrospective conversion of State Government's loan into equity with effect from 31 March 1992, the interest of Rs.381.65 lakhs became due for refund to RSRTC. Nevertheless, RSRTC paid (16 December 1995) dividend of Rs.495.23 lakhs on the capital of Rs.5502.50 lakhs at the rate of 3 *per cent* per annum for the years 1992-93 to 1994-95, including Rs.165.08 lakhs for the year 1992-93. Thus, for the year 1992-93 both interest and dividend were paid. RSRTC should, in fact, have deducted Rs.381.65 lakhs recoverable from the State Government, from the dividend of Rs.495.23 payable, and paid only the balance of Rs.113.58 lakhs to the State Government. The over payment of Rs.381.65 lakhs has resulted in recurring loss of interest of Rs.3.82 lakhs per month @ 12 *per cent* (Rs.30.56 lakhs upto August 1996) till the amount is obtained back from the State Government.

Payment of both interest and dividend on the same capital contribution resulted in over payment of Rs.381.65 lakhs.

On being pointed out in audit (April 1996), RSRTC stated (May 1996) that the State Government had been requested (April 1996) to refund the withheld interest of Rs.381.65 lakhs. RSRTC further added (August 1996) that in case of its non-receipt, it would be recovered by way of adjustment against payments due to the Government. Government stated (October 1996) that the matter was under consideration.

4B.3 Rajasthan Financial Corporation

4B.3.1 Delay in remittance of funds

Mention was made in paragraph 4.B.2 of the Report of the Comptroller and Auditor General of India for 1990-91 regarding loss of interest suffered by the Rajasthan Financial Corporation (RFC) due to delay in remittance of excess funds by banks to the RFC's account in Head Office.

Further scrutiny of the bank statements for the period from July 1994 to November 1995 of the Collection Account maintained by RFC in the Madanganj-Kishangarh branch of Bank of Baroda (opened in October 1993) revealed that the bank did not transfer funds in excess of Rs.2,000 promptly and retained heavy balances ranging between Rs.1.13 lakhs and Rs.88.62 lakhs for periods ranging from 4 to 30 days. This resulted in loss of interest to the extent of Rs.2.92 lakhs (computed @ 12.5 *per cent* being the interest paid by RFC on funds raised through bonds) on the funds which remained blocked during July 1994 to November 1995. Thus, the Branch Manager, RFC, Kishangarh failed to fulfill his responsibility of ensuring timely remittances of amounts by the bank.

In response, Government reiterated (July 1996) its earlier reply of August 1991 to paragraph 4.B.2 of the Report for 1990-91 that this loss of interest was compensated by the bank extending the facility of immediate encashment of outstation cheques 'at par'.

This reply is not tenable because such facility is being provided by all other branches/banks and acceptance of delay in remittances to the account of Head Office by a single branch can not be justified on this ground.

JAIPUR **(SANJEEV SALUJA)**

The 24 JANUARY 1997 Accountant General (Audit)-II, Rajasthan

Countersigned

NEW DELHI **(V.K.SHUNGLU)**

The 28 JANUARY 1997 Comptroller and Auditor General of India

Annexures

ANNEXURE - I

Companies in which Government had invested more than Rs.10 lakhs but which were not subject to audit by the Comptroller and Auditor General of India.

(Referred to in preface at page (iii) and paragraph 1.2.10 at page 22)

Sl. No.	Name of company	Investment by Government (Rupees in crores)
1.	Jaipur Udyog Ltd., Sawaimadhopur	0.75
2.	Jaipur Spinning & Weaving Mills Ltd., Jaipur	0.17
3.	Man Industrial Corporation Ltd., Jaipur	0.15
4.	Metal Corporation of India Ltd., Calcutta	0.25
5.	Aditya Mills Ltd., Kishangarh	0.16
6.	Mewar Textile Mills Ltd., Bhilwara	0.30
	Total	**1.78**

Statement showing particulars of up-to-date capital, budgetary outgo, loans given out from Budget and outstanding loans as on 31 March 1996

(Referred to in paragraphs 1.2.2 and 1.2.3 at pages 6 and 9)

Sl.No.	Name of the company	Paid-up capital as at the end of 1995-96					Loans given out of budget of State Govt. during the year	Long term loans out-standing
		State Govt.	Central Govt.	Holding companies	Others	Total		
		(Rupees in lakhs)						
(1)	(2)	(3a)	(3b)	(3c)	(3d)	(3e)	(4)	(5)
1.	Agriculture Department							
	(i) Rajasthan State Agro Industries Corporation Limited	599.73	-	-	1.00	600.73	-	33.40
	(ii) Rajasthan State Dairy Development Corporation Limited	15.69	271.90	-	-	287.59	-	-
	(iii) Rajasthan State Seeds Corporation Limited	510.00 (401.00)	103.93	-	20.80	634.73 (401.00)	-	1000.00
2.	Ground Water Department							
	Rajasthan Jal Vikas Nigam Limited	127.00	-	-	-	127.00	-	-
3.	Industries Department							
	(i) Rajasthan Electronics Limited (Subsidiary of RIICO)	-	-	30.00	-	30.00	-	187.88
	(ii) Rajasthan State Industrial Development and Investment Corporation Limited	14890.25 (850.00)	-	-	-	14890.25 (850.00)	3325.00	47271.93
	(iii) Rajasthan Small Industries Corporation Limited	514.39	27.00	-	5.01	546.40	90.00	152.50
	(iv) Rajasthan State Handloom Development Corporation Limited	270.00 (101.00)	141.00	-	5.00	416.00 (101.00)	10.00	314.56

(1)	(2)	(3a)	(3b)	(3c)	(3d)	(3e)	(4)	(5)
4.	Forest & Environment Department							
	Rajasthan Rajya Van Vikas Nigam Limited	19.00	-	-	-	19.00	-	-
5.	**Mines Department**							
	(i) Rajasthan State Mines & Minerals Limited	6171.60	-	-	1.00	6172.60	450.00	8183.62
	(ii) Rajasthan State Mineral Development Corporation Limited	1633.00	-	-	-	1633.00	-	191.92
	(iii) Rajasthan State Granites & Marbles Limited (Subsidiary of RSMDC)	-	-	19.00	-	19.00	-	21.17
	(iv) Rajasthan State Tungsten Development Corporation Limited (Subsidiary of RSMDC)	-	-	133.79	-	133.79	-	21.16
6.	State Enterprises Department							
	(i) Rajasthan State Ganganagar Sugar Mills Limited	364.73	-	-	-	364.73	-	590.00
	(ii) Hi-Tech Precision Glass Limited	7.60	-	-	0.05	7.65	-	11.08
7.	Public Works Department							
	Rajasthan State Bridge & Construction Corporation Limited	1000.00 (500.00)	-	-	-	1000.00 (500.00)	-	1768.28
8.	Tourism Department							
	(i) Rajasthan State Hotels Corporation Limited	106.75	-	-	-	106.75	46.00	46.00
	(ii) Rajasthan Paryatan Vikas Nigam Limited	1383.84	-	-	-	1383.84	-	1435.50
9.	Energy Department							
	Rajasthan State Power Corporation Limited	30.00 (30.00)	-	-	-	30.00 (30.00)	-	-
	Grand Total	**27643.58 (1882.00)**	**543.83**	**182.79**	**32.86**	**28403.06 (1882.00)**	**3921.00**	**61229.00**

Note:- Figures in brackets indicate bugetary outgo during the year.

Summarised financial results of all Government companies for the latest

Sl. No.	Name of the Company	Name of depart-ment/sector	Date of incorpo-ration	Period of accounts	Year in which fina-lised	Profit (+)/ Loss (-) (Rupees in lakhs)
1	2	3	4	5	6	7
1.	Rajasthan State Agro Industries Corporation Limited	Agriculture	1 August 1969	1994-95	1995-96	(-) 81.61
2.	Rajasthan State Dairy Development Corporation Limited	Agriculture	31 March 1975	1995-96	1996-97	(-) 0.05
3.	Rajasthan Rajya Van Vikas Nigam Limited	Forest and Environment	24 May 1985	1990-91	1992-93	(-) 1.39
4.	Rajasthan Jal Vikas Nigam Limited	Ground Water	25 January 1984	1994-95	1995-96	(+) 2.31
5.	Rajasthan State Industrial Development and Investment Corporation Limited	Industries	28 March 1969	1995-96	1996-97	(+)1726.22
6.	Rajasthan Small Industries Corporation Limited	Industries	3 June 1961	1995-96	1996-97	(+)228.50
7.	Rajasthan State Handloom Development Corporation Limited	Industries	3 March 1984	1993-94	1996-97	(-)54.26
8.	Rajasthan Electronics Limited (Subsidiary of RIICO)	Industries	23 January 1985	1995-96	1996-97	(-) 10.30
9.	Rajasthan State Mines & Minerals Limited	Mines	7 May 1947 (Govt. company since June 1973)	1995-96	1996-97	(+) 1986.23

year for which accounts were finalised upto 31 October 1996

(Referred to in Paragraphs 1.2.2, 1.2.4 and 1.2.5.4 at pages 6, 11 and 13)

(Rupees in lakhs)

Paid-up capital	Accumu-lated profit (+)/ loss (-)	Capital invested	Capital employed	Return on capital invested	Return on capital employed	Percen-tage of total return on capital invested	Percen-tage of total return on capital employed
8	9	10	11	12	13	14	15
600.73	(-)1616.83	634.13	246.52	(-)79.29	31.49	Nil	12.77
287.59	(-)17.29	287.59	270.35	(-)0.05	(-)0.05	Nil	Nil
19.00	(-)12.32	19.00	6.48	(-)1.39	(-)1.39	Nil	Nil
127.00	(-)13.86	127.00	118.60	2.31	2.31	1.82	1.95
14890.25	(+)499.65	65746.20	65727.21	7194.45	7194.45	10.94	10.95
546.40	(-)53.36	698.90	797.40	240.15	240.63	34.36	30.18
238.00	(-)269.36	668.45	572.39	(-)15.26	10.57	Nil	1.85
30.00	(-)210.10	217.88	10.09	(-)10.30	(-)10.30	Nil	Nil
6172.60	(+)67.93	18869.81	19374.68	3351.02	3582.61	17.76	18.49

1	2	3	4	5	6	7
10.	Rajasthan State Mineral Development Corporation Limited	Mines	27 September 1979	1995-96	1996-97	(-)181.13
11.	Rajasthan State Granites & Marbles Limited (Subsidiary of RSMDC)	Mines	2 February 1977	1995-96	1996-97	(-)0.09
12.	Rajasthan State Tungsten Development Corporation Limited (Subsidiary of RSMDC)	Mines	22 November 1983	1995-96	1996-97	(-)0.44
13.	Rajasthan State Bridge & Construction Corporation Limited	Public Works	8 February 1979	1995-96	1996-97	(+) 810.67
14.	Rajasthan State Ganganagar Sugar Mills Limited	State Enterprises	1 July 1956	1995-96	1996-97	(+)16.64
15.	Hi-tech Precision Glass Limited	State Enterprises	18 March 1963	1995-96	1996-97	(-)1.07
16.	Rajasthan State Hotels Corporation Limited	Tourism	7 June 1965	1995-96	1996-97	(+)42.78
17.	Rajasthan Paryatan Vikas Nigam Limited	Tourism	24 November 1978	1994-95	1995-96	(+)28.87
18.	Rajasthan State Seeds Corporation Limited	Agriculture	28 March 1978	1995-96	1996-97	(+)400.24
19.	Rajasthan State Power Corporation Limited	Energy	6 April 1995	NA*	NA	NA

* Not available

(Rupees in lakhs)

8	9	10	11	12	13	14	15
1633.00	(-)374.05	1824.92	1838.72	(-)144.38	11.03	Nil	0.60
19.00	(-)50.60	40.17	(-)10.43	(-)0.09	(-)0.09	Nil	Nil
133.79	(-)73.63	154.95	30.16	(-)0.44	(-)0.44	Nil	Nil
1000.00	Nil	3587.63	3586.58	817.75	881.73	22.79	24.58
364.73	(+)0.48	1029.40	1899.67	117.97	196.92	11.46	10.37
7.65	(-)17.26	18.73	1.74	(-)1.07	(-)1.07	Nil	Nil
106.75	(+)43.22	151.38	188.49	42.78	42.78	28.26	22.70
1383.84	(+)11.39	2895.73	2150.77	121.78	121.78	4.20	5.66
634.73	(-)57.05	1634.90	1571.65	400.51	534.74	24.50	34.02
30.00	NA	NA	NA	NA	NA	NA	NA

Annexure-IV

Statement showing Subsidy received, Guarantee received during the year and Guarantee outstanding at the end of the year

(Referred to in paragraph 1.2.3 at page 9)

(Rupees in lakhs)

S. No.	Name of company	Subsidy received from State Government* (subsidy unutilised)	Guarantees received during the year (outstanding at the end of year)				
			Cash credit from nationalised banks	Loans from other sources	Letters of credit in respect of imports	Payment obligations under agreements with foreign consultants or contracts	Total
1.	2.	3	4(a)	4(b)	4(c)	4(d)	(4e)
1.	Rajasthan State Agro Industries Corporation Limited	58.67 (Not available)	-	-	-	-	-
2.	Rajasthan State Industrial Development and Investment Corporation Limited (RIICO)	1642.25 (1022.70)	-	2150.00 (31841.58)	-	-	2150.00 (31841.58)
3.	Rajasthan Small Industries Corporation Limited	451.14 (188.07)	-	- (62.50)	-	-	(62.50)
4.	Rajasthan State Handloom Development Corporation Limited	88.73 (Not available)	180.00 (180.00)	-	-	-	180.00 (180.00)
5.	Rajasthan State Mines & Minerals Limited		-	- (5715.00)	-	-	- (5715.00)
6.	Rajasthan State Bridge & Construction Corporation Limited		-	1224.75 (1768.28)			1224.75 (1768.28)
7.	Rajasthan Parayatan Vikas Nigam Limited	341.25 (194.53)	-	- (1435.50)	-	-	- (1435.50)
8.	Rajasthan State Seeds Corporation Limited		-	-	-	-	-
9.	Rajasthan State Mineral Development Corporation Limited	-	-	(24.32)	-	-	(24.32)
	Total	**2582.04 1405.30**	**180.00 (180.00)**	**3374.75 (40847.18)**	-	-	**3554.75 (41027.18)**

Note:- Figures in brackets indicate subsidy unutilised/guarantee outstanding at the end of the year.

* No subsidy was received from the Central Government or any other source.

Annexure-V

Statement showing the capacity utilisation of manufacturing companies during the year 1995-96

(Referred to in paragraph 1.2.8 at page 22)

Sl. No.	Name of Company	Installed/Rated	Actual utilisation	Percentage of utilisation
1.	2	3	4	5
1.	Agriculture			
	Rajasthan State Seeds Corporation Limited	Seeds & Lint 1.42 lakh qtls. (1.42 lakh qtls.)	1.76 lakh qtls. (1.06 lakh qtls.)	123.94 (76.65)
2.	Mines			
(i)	Rajasthan State Mineral Development Corporation Limited	Graphite 1800 MT (430 MT)	461 MT (168 MT)	25.61 (39.07)
		Fluorspar 2304 MT (2304 MT)	Nil (Nil)	Nil (Nil)
(ii)	Rajasthan State Mines & Minerals Limited	a) Crushing Plant (Old) 10.26 lakh tonnes	2.32 lakh tonnes (2.53 lakh tonnes)	22.61 (24.66)
		b) HGO Crushing Plant 9.03 lakh tonnes	3.78 lakh tonnes (2.98 lakh tonnes)	41.86 (33.00)
		c) Main process plant 4.21 lakh tonnes p.a.	1.48 lakh tonnes (0.89 lakh tonnes)	35.15 (21.14)
3.	State Enterprises			
	Rajasthan State Ganganagar Sugar Mills Limited	Sugar Cane (in Qtls.) 1000 MT crushing / diffusion per day	872.80 MT/day or 99,500 MT in 114 days (927.56 MT/day or 52,871 MT in 57 days)	87.28 (92.76)
		Beet (in Qtls.) 600 MT Crushing / diffusion per day	515.79 MT/day or 9,800 MT in 19 days (530.97 MT/day or 16,991 MT in 32 days	85.97 (88.49)
	Rectified spirit (in LPL)	17250 per day at Sriganganagar	14,675 LPL (10,720 LPL)	
		Not ascertainable for Atru unit	NA	-

Note:- Figures in brackets indicate figures for previous year.

ANNE

Statement showing summarised financial results of
accounts have been

(Referred to in

(Figures in column 6 to 12

Sl. No.	Name of Corporation	Name of adminis-trative depart-ment	Date of incorpo-ration	Period of accounts	Total capital invested	Profit (+)/ Loss(-) for the year
1	2	3	4	5	6	7
1.	Rajasthan State Electricity Board	Energy	1 July 1957	1994-95	4779.37	77.07
2.	Rajasthan State Road Transport Corporation	Trans-port	1 October 1964	1994-95	183.80	24.16
3.	Rajasthan Finan-cial Corporation	Indus-tries	17 January 1955	1995-96	637.04	11.20**
4.	Rajasthan State Warehousing Corporation	Agri-culture	30 Decem-ber 1957	1995-96	20.07	3.16

Note: (1) Capital invested represents paid-up capital *plus* long-term loans and free

(2) Capital employed represents net fixed assets (excluding works-in-progress) *plus*

(3)* Capital employed represents the mean of aggregate of the opening and closing deposits

(4)** The profit for the year is after adding provision for tax (Rs.4.12 crores) to net profit.

XURE-VI

Statutory corporations for the latest year for which finalised

paragraphs 1.3.3 and 1.3.7 at pages 24 and 28)

are Rupees in crores)

Total interest charged to profit & loss account	Interest on long-term loans	Total return on capital invested (7+9)	Capital employed during the year	Total return on capital employed (7+8)	Percentage of return on	
					Capital invested	Capital employed
8	9	10	11	12	13	14
309.67	309.67	386.74	3602.55	386.74	8.09	10.73
10.56	7.82	31.98	171.73	34.72	17.40	20.22
60.56	60.56	71.76	616.08*	71.76	11.26	11.65
0.21	0.21	3.37	20.72	3.37	16.79	16.26

reserves and surplus at the close of the year.

working capital at the close of the year.

balances of the paid-up capital, reserves and surplus, bonds and debentures,borrowings and

Annexure-VII

Extent of variations in the actual and budgeted figures of revenue expenditure and income.of RPVN

(Referred to in paragraph 2B.8 at page 99)

Year	Budget estimates (B.E.)			Revised estimates (RE)			Date of preparation of Accounts	Actuals		Variation with B.E.		Variation with R.E.	
	Date of approval	Income (Rs. in lakhs)	Expenditure (Rs. in lakhs)	Date of approval	Income (Rs. in lakhs)	Expenditure (Rs. in lakhs)		Income (Rs. in lakhs)	Expenditure (Rs. in lakhs)	Income (Rs. in lakhs)	Expenditure (Rs. in lakhs)	Income (Rs. in lakhs)	Expenditure (Rs. in lakhs)
1990-91	10 August 1990	1338.22	1106.64	16 April 1991	1309.79	1081.83	30 November 1991	1873.26	1818.21	535.04 (40.0)	711.57 (64.3)	563.47 (43.0)	736.38 (68.1)
1991-92	16 April 1991	1521.24	1247.55	16 October 1992	1814.07	1747.50	24 December 1992	2545.76	2426.25	1024.52 (67.3)	1178.70 (94.5)	731.69 (40.3)	678.75 (38.8)
1992-93	16 October 1992	2115.00	1952.00	25 June 1993	2161.53	2004.93	4 February 1994	3008.23	2801.61	893.23 (42.2)	849.61 (43.5)	846.70 (39.2)	796.68 (39.7)
1993-94	25 June 1993	2941.00	2754.00	27 August 1994	2632.77	2475.33	27 March 1995	3959.89	3835.12	1018.89 (34.6)	1081.12 (39.3)	1327.12 (50.4)	1359.79 (54.9)
1994-95	27 August 1994	3044.00	2857.00	27 March 1995	2831.75	2727.24	25 November 1995	4212.20	4183.33	1168.20 (38.4)	1326.33 (46.4)	1380.45 (48.7)	1456.09 (53.4)

Note: Figures in brackets indicate percentages.