(G. P. V.)—(J) H-5—1403—5-81.

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Report of the Comptroller and Auditor General of India for the year 1978-79 (Commercial) on Government of Gujarat.

Sl. No.	Page No.	Para No.	Line	*For*	*Read*
1	..	Table of contents.	9th from top	LIIIITED	LIMITED
2	(ii)	7	2nd from bottom	reflction	reflection
3	2	1.4	6th from bottom	Rs. 60.00 lakhs@	Rs.60.00 lakhs@ £
			2nd and 3rd from bottom.	lakhs £	lakhs
4	3	1.5	Heading of last column of the table	percentage of profit ..	Percentage of profit ..
		1.5.1	Note below table (7th from bottom)	for previous	for the previous
5	5	1.5.4	Top of table	Profit (+) Loss (—)	Profit (+)/Loss (—)
6	7	2.03	19th line para number.	2.3	2.03
		2.03	Heading of 1st column of the table.	Resources :	Resources
7	11	2.04 (a)	1st line	divided	dividend
8	12	2.06.1 (a)	11th line	balanct	balance
9	15	2.06.3 (ii)	15th line	which	while
10	16	2.06.4.2 Table	7th line from bottom	Categorywise	(f) Categorywise

Sl. No.	Page No.	Para No.	Line	*For*	*Read*
11	18	2.06.4.2(b)	2nd below the table	(535.95 lakhs)	(Rs. 535.95 lakhs)
12	27	2.07 (ii)	Below the heading of 3rd column of the table	Amount invested.	Amount invested (Rupees in lakhs)
13	29	2.08.2(a)	4th from bottom	the trial runs	the trial run
14	30	2.08.2(b) (i)	13th from bottom	beginning and	beginning or
	30	2.08.2(b) (ii)	8th from bottom	highting	lighting
15	31	2.08.2(d)	3rd line from bottom	became	become
16	33	2.08.3(a)	17th from top	Rs. 00.38 lakh	Rs. 0.38 lakh
17	35	2.08.4	2nd from top	new Company	new company
		2.08.5	6th line from bottom	has	had
18	39	2.09 (vi)	2nd from bottom	(55.8 percent	(55.8 percent)
19	49	3.07.2(i)	last column of the table	15*	12276*
20	52	3.07.2(iv)	Table— total of 1st column	1,040	1,014
		3.07.2(iv)	3rd from bottom	accepted order	accepted orders
21	56	3.08.5	11th from bottom	fertilizer	fertilizer,
22	59	3.09.4	2nd line of para	distributors	distributors.

Sl. No.	Page No.	Para No.	Line	*For*	*Read*
23	65	3.12.1	1st from top	Sales obligation	Sales obligations
24	84	5.1.07.3(b)	14th from bottom	for debentures	for rural debentures.
25	85	5.1.07.4	7th from top	REC for	REC
		5.1.07.4	Heading of 8th column of the table	Loans availed u.to......	Loans availed up to
26	86	5.1.07.5	Heading of last column of the table	Actuals	Actual
27	87	5.1.07.06	Heading of 3rd column of table	Taget	Target
28	88	5.1.07.7	Table	—	Word 'Total' should be inserted against the totals.
29	90	5.1.09	Heading	tenaer	tender
30	91	5.1.11(iv)	Last line of para	March 1978	March 1979
31	91	5.1.11(ii)	3rd line of para	enerigsed	energised
32	93	5.2.2.1	Last line	Rs. 49.69 crores	Rs. 49.69 crores ;
33	96	5.2.2.3 (i)	2nd from top of sub-para 3	lue	due
34	97	5.2.2.3(ii)	8th from top	Rs. 202 lakhs	Rs. 2.02 lakhs
35	98	5.2.2.3	4th from top	(Rs. 155 lakhs)	(Rs. 1.55 lakhs)
36	100	5.2.2.5	5th line of table	Power available for sale	Power available for sale (in MKwh)

Sl. No.	Page No.	Para No.	Line	*For*	*Read*
37	101	5.2.2.6	Below the heading of table	—	(Rupees in lakhs)
		5.2.2.6	Amount of closing balance 1974-75 (table)	326.42	336.42
38	102	5.2.2.6	Last line of para 5.2.2.6	Rs.Rs.4.97 lakhs	Rs. 4.97 lakhs
39	104	5.2.3.02	1st line	Planning Commission	Planning Commission,
40	107	5.2.3.05	IInd from top	exercise	excise
41	108	5.2.3.07(b)	1st line	3 core 6 sq. mm.	3 crore × 6 sq. mm.
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44	112	5.2.3.11	Below heading of table	—	(Rupees in lakhs)
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46	121	5.3.4.(ii)(b)	Heading	150 MVA Transformer	150 MVA Transformers
		5.3.4.(ii)(c)	Heading	10MVA Transformer	10 MVA Transformers
47	122	5.3.4.(c)(iii) 2nd sub-para	3rd from top	Central tax	Central Sales Tax
48	125	Para 7	10th line	consruct	construct
49	137	Appendix 'B'	Column 7 against Sl. No. 6	progress ed	progressed
50	105	5.2.3.02(iii)	10th from top	ensure that proper	ensure proper

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सत्यमेव जयते

GOVERNMENT OF GUJARAT

REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR 1978-79

(COMMERCIAL)

सत्यमेव जयते

GOVERNMENT OF GUJARAT

REPORT OF THE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

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(COMMERCIAL)

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in which Government has invested more than Rs. 25 lakhs are given below:—

	Government investment up to 1978-79 (Rupees in lakhs)
Shree Digvijay Woollen Mills Limited	33.40
Gujarat Alkalies and Chemicals Limited	170.00
Gujarat Narmada Valley Fertilizers Company Limited	1,404.10
Narmada Cement Company Limited	120.00
Surat Electricity Company Limited	25.03
Total ..	1,752.53

6. The Comptroller and Auditor General is the sole auditor in respect of Gujarat Electricity Board and Gujarat State Road Transport Corporation, which are statutory corporations, while he has the right to conduct audit of Gujarat State Financial Corporation and Gujarat State Warehousing Corporation independently of the audit conducted by the chartered accountants appointed under the respective Acts.

7. The points brought out in this Report are those which have come to notice during the course of test audit of the accounts of the above undertakings. They are not intended to convey or to be understood as conveying any general reflction on the financial administration of the undertakings concerned.

PREFATORY REMARKS

Government commercial concerns, the accounts of which are subject to audit by the Comptroller and Auditor General of India, fall under the following categories.

Government Companies ;

Statutory Corporations ; and

Departmentally-managed commercial undertakings.

2. This Report deals with the results of audit of the accounts of Government Companies and Statutory Corporations, including the Gujarat Electricity Board. The Report of the Comptroller and Auditor General of India (Civil) contains the results of audit relating to departmentally-managed commercial undertakings.

3. The cases mentioned in the Report are those which came to notice of Audit during the year 1978-79 as well as those which had come to notice in earlier years but could not be dealt with in the previous Reports ; matters relating to the period subsequent to 1978-79 have also been included, wherever necessary.

4. In the case of Government Companies, audit is conducted by chartered accountants appointed on the advice of the Comptroller and Auditor General but the latter is authorised under Section 619 (*3*) (*b*) of the Companies Act, 1956 to conduct a supplementary or test audit. He is also empowered to comment upon or supplement the report submitted by the company auditors. The Companies Act further empowers the Comptroller and Auditor General to issue directives to the auditors in regard to the performance of their functions. Such directives were issued to the auditors from time to time.

5. There are certain companies other than Government Companies in which Government has invested funds but their accounts are not subject to audit by the Comptroller and Auditor General. Names of such companies

CHAPTER I

GOVERNMENT COMPANIES

SECTION I

1 Introduction

There were 30 Companies (including 11 subsidiaries) of the State Government as on 31st March 1979. During the year, one new company, *viz.* Gujarat State Petrochemicals Corporation Limited and one subsidiary company of Gujarat Industrial Investment Corporation Limited, *viz.* Gujarat Leather Industries Limited were incorporated; one subsidiary company of Gujarat Industrial Investment Corporation Limited, *viz.* Gujarat Aromatics Limited ceased to be a Government company.

A synoptic statement showing the summarised financial results of 17 Companies (including 4 subsidiaries) for their accounting years ending in 1978-79, is given in Appendix 'A'. The accounts of the following Companies were in arrears (June 1980) for the periods noted against each:

Name of the Company	Extent of arrears
Gujarat State Handicrafts and Handloom Development Corporation Limited	1977-78 and 1978-79
Gujarat State Rural Development Corporation Limited	1978-79
Gujarat Water Resources Development Corporation Limited	1976-77 to 1978-79
Gujarat State Land Development Corporation Limited	1978-79

The arrears in the finalisation of the accounts were brought to the notice of Government in March 1980.

Due to a change in its accounting year Gujarat State Seeds Corporation Limited would prepare the accounts for 18 months from 1st April 1978 to 30th September 1979. The accounts of Gujarat State Petrochemicals Corporation Limited (incorporated during the year) were not due. Seven subsidiary companies had capitalised the entire expenditure under construction during 1978-79.

1.2 Paid-up capital

The total paid-up capital of 13 Companies (which had finalised their accounts for 1978-79) stood at Rs. 2,081.25 lakhs at the end of the year 1978-79 (previous year : Rs. 1,509.63 lakhs—14 Companies)—of which Government investment amounted to Rs. 1,761.55 lakhs* (previous year : Rs. 1,257.89 lakhs—14 Companies).

1.3 Long-term loans

The balance of long-term loans outstanding against 10 Companies (excluding subsidiaries) as on 31st March 1979 was Rs. 4,919.34 lakhs (State Government : Rs. 2,659.97 lakhs, other parties : Rs. 2,203.92 lakhs and deferred payment credit : Rs. 55.45 lakhs) (previous year : Rs. 4,051.61 lakhs—10 Companies).

1.4 Guarantees

The State Government had guaranteed repayment of the share capital of Gujarat Small Industries Corporation Limited up to Rs. 60.00 lakhs@ which was outstanding as on 31st March 1979.

The State Government had guaranteed repayment of loans (including deferred payment credits) to the extent of Rs. 2,189.94 lakhs £ raised by 6 Companies (including 2 subsidiaries) against which Rs. 2,122.22 lakhs £ were outstanding as on 31st March 1979.

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* The figure as per Finance Accounts is Rs. 1,519.86 lakhs and the difference is under reconciliation.

@ As per Finance Accounts the amounts guaranteed and outstanding thereagainst were Rs. 45 lakhs and Rs. 30 lakhs respectively. The differences are under reconciliation.

£ Rs. 3,380.21 lakhs and Rs. 2,682.84 lakhs as per the Finance Accounts. The differences are under reconciliation.

1.5 Profits and dividends

1.5.1 The working results of 17 Companies (including 4 subsidiaries) for 1978-79 as compared to the previous year are analysed below :—

Particulars	Number of companies	Aggregate of paid-up capital	Aggregate of Profits (before tax) (+) Losses (—)	percentage of profit to paid-up capital
		(Rupees in lakhs)		
Companies other than subsidiaries				
(i) Which earned profits	7 (7)	1,786.51 (1,272.37)	(+)231.11 [(+)103.58]	12.94 (8.14)
(ii) Which sustained losses	6 (7)	294.74 (237.26)	(—)113.48 [(—)54.62]	.. ..
Total	13 (14)	2,081.25 (1,509.63)	(+)117.63 [(+)48.96]	5.65 (3.24)
Subsidiary Companies				
(i) Which earned profits	2 (3)	31.17 (45.91)	(+)59.38 [(+)34.73]	190.50 (75.65)
(ii) Which sustained losses	2 (—)	129.65 (—)	(—)27.40 (—)	.. (—)
Total	4 (3)	160.82 (45.91)	(+)31.98 [(+)34.73]	19.89 (75.65)

Note.—Figures in brackets represent figures for previous year.

1.5.2 It will be seen that as against an aggregate profit (before tax) of Rs. 138.31 lakhs (10 Companies) and loss of Rs. 54.62 lakhs (7 Companies) with in overall profit of Rs. 83.69 lakhs in the previous year (1977-78), the aggregate profit during 1978-79 amounted to Rs. 290.49 lakhs (9 Companies) and the aggregate loss to Rs. 140.88 lakhs (8 Companies) resulting in an overall profit of Rs. 149.61 lakhs. The working results of 4 Companies showed substantially higher profits during 1978-79 and a marginal improvement in the case of 1 Company. One Company which had incurred a loss of Rs. 17.49 lakhs during 1977-78, earned a profit of Rs. 18.39 lakhs in 1978-79; 1 Company earned a profit of Rs. 30.44 lakhs in its first year of operations as per details given below :—

Name f the Company	Profit (+) / Loss (–) during 1977-78	1978-79
	(Rupees in lakhs)	
Gujarat Mineral Development Corporation Limited	(+)46.17	(+)95.63
Gujarat Agro-Industries Corporation Limited	(+)17.81	(+)48.75
Gujarat Tractor Corporation Limited	..	(+)30.44
Gujarat State Textile Corporation Limited	(+)12.42	(+)22.06
Gujarat State Forest Development Corporation Limited	(—)17.49	(+)18.39
Gujarat Small Industries Corporation Limited	(+)10.92	(+)11.09
Gujarat Industrial Investment Corporation Limited	(+)1.61	(+)4.75

1.5.3 Three Companies (excluding subsidiaries) declared dividends aggregating Rs. 31.04 lakhs for the year 1978-79, as indicated below :

Name of the Company	Distributable surplus	Amount retained in business	Dividend declared	Percentage of dividend to paid-up capital
		(Rupees in lakhs)		
Gujarat Mineral Develop- Corporation Limited	75.13	62.41	12.72	4
Gujarat Agro—Industries Corporation Limited	36.54	20.62	15.92	4
Gujarat Small Industries Corporation Limited	2.45	0.05	2.40	4

1.5.4 The Companies which incurred losses in 1978-79 are as under :—

Name of the Company	Profit (+) Loss (—) during 1977-78	1978-79
	(Rupees in lakhs)	
Gujarat State Construction Corporation Limited	(—)6.87	(—)70.57
Gujarat Dairy Development Corporation Limited	(—)11.77	(—)20.68
Gujarat State Export Corporation Limited	(+)11.32	(—)6.68
Gujarat Communications and Electronics Limited	(—)5.23	(—)0.54
Tourism Corporation of Gujarat Limited	(—)0.45	(—)2.29
Gujarat Sheep and Wool Development Corporation Limited.	(—)12.36	(—)12.72

1.6 In addition, there was one Company, *viz.* Gujarat State Fertilizers Company Limited covered under Section 619 B of the Companies Act, 1956. The paid-up capital of the Company as on 31st December 1978 was Rs. 1,499.62 lakhs, of which Rs. 1,055.99 lakhs was held by the State Government and Companies and Corporations owned or controlled by Government. The working results of the Company for the year ended 31st December 1978 showed a profit of Rs. 1,284.08 lakhs (before tax and investment allowance) as against a profit of Rs. 2,411.43 lakhs earned in the previous year.

SECTION II

GUJARAT INDUSTRIAL INVESTMENT CORPORATION LIMITED

2.01 Introduction

To promote investment in important projects within the State, the Government of Gujarat set up a wholly-owned Government Company, *viz.* Gujarat Industrial Investment Corporation Limited on 12th August 1968. The main objects of the Company are :

(*a*) to invest in shares, bonds, securities *etc.* of industrial enterprises in the State ;

(*b*) to assist new entrepreneurs, by way of long-term finance for the setting up of large, medium and small industrial undertakings, expansion, renovation and modernisation of existing industrial units in the State ;

(*c*) to plan and implement projects for setting up industries which are likely to promote or advance the industrial development of the State; and

(*d*) to implement either alone or in participation with other corporations or financial institutions, schemes sponsored by the State or Central Government with the object of promotion of industries in the State.

2.02 Capital structure

(*a*) The Company was formed with an authorised capital of Rs. 10 crores. The paid-up capital, entirely subscribed by the State Government, as on 31st March 1979 was Rs. 5 crores.

Besides, the Company had secured funds from the public by issue of bonds from time to time, loans from Government and also funds under the refinance scheme from the Industrial Development Bank of India (IDBI). The total borrowings obtained and outstanding as on 31st March 1979 were Rs. 3,573.87 lakhs.

(*b*) Non-provision of sinking fund and loss of interest :

The bonds raised have been guaranteed by Government in regard to repayment of the principal and payment of interest thereon. While giving the guarantee Government stipulated that the Company should create a sinking fund through an annual contribution at the rate of 6.0148 *per cent* of the value of bonds for amortisation of the bonds. The Company had not created the Sinking Fund for amortisation of the bonds, in terms of this directive. The Company had invested Rs. 25 lakhs (1971-72) in $5\frac{3}{4}$ *per cent* Gujarat State Government loan, 1983 and earmarked the investments for amortisation of the bonds. At the instance of the Company, the State Government authorised (July 1975) the Company, not to invest funds in outside securities from 1974-75 onwards. The Company, disposed of the investment of Rs. 25 lakhs on 16th November 1977, before maturity, at a discount of Rs. 0.12 lakh. The Company also lost proportionate interest of Rs. 0.36 lakh for the period from the last due date (17th August 1977) till the date of sale (16th November 1977). As the Company had sufficient funds available in November 1977 (Rs. 216.00 lakhs), there was no justification for premature disposal of the investment at a loss of Rs. 0.48 lakh.

2.3 Resources and their utilisation

The table below indicates the position regarding net resources available at the end of each year and their utilisation for the three years up to 1978-79.

	1976-77	1977-78	1978-79
		(Rupees in lakhs)	
Resources :			
(a) Paid-up capital	290.00	290.00	500.00
(b) Reserves and surplus	55.37	56.99	61.12
(c) Borrowings:			
(i) Bonds	1,547.50	1,657.50	1,767 50
(ii) Industrial Development Bank of India	..	139.78	355.15
(iii) State Government	1,090.39	1,281.25	1,451.22
(d) Others (undischarged liabilities)	143.50	103.80	96.84
Total ..	3,126.76	3,529.32	4,231.83

Utilisation

		1976-77	1977-78	1978-79
			(Rupees in lakhs)	
(a)	Loans and advances	2,233.72	2,359.67	2,610.62
(b)	Investments	548.42	843.35	889.79
(c)	Net fixed assets	11.29	11.18	12.14
(d)	Other assets			
(i)	Amount receivable	7.39	4.61	7.17
(ii)	Project expenses	31.04	13.02	29.90
(e)	Cash and bank balances	285.28	285.53	669.64
(f)	Miscellaneous expenditure	9.62	11.96	12.57
	Total ..	3,126.76	3,529.32	4,231.83
	Capital employed*	2,746.25	3,204.39	3,780.26
	Net worth@ ..	304.71	322.01	518.65

Against the receipts of Rs. 705.00 lakhs (capital : Rs. 210 lakhs; borrowings : Rs. 495 lakhs) during 1978-79, the net disbursements of loans and investment amounted to Rs. 297.00 lakhs, resulting in a heavy accumulation of cash and bank balances which increased from Rs. 285.53 lakhs as on 31st March 1978 to Rs. 669.64 lakhs as on 31st March 1979.

In this connection, the following points deserve mention:—

(*i*) *Issue of bonds*

The Company offered bonds for Rs. 100 lakhs at interest of 6.5 *per cent*

*Capital employed represents the mean of the opening and closing balances of paid—up capital, bonds, reserves (other than those specifically funded and backed by outside investments) and borrowings.

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

per annum to banks. As the amount subscribed was more than Rs. 100 lakhs, the Company retained (August 1978) Rs. 110.00 lakhs including 10 *per cent* over and above the amount offered. Due to receipt of substantial amount from Government towards loans and funds under the refinance scheme from IDBI, the funds raised against bonds were not immediately required for disbursement, and the amount continued to be held in short-term deposits (renewed from time to time) till September 1979 earning interest at 2.5—3.0 *per cent* per annum as against 6.5 *per cent* per annum paid on bonds resulting in an avoidable loss of interest (August 1978 to September 1979) of Rs. 4.17 lakhs (reckoned at 3.5 *per cent*). This could have been reduced if the funds had been invested in longer term deposit (at higher rates of interest). The cash balances of the Company during this period ranged from Rs. 200 lakhs to Rs. 540 lakhs.

(ii) Loans from Government

The amount of loans received from Government and outstanding as on 31st March 1978 was Rs. 1,281.25 lakhs. Out of this, loans aggregating Rs. 1,015.16 lakhs were received for financing industrial projects to be promoted by the Company. As these projects involved long periods of construction before commissioning and commercial operation, the State Government converted (June 1978) loans of Rs. 210 lakhs into share capital in order to reduce the burden of interest. A sum of Rs. 400 lakhs was received from Government in 1978-79 towards interest-free sales tax loan (Rs. 100 lakhs) and project loan (Rs. 300 lakhs carrying interest at 6 *per cent* per annum). In addition, the Company received Rs. 215 lakhs under the refinance scheme from IDBI. Since the net disbursement during 1978-79 amounted to only Rs. 297 lakhs, funds received by way of bonds, IDBI refinance and interest-free sales tax loan (Rs. 425.00 lakhs) would have been sufficient and there was no need for the project loan of Rs. 300 lakhs (Rs. 100 lakhs in November 1978, Rs. 200 lakhs in January 1979). This resulted in an additional interest burden (up to March 1979) of Rs. 4.50 lakhs.

2.04 Working results

The working results of the Company for the three years up to 1978-79 are summarised below :—

	1976-77	1977-78	1978-79
		(Rupees in lakhs)	
(i) Income :			
Interest on loans	233.89	235.10	235.35
Others	11.49	12.64	17.25
Total ..	245.38	247.74	252.60
(ii) Expenditure :			
Interest on loans	148.16	169.73	157.32
Other financial expenses	6.93	7.49	8.57
Bad debts written off / provided for	42.61	12.21	22.56
Salaries and other administrative expenses	42.42	56.70	59.40
Total ..	240.12	246.13	247.85
(iii) (a) Profit before tax	5.26	1.61	4.75
(b) Provision for tax	1.80	..	0.61
(c) Profit after tax	3.46	1.61	4.14
Percentage of Profit after tax to		(*Per cent*)	
(a) Capital employed	0.1	0.1	0.1
(b) Net worth	1.1	0.5	0.8
(c) Equity capital	1.2	0.6	0.8
Percentage of administrative expenses to business receipts	17.3	22.9	23.5

(a) The Company had not paid any divided up to 1978-79.

(b) Increase in income from interest on loans during 1977-78 and 1978-79 had been marginal and not commensurate with the increase in loans and advances due, *inter alia,* to the following :—

(*i*) The interest accrued in respect of specified cases of defaulting loanees was not brought into account in 1977-78 (Rs. 38.41 lakhs) and 1978-79 (Rs. 54.68 lakhs).

(*ii*) Interest on loans to some subsidiaries and other promoted companies was not charged in 1977-78 (Rs. 14.92 lakhs) and 1978-79 (Rs. 12.79 lakhs).

(*iii*) Interest subsidy (Rs. 5.48 lakhs) was allowed to loanees under the Technicians scheme during 1978-79.

(*iv*) Penal interest charged in earlier years (Rs. 15.71 lakhs) was waived in 1978-79 in consideration of realisation of arrears.

(c) The incidence of salaries and other administrative expenses increased from Rs. 42.42 lakhs in 1976-77 to Rs. 59.40 lakhs in 1978-79 *i. e.* by 40 *per cent.*

2.05 Operations

The Company has undertaken the following activities :—

(a) providing financial assistance by way of long-term loans ;

(b) providing deferred payment guarantees ;

(c) investment in share capital of companies ;

(d) promotion of industrial projects ; and

(e) implementation of schemes sponsored by the State or Central Government.

2.06 Financial assistance by way of long-term loans

2.06.1 *General*

The financial assistance in the form of long-term loans was provided by the Company mainly under two schemes as under :

(a) *General scheme*

In respect of large and medium scale industries (the project cost being Rs. 1 crore or more), the Company provides loan assistance up to 70 to 80 per cent of the value of the fixed assets to limited companies and up to Rs. 15 lakhs to others. In cases where the project cost is less than Rs. 1 crore, the Gujarat State Financial Corporation (GSFC) provides financial assistance up to Rs. 30 lakhs and the balanct requirement of funds, if any, is provided by the Company.

(b) *Technicians scheme*

The technical entrepreneurs, (who have capacity and expertise for manufacturing activities) are provided 100 *per cent* financial assistance up to Rs. 2 to 3 lakhs with working capital arrangements to be tied up with the commercial banks.

With effect from October 1973, the scheme was converted into " New entrepreneurs scheme" in collaboration with GSFC which provides assistance to the extent of 80 *per cent* of the value of fixed assets, 10 *per cent* to be provided by the Company and the balance amount to be raised by the entrepreneurs. With a view to avoid duplication of work in keeping records and watching recoveries and to ensure better control, the scheme was entrusted entirely to GSFC from 1st April 1978.

2.06.2 *Sanctions and disbursements*

The table on page 13 indicates the loans sanctioned and the actual disbursements during the four years up to 1978-79.

Year	Loans sanctioned Number	Loans sanctioned Amount (Rupees in lakhs)	Cumulative amount sanctioned (Rupees in lakhs)	Loans disbursed Number	Loans disbursed Amount (Rupees in lakhs)	Cumulative amount disbursed (Rupees in lakhs)	Percentage of amount disbursed to amount sanctioned
Up to 31st March 1975	1,313	3,216.49	3,216.49	1080	1,797.20	1,797.20	55.9
1975-76	104	81.72	3,298.21	105	138.59	1,935.79	58.7
1976-77	63	441.30	3,739.51	66	206.50	2,142.29	57.3
1977-78	102	560.50	4,300.01	57	207.12	2,349.41	54.6
1978-79	22	817.45	5,117.46	37	373.36	2,722.77	53.2

Categorywise break-up of loans sanctioned and disbursements made up to 1978-79 was as under :

	Number	Loans sanctioned (Rupees in lakhs)	Number	Amount disbursed (Rupees in lakhs)	Percentage of amount disbursed
General scheme	380	4,381.92	332	2,102.98	48.0
Technicians scheme	741	578.11	718	567.98	98.2
New entrepreneurs scheme	483	157.43	295	51.81	32.9
Total ..	1,604	5,117.46	1,345	2,722.77	53.2

Low rate of disbursements under the General scheme was attributed (November 1979) by the Management to the inability of the units to raise matching contributions, delays in completing legal formalities, time taken in completing Government formalities like capital goods clearance, clearance from Land Ceiling Act, *etc*. The reasons for low rate of disbursement under the New entrepreneurs scheme were not analysed by the Management (December 1980).

Details of fully undrawn as well as partly undrawn amounts with year-wise break-up which could enable the Company to review old sanctions for cancellation were not available. The Management stated (April 1980) that all cases of undrawn sanctions were reviewed and a list prepared (February 1980) and it was resolved by the Board of Directors that the sanctions would be valid and effective for a period of two years from the date of sanction, on payment of commitment charges.

2.06.3 *Commitment charges*

(*i*) All loans sanctioned by the Company to industrial units provide for the levy of commitment charges at 1 *per cent* (0.5 *per cent* for specified backward districts) per annum on the amounts of loans that remain undrawn after a period of 6 months from the date of sanction.

The Company, however, had not maintained any records showing the details of the commitment charges recoverable from time to time, and the amounts recovered thereagainst. In view of this, the total commitment charges that became due up to 31st March 1979 and the recoveries made thereagainst up to that date could not be ascertained. There was no system of raising demands for commitment charges on the loanees at periodical intervals.

A test check disclosed that the Company had not recovered commitment charges amounting to Rs. 0.89 lakh in 2 cases, where the loans sanctioned (April 1974 and March 1977) had been cancelled (April 1978 and May 1979) due to nonfulfilment of the terms and conditions of the loans by the loanees. In 10 other cases, the loans sanctioned during the period June 1972 to April 1978 had not been drawn up to March 1979 and the commitment charges recoverable in these cases worked out to Rs. 4.25 lakhs. The Company had not recovered these charges from the loanees concerned so far (October, 1980).

The Management stated (April 1980) that commitment charges would be recovered at the time of disbursement of loans.

(*ii*) From the year 1977-78, the Company has been recognised as an eligible institution for obtaining refinance from IDBI against term loans granted to industrial units. Refinance is sanctioned by IDBI upto 90 *per cent* of the amount of loan granted by the Company to an industrial unit (100 *per cent* for backward districts) or Rs. 60 lakhs, whichever is less, and carries interest at 9 *per cent* per annum (6 *per cent* for backward districts). The Company can charge maximum interest at 12.5 *per cent* per annum (9.5 *per cent* for backward districts). In the case of refinance sanctioned by the IDBI, the Company has to pay commitment charges to IDBI at 1 *per cent* (0.5 *per cent* for backward districts) for the amounts remaining undrawn beyond 6 months.

In 2 cases, the Company had sanctioned loans amounting to Rs. 49.35 lakhs on 24th February 1977 (Rs. 23.35 lakhs) and on 31st March 1977 (Rs. 26.00 lakhs). It got refinance for Rs. 49.35 lakhs sanctioned from IDBI on 13th January 1978, but both the loans and corresponding refinance were cancelled on 14th October 1978 (Rs. 26.00 lakhs) and on 3rd January 1979 (Rs. 23.35 lakhs) which the Company paid commitment charges of Rs. 0.09 lakh to the IDBI, it did not recover the commitment charges amounting to Rs. 0.29 lakh due from the loanees.

In 2 other cases, the Company paid commitment charges amounting to Rs. 0.08 lakh up to 30th June 1979 to IDBI for refinance of Rs. 17.40 lakhs sanctioned in June/July 1978 which remained undrawn as the loans (Rs. 20.39 lakhs sanctioned by the Company in February/April 1978) against which refinance was sanctioned remained undisbursed till 30th June 1979. The Company had not taken action to recover the commitment charges amounting to Rs. 0.15 lakh from these parties (September 1980).

2.06.4 *Recovery*

2.06.4.1 *Outstanding loans*

As on 31st March 1979, loans amounting to Rs. 2,044.79 lakhs were outstanding. This included overdue recoveries of Rs. 535.95 lakhs (principal : Rs. 234.67 lakhs and interest : Rs. 301.28 lakhs) which represented 26.2 *per cent* of the total loans outstanding.

2.06.4.2 *Recovery performance*

(a) The details of amounts that fell due and the amounts recovered during the four years up to 1978-79 are on pages 16-17 :—

	1975-76	
	Principal	Interest
(a) Amounts in arrears at beginning of the year	177.11	150.91
(b) Amounts that fell due	188.23	176.87
(c) Total amounts recoverable ..	365.34	327.78
(d) Amounts recovered	94.25	126.67
(e) Amounts in arrears at the end of the year	271.09	201.11
Percentage of amounts in arrears to total amounts recoverable.	74.2	61.4
Categorywise break-up of amount in arrears.		
(i) General scheme	174.31 (69.0)	103.40 (50.0)
(ii) Technicians scheme ..	96.78 (86.1)	97.71 (80.7)

Note : **Figures in brackets indicate percentage of amount in arrears to**

1976-77		1977-78		1978-79	
Principal	Interest	Principal	Interest	Principal	Interest
(Rupees in lakhs)					
271.09	201.11	343.03	267.68	329.46	270.25
197.60	189.98	172.05	187.44	171.20	199.53
468.69	391.09	515.08	455.12	500.66	469.78
125.66	123.41	185.62	184.87	265.99	168.50
343.03	267.68	329.46	270.25	234.67	301.28
(*per cent*)					
73.2	68.4	64.0	59.4	46.9	64.1
(Rupees in lakhs)					
188.95 (63.7)	121.17 (54.8)	202.02 (65.2)	131.56 (52.8)	147.40 (45.0)	146.18 (53.5)
154.08 (89.6)	146.51 (86.3)	127.44 (62.1)	138.69 (67.4)	87.27 (50.4)	155.10 (78.9)

total amount recoverable.

While the percentage of arrears in the recovery of the principal dropped from 64.0 in 1977-78 to 46.9 in 1978-79 (due to rescheduling of instalments during the year), the percentage of arrears in the recovery of interest increased from 59.4 in 1977-78 to 64.1 in 1978-79.

(*b*) The agewise analysis of arrears of principal and interest as on 31st March 1979 was as under :—

	Principal	Interest	Total	*Per cent*
	(Rupees in lakhs)			
Outstanding for one year and less	14.37	26.48	40.85	7.62
More than one year and upto two years	67.54	69.50	137.04	25.57
More than two years and upto three years	7.15	51.50	58.65	10.94
Over three years.. ..	145.61	153.80	299.41	55.87
Total ..	234.67	301.28	535.95	

It will be seen that Rs. 358.06 lakhs (76.81 *per cent*) out of the total outstandings (535.95 lakhs) were over 2 years old.

(*c*) In this connection the following points were noticed in audit :—

(*i*) From 1972-73 onwards the Company had adopted a policy of not taking credit for interest due in respect of suit-filed and other doubtful cases of loanees. The amount of interest not accounted for in the books up to 31st March 1979 worked out to Rs. 175.54 lakhs (177 cases). If this amount were taken into account the percentage of arrears would be still higher.

(*ii*) With a view to inducing the loanees under the Technicians scheme to pay the instalments and interest regularly and to clear the arrears, the Company introduced, from 1st April 1978, a scheme of granting subsidy by way of reduction of $\frac{1}{2}$ *per cent* in the rates of interest in cases where instalments and interest were paid regularly and waiving penal interest in cases the loanees cleared the arrears. During 1978-79, the Company paid Rs. 5.48 lakhs by way of subsidy in interest and waived penal interest of Rs. 15.71 lakhs.

(*iii*) 70 units, from which the Company's dues amounting to Rs. 59.34 lakhs (principal : Rs. 23.82 lakhs and interest : Rs. 35.52 lakhs) were recoverable had ceased functioning (31st March 1979).

(d) *Court cases*

Up to 31st March 1979, the Company had filed suits against 177 loanees for recovery of the dues amounting to Rs. 344.62 lakhs which included Rs. 95.69 lakhs (71 cases) written off as bad debts.

84 cases involving Rs. 125.01 lakhs had been decided upto 31st March 1979 in favour of the Company. The Company had executed final decrees in 11 cases and recovered Rs. 3.85 lakhs out of total dues of Rs. 7.81 lakhs; 38 cases involving Rs. 47.38 lakhs were pending in the courts for obtaining decrees for recovery; in 35 cases involving Rs. 69.82 lakhs where decrees had been received, further action to effect recoveries by attaching loanees' properties, *etc.* could not be taken because the loanees were not traceable or had disposed of the assets or had no other property.

2.06.5 *Security against loans*

All loans granted by the Company are required to be secured by a mortgage and hypothecation of immovable and movable assets of the loanee. In 29 cases (prior to 1975) involving Rs. 21.22 lakhs deeds of mortgage and/or hypothecation had not been executed. As a result, the Company did not have any security and had to write off dues (Rs. 9.02 lakhs) in 5 cases.

(*a*) The Company had disbursed (February 1970) a loan of Rs. 2.00 lakhs to a firm which was to be secured by a *pari passu* charge over the firm's assets in favour of the Company together with a bank. As the bank which had a prior charge over the assets, refused to release a *pari passu* charge in favour of the Company, the deed of hypothecation could not be executed. The firm did not pay the principal and the interest thereon. The Company had written off Rs. 3.95 lakhs (including interest of Rs. 1.95 lakhs) in March 1976.

(*b*) A loan of Rs. 0.73 lakh was disbursed (April/November 1973) to an unit of Baroda for the manufacture of padlocks, cycle locks, *etc*. However, legal documents creating an equitable mortgage, *etc*., were not executed. The Chief Recovery Officer of the Company reported to the Managing Director (February 1975) that the unit was in arrears to the extent of Rs. 0.41 lakh and the factory was also found to be closed for about 2 years. Despite this, the Company disbursed (June/September 1976) an additional loan of Rs. 0.10 lakh without obtaining any security from the loanee, or the execution of legal documents for the earlier loan of Rs. 0.73 lakh. As the loanee defaulted in paying interest and instalments, the Company had written off (March 1979) the outstanding dues of Rs. 1.19 lakhs (including interest and insurance charges of Rs. 0.36 lakh). The Company had not taken any legal action against the loanee (December 1980).

2.06.6 *Assistance to industrial concerns*

(*a*) In March 1970, the Company sanctioned a loan of Rs. 12 lakhs and decided to subscribe Rs. 7 lakhs to the 9.5 *per cent* redeemable cumulative preference shares of a textile mill for the modernisation and expansion of the mill. According to the original sanction of the Board of Directors, the loan was to be secured by a *pari passu* charge alongwith a nationalised bank and the State Government on the assets of the mill. However, in view of the delays involved in completing formalities of creating a *pari passu* charge and as the mill was in urgent need of money, the Company accepted the third charge, after prior charge of the bank and the State Government. A sum of Rs. 9.50 lakhs, out of the sanctioned loan of Rs. 12 lakhs, was disbursed upto 12th May 1971 over and above Rs. 7 lakhs subscribed in the preference shares (December 1970). Before the first instalment of Rs. 0.75 lakh fell due for repayment on 15th January 1972, the textile mill was treated as a relief undertaking (1st October 1971) by a notification of the State Government and all the rights, privileges, obligations or liabilities accrued/incurred before 1st October 1971 were stayed and remedies for enforcement thereof were suspended.

The mill was subsequently taken over by the National Textile Corporation Limited with effect from 1st April 1974 under Sick Textile Undertakings (Nationalisation) Act, 1974. The mill had neither paid any dividend on the preference shares nor the interest on the loan. The Company had, written off (July 1975/March 1977) the entire outstanding balance of Rs. 22.00 lakhs (including interest : Rs. 5.50 lakhs). Before sanctioning financial assistance, the Company had not examined the adequacy of a third charge over the assets of the sick mill with heavy accumulated losses (Rs. 74.45 lakhs as on March 1970). The Management stated (December 1978) that the Company had already filed a suit (November 1977) against the mill for the recovery of outstanding dues. The suit was pending (December 1980).

(*b*) The Company disbursed a loan of Rs. 8 lakhs to a textile mill in February/March 1970 against a third charge over the assets of the loanee, subject to prior *pari passu* charges of National Industrial Development Corporation Limited and a nationalised bank. In addition, the Company had obtained joint and several personal guarantees of two directors of the mill. As getting consent from other financial institutions for a *pari passu* charge was likely to take considerable time and as the mill was in urgent need of funds, the Company had accepted a third charge.

In April 1970, the Company sanctioned an additional ways and means advance of Rs. 2 lakhs on the security of shares of Rs. 2 lakhs to be issued by another mill. The loanee had also agreed to repay Rs. 4,000 per working day out of its daily sale proceeds from 1st May 1970. In May 1970, however, there was a fire in the mill, as a result of which the mill was closed down. The loanee had not paid any instalment of loan or interest.

The mill did not commence repayment of the ways and means advance until September 1971 nor did it hand over the shares as per the conditions for the grant of the advance. The Company did not pursue the matter during this period.

From October 1971, the mill was notified by the State Government as a relief undertaking according to which all rights, privileges, liabilities accrued or incurred before 1st October 1971 were stayed and remedies thereon were suspended. The Gujarat State Textile Corporation Limited (GSTC) was appointed as the authorised controller for running the mill, which was ultimately nationalised with effect from 1st April 1974.

As the Company had not received the promised shares of Rs. 2 lakhs (from another mill) before the mill was declared as a relief undertaking, the shares when allotted and issued in July 1973 were received by GSTC and it refused to transfer these shares to the Company.

After its nationalisation, a schedule of priority of creditors was fixed by the Government of India and the Company was placed in category 4 as the Company was holding only a third charge over the assets of the mill. As the Company was not likely to get anything the entire dues of Rs. 17.47 lakhs including interest (Rs. 7.26 lakhs) and legal charges (Rs. 0.21 lakh) outstanding against the mill were written off in March 1977.

The Company had also filed a civil suit against the loanee in March 1977 for the recovery of dues of Rs. 22.13 lakhs (including further interest of Rs. 4.66 lakhs after March 1977). The civil suit was pending (April 1980). No action had, however, been taken to enforce the personal guarantees of the two erstwhile directors of the mill.

(*c*) In January 1969, the Company agreed to give financial assistance of Rs. 5 lakhs to a textile mill by subscribing to 10 *per cent* redeemable cumulative preference shares of the mill to be issued at a discount of 2.5 *per cent*. As the issue of shares was expected to take some time, the Company paid Rs. 5 lakhs in January 1969 as an interim advance carrying 9.5 *per cent* interest to be adjusted against the value of the shares to be issued within a period of five months, *viz.*, up to 30th June 1969, failing which, the mill was to refund the interim advance with interest to the Company. The advance was secured by a promissory note, creating hypothecation and charge on the assets of the mill, and joint and several personal guarantees by four directors of the mill. The deed of hypothecation and charge was, however, not registered with the Registrar of Companies. The Company was informed on 22nd September 1970 that the Board of Directors of the mill had allotted the shares to the Company on 26th August 1970. The allotment letter thereof as issued by the mill was received by the Company on 24th September 1970.

As the mill had failed to obtain the consent of the shareholders and approval of the Court for the issue of shares at a discount, the allotment was void and illegal. The Company, pointed this out to the mill reiterating its stand that the Company was not a shareholder but continued to be a creditor of the mill. On a petition of August 1971 by an unsecured creditor, the Gujarat High Court ordered the winding up of the mill from 1st July 1972. The Company, however, did not move the Court prior to the winding up order for rectification of the register of share holders of the mill ; thus when the Company lodged (October 1974) a claim for recovery of the loan of Rs. 6.36 lakhs including interest and other charges (Rs. 1.36 lakhs) up to March 1972, the Official Liquidator contended (September 1976) that the Company was a preference share holder as per the register of the mill and not a creditor.

The Company requested the Official Liquidator on 3rd February 1977 to treat it as an unsecured creditor which was not agreed to. The assets of the mill were sold for Rs. 43.25 lakhs, whereas the claims of secured creditors amounted to Rs. 26.98 lakhs, the balance left over was not sufficient to meet the claims of the unsecured creditors.

The entire balance of Rs. 6.36 lakhs including interest and other charges (Rs. 1.36 lakhs) up to March 1972 was written off by the Company in March 1977.

The Company, however, filed (May 1979) a civil suit against the guarantors for the recovery of the Company's dues amounting to Rs. 18.26 lakhs including interest (Rs. 13.26 lakhs) up to 30th December 1978. The outcome of the suit was awaited (December 1980).

(*d*) In November 1977, financial assistance to the extent of 80 *per cent* of the cost of preparation of a feasibility report for the proposed meat project in Kandla Free Trade Zone at Gandhidham (Kutch district) or Rs. 1 lakh, whichever was less, was sanctioned to an entrepreneur of Delhi. The terms and conditions, *inter alia,* included the following :

(*i*) If as a result of the feasibility study, the project was not found to be viable and/or feasible the financial assistance would not be recoverable, but the report would become the property of the Company.

(*ii*) In the event of the project being implemented, the financial assistance would be treated as a part of the term loan to be sanctioned for the project by the Company. (There was no compulsion on the part of the entrepreneur to apply for the term loan).

The entrepreneur got a feasibility report prepared (April 1978) at a cost of Rs. 1.40 lakhs and the Company paid Rs. 1 lakh as financial assistance.

According to the report, the project was found to be techno-economically viable, but the State Government did not recommend (November 1978) the meat project proposed to be located in Kandla Free Trade Zone. The entrepreneur, thereupon, asked the Company (December 1978) not to recover Rs. 1 lakh given to him for the preparation of the feasibility report. The Board of Directors of the Company agreed and accorded (January 1979) approval to write off the amount.

2.06.7 *Interest free sales tax loan*

With a view to encourage the setting up of new industries or substantial expansion of existing industries in the State, a new scheme was introduced by the State Government in January 1972, whereby existing industries desiring to establish new industrial units as well as new industries established in the State were given interest-free sales tax loans. The salient features of the scheme were as under :—

(*i*) The loan was available to such units which had paid sales tax any where in India of amounts not less than Rs. 2 lakhs per annum during the preceding 3 years, or against the sales tax that would be paid out of new production/expansion over a period of 5 years after going into production.

(*ii*) The minimum capital outlay on such units should be Rs. 7.5 lakhs.

(*iii*) The loan was to be limited to 20 per cent of the capital outlay on the new unit/expansion and was repayable in 10 equal annual instalments commencing from the sixth year after the grant of loan.

(*iv*) The scheme was to be effective for 3 years from January 1972 to December 1974 *i. e.* investment made during this period was eligible for loan.

The Company was to be subsidised by Government (i) to the extent of loss on account of interest, limited to the interest paid on their borrowings *plus* 0.5 *per cent* ; and (ii) the loss, if any, arising from the default in repayment of the dues. Subsequently, Government instead of reimbursing the loss of interest, decided (1974-75) to give interest-free loans to the Company for financing the scheme. Up to 31st March 1979, the Company had received Rs. 156.72 lakhs as interest-free loans from the State Government against which the Company had sanctioned loans amounting to Rs. 162.14 lakhs to 14 units and had disbursed Rs. 113.43 lakhs to 10 units. All the loans were given to the existing units for expansion. The scheme had not made any impact on the setting up of new industries.

In 3 cases where the loans disbursed exceeded the amount admissible under the scheme are given below :—

(*a*) The Company (together with GSFC) sanctioned an interest-free sales tax loan of Rs. 7.10 lakhs in September 1972 to one unit. On the basis of the capital expenditure of Rs. 29.74 lakhs incurred by the unit during the period from 1st January 1972 to 20th October 1975, Rs. 5.95 lakhs were disbursed—Rs. 2.40 lakhs by the Company (November 1974 to July 1976) and Rs. 3.55 lakhs by GSFC. According to the criteria for eligibility, the unit was entitled to a loan of Rs. 4.36 lakhs on the capital expenditure of Rs. 21.80 lakhs incurred up to 31st December 1974. No action was taken to review the case and convert the excess loan of Rs. 1.59 lakhs into an interest-bearing loan.

(*b*) A firm was sanctioned (July 1972) an interest-free sales tax loan of Rs. 20.58 lakhs, to be shared equally between the Company and GSFC. On the basis of the certificate of chartered accountants produced by the firm (February 1974), of the total capital expenditure of Rs. 141.85 lakhs incurred (during January 1972 to December 1973) GSFC paid by conversion of its loan, its share of Rs. 10.29 lakhs on 31st December 1973. The Company, however, paid (October 1974) its share of Rs. 10.29 lakhs by converting a portion of its interest-bearing term loan into interest-free loan with retrospective effect from 29th January 1973 and refunded the interest of Rs. 1.52 lakhs for the period from February 1973 to June 1974 charged to the firm. As the firm had incurred a capital expenditure of

Rs. 24.54 lakhs up to 31st March 1973 it was entitled to interest-free sales tax loan of Rs. 4.91 lakhs from 31st March 1973 and the balance of interest-free loan of Rs. 5.38 lakhs should have been given from 31st December 1973 as was done by GSFC. Refund of interest for the period from February to December 1973 in respect of loan not admissible (Rs. 5.38 lakhs) works out to Rs. 0.51 lakh. The Managament stated (April 1980) that necessary information had been called for from the unit. Further progress was awaited (July 1980).

(c) A firm was disbursed Rs. 5.41 lakhs (March 1974, January/March 1977) as interest-free sales tax loan on the basis of the investment of Rs. 27.50 lakhs made during the period up to October 1976 instead of restricting the amount of the loan on the investments made during January 1972 to December 1974. The amount of investment made by the firm up to December 1974 was not available with the Company. The Company has yet (December 1980) to take action to convert the excess loan (amount not ascertained) into interest-bearing loan.

2.07 Investment in shares

(*i*) Up to 31st March 1979, the Company had invested Rs. 165.98 lakhs in the shares of 39 companies (including Rs. 79.62 lakhs subscribed in the shares of 17 companies as a result of underwriting obligations) as per details given below :—

	Shares					
	Quoted		Unquoted		Total	
	Number	Rupees in lakhs	Number	Rupees in lakhs	Number	Rupees in lakhs
Preference shares ..	8	31.79	22	69.58	30	101.37
Equity shares ..	7	43.17	9	21.44	16	64.61
..	15*	74.96	31*	91.02	46*	165.98

*In seven companies the Company had invested in both equity and preference shares.

In respect of quoted shares, market quotations for equity shares of three Companies only were available, which showed the market value at Rs. 5.13 lakhs (March 1979) as against the book value at Rs. 6.71 lakhs. Market quotations were not available in respect of quoted equity shares worth Rs. 36.46 lakhs and preference shares of Rs. 31.79 lakhs. The Company had not evaluated these shares or the unquoted shares with reference to the financial position of the Companies.

(*ii*) The Company received dividends on these investments as follows :—

Year	Total units where investment made		Units declaring dividend		Amount of dividend	Percentage of return
	Number	Amount invested	Number	Amount invested		
				(Rupees in lakhs)		
1975-76 ..	32	125.51	9	34.10	2.79	2.2
1976-77 ..	34	142.92	8	25.60	3.15	2.2
1977-78 ..	36	149.78	9	30.56	2.59	1.7
1978-79 ..	39	165.98	7	19.18	1.79	1.1

The return on capital invested (Rs. 165.98 lakhs) during 1978-79 amounted to 1.1 *per cent*. 26 companies (investment: Rs. 106.81 lakhs up to 31st March 1978) had not declared any dividend up to 31st March 1979. The arrears of accumulated dividend on preference shares in 20 Companies (investment : Rs. 63.60 lakhs) worked out to Rs. 34.41 lakhs up to 31st March 1979. One Company (investment : Rs. 1.00 lakh) had stopped working since 1977.

(*iii*) Preference shares in 4 Companies (investment : Rs. 4.40 lakhs) should have been redeemed before 31st October 1979 ; none of these companies had redeemed the shares up to March 1980. Arrears of dividend on these preference shares had accumulated to Rs. 3.68 lakhs up to November 1979.

(*iv*) *Purchase of shares*

The Company purchased (April 1970) at par 10 *per cent* redeemable cumulative preference shares of the nominal value of Rs. 1.40 lakhs of one private company from an existing shareholder, *viz.* New India Insurance Company Limited.

As per balance sheet of the assisted Company as at 31st March 1969, the accumulated loss amounted to Rs. 2.12 lakhs as against the paid-up capital of Rs. 5.80 lakhs, but the shares were purchased at par.

The Company has not received any dividend so far (November 1979), the arrears of accumulated dividend amounted to Rs. 1.26 lakhs up to 31st March 1979. The shares had also become due for redemption on 12th October 1979, but the same had not been redeemed (March 1980).

2.08 Promotion of industrial projects

2.08.1 *General*

Besides giving financial assistance to the industries set up by private entrepreneurs, the Company also undertook to execute some industrial projects on its own. The Company had obtained 17 letters of intent from the Government of India up to March 1979 for different industrial projects. All these projects were to be implemented in the joint sector with financial and other collaboration with existing private sector units and with public participation in the share capital ; the Company limiting its contribution to 25—49 *per cent*. Out of 17 projects, 5 projects for which letters of intent were received during July 1976 to June 1977 and on which the Company had incurred an expenditure of Rs. 29.39 lakhs up to March 1979 were still at preliminary stages. The Company had written off (June 1978) Rs. 3.58 lakhs being the expenditure incurred on 2 abandoned projects.

In respect of the remaining 10 projects, the Company had formed 10 new companies for their implementation (Appendix 'B'). The investment of the Company in these units up to 31st March 1979 was Rs. 1,154.62 lakhs (share capital : Rs. 723.82 lakhs and loans : Rs. 430.80 lakhs).

Five companies with Company's investment at Rs. 1,042.73 lakhs shares : Rs. 713.82 lakhs, loans : Rs. 328.91 lakhs) had commenced mmercial production during the period from November 1976 to ebruary 1980. The Company had, however, not received any dividend om these investments.

The remaining 5 companies in which the Company had invested s. 111.89 lakhs (shares : Rs. 10.00 lakhs and loans : Rs. 101.89 lakhs) ad not been able to implement the projects.

Unsecured loans of Rs. 96.20 lakhs (including Rs. 13.38 lakhs on eliminary expenses before the setting up of new companies) to 4 companies not carry any interest, while the Company had to pay interest of s. 5.77 lakhs per annum on the loans from Government.

2.08.2 *Polymers Corporation of Gujarat Limited*

The Company promoted (March 1973) Polymers Corporation of Gujarat imited (PCGL) for implementing the project for manufacture of methyl ethacrylate monomer and poly methyl methacrylate (pellets and sheets). lthough it was proposed to have the new Company in joint sector with articipation from public, the Company limiting its equity share holding to) *per cent,* the Company had to subscribe to the shares of PCGL to the xtent of Rs. 280 lakhs (56 *per cent*) due to poor response from the public. he paid-up capital as on 31st March 1979 was Rs. 532.26 lakhs (Equity : s. 498.68 lakhs and Preference shares : Rs. 33.58 lakhs) and PCGL ontinued to be a subsidiary of the Company.

(*a*) *Delay in commissioning of the project*

The project had been implemented with foreign technical know-how and e process licence from a firm of Japan, for which fees of 408.15 million en (Rs. 123.20 lakhs) had been paid.

The trial runs commenced in July 1979 (as against the target of July 978) involving a delay of 1 year in the commissioning of the plant. The Management stated (April 1980) that this was mainly due to delay in ommissioning of the acrylonitrile plant of Indian Petrochemicals Corporation Limited (IPCL) which was to meet the raw material requirements of PCGL. As the commissioning of acrylonitrile plant of IPCL (scheduled to commence production in July 1978) got delayed and was expected to be commissioned by January 1979, placement of orders for some indigenous equipment and civil construction was deferred so as to synchronise commissioning of this plant with the commissioning of acrylonitrile plant of IPCL.

Against the estimated project cost of Rs. 12 crores (December 1974), revised to Rs. 14 crores (March 1976), the actual expenditure incurred up to 31st March 1979 was Rs. 15.12 crores; the final cost is expected to be about Rs. 16.00 crores. The increase in cost was attributed by the Management (August 1979) to spiralling prices, unfavourable fluctuations in exchange rate and increase in the interest, over-head expenses, *etc.*, consequent upon the delay in commissioning of the plant.

(*b*) *Avoidable expenditure on electricity*

(*i*) For meeting the requirement of electricity during construction period PCGL had obtained (March 1977) from Gujarat Electricity Board temporary power supply of 500 KVA. Actual power drawn was, however, below 100 KVA up to February 1978 and below 200 KVA thereafter up to October 1978. PCGL was billed demand charges at 75 *per cent* of 500 KVA as per the applicable tariff. Had the requirement of power been more precisely assessed in the beginning and the contract demand been reduced to 200 KVA in time, the Company would have saved Rs. 0.46 lakh up to October 1978.

(*ii*) As separate meters/sub-meters for measuring energy consumed for different purposes, *viz.*, industrial, factory lighting and heating, office highting, canteen, *etc.*, had not been provided, electricity duty for the entire consumption had been levied at the highest rate of 60 *per cent* of energy charges from April 1979. This resulted in an extra payment of electricity duty amounting to Rs. 1.38 lakhs during the four months from April to July 1979.

(*c*) *Payment of commitment charges and higher interest charges*

(*i*) PCGL had obtained sanctions for term loans amounting to Rs. 415 lakhs from four financial institutions during the period from 10th October

1976 to 8th July 1977. It had drawn Rs. 299 lakhs during the period from 10th March 1977 to 31st March 1979; the balance of Rs. 116 lakhs had not been drawn till 31st March 1979. The Management had attributed the non-drawal of loans to delay in the fulfilment of terms and conditions attached to the loans and completion of formalities. This resulted in the payment of commitment charges of Rs. 5.59 lakhs up to 31st March 1979.

Further, since the term loans could not be availed of, PCGL had to resort to bridge finance at higher rate of interest (2 to 3 *per cent* per annum) from the same financial institutions, to be set off against the term loans. On the bridge finance of Rs. 120 lakhs to Rs. 174 lakhs availed of from February 1977 to February 1979, additional interest paid amounted to Rs. 8.55 lakhs. The Management stated (April 1980) that the decision of equitable mortgage had not been accepted by the financial institutions till December 1978, and that drawal of money as and when required and paying commitment charges was advisable instead of drawing the full amount and paying interest and keeping the money idle with the Company.

(*ii*) *Overpayment of commitment charges*

General Insurance Corporation of India had sanctioned a term loan of Rs. 25 lakhs in January 1977. As per terms and conditions of the loan, commitment charges were payable at 1 *per cent* on the amount of loan remaining undrawn after 6 months of the date of sanction. However, commitment charges (Rs. 0.56 lakh) at 1 *per cent* on Rs. 25 lakhs had been paid from the date of sanction of the loan itself, *viz.*, January 1977 instead of from July 1977. This had resulted in an overpayment of commitment charges to the extent of Rs. 0.14 lakh.

(*d*) *Waiver of liquidated damages*

PCGL had placed orders on different firms for purchase of materials Rs. 220.73 lakhs. All the orders contained stipulated deliveries and in the event of delays the suppliers were liable to pay liquidated damages. A review by the Management (August 1978) of the position of supplies against these orders disclosed that only material valuing Rs. 29.90 lakhs was received in time and the remaining material was either received late or not received at all, and liquidated damages amounting to Rs. 4.40 lakhs had became leviable. The matter was considered (August 1978) by the Board of Directors and it was decided that the detailed justification (supplier-wise) for levy of liquidated damages be put up for consideration. No action wa however, taken in this regard. However, in March 1979, claims for liquidate damages of Rs. 2.29 lakhs raised on 58 firms were withdrawn for reason which were not on record.

(*e*) *Purchases made without inviting open tenders*

Steel material worth Rs. 39.35 lakhs was purchased during 1976-77 t 1978-79 from five firms, mainly on the basis of single quotations after verb inquiries. The procedure of making purchases after inviting tenders was n followed. The purchases included 22.22 tonnes of stainless steel plates fro one firm during November 1976 to April 1977 at rates varying fro Rs. 46,000 to Rs. 60,000 per tonne.

Further, a firm's bills for Rs. 0.88 lakh were paid twice, once c 10th August 1977 and again on 16th August 1977. After adjusting the du to be paid to the firm against part payments, a net balance of Rs. 0.20 lak was still recoverable from the firm (December 1980). On a reference f confirmation of the debit balance, the firm stated (June 1979) that i account with PCGL stood settled and no amount was due by it.

2.08.3 *Steel Corporation of Gujarat Limited*

(*a*) In August 1973, the Company obtained a letter of intent from th Government of India for setting up a mini steel plant of 50,000 tonnes p annum capacity for producing mild steel and high and low carbo steel billets.

For the implementation of the project, a wholly-owned subsidiary, Ste Corporation of Gujarat Limited (SCGL), was incorporated on 16t January 1975 with an authorised capital of Rs. 2 crores. The paid-up capit as on 31st March 1979 amounted to Rs. 70. In addition, funds aggregatin Rs. 24.35 lakhs were provided by the Company up to 31st March 1979 t meet project and other expenses from time to time. The Company ha placed orders and advanced Rs. 23.39 lakhs to certain firms for the suppl of equipment (Rs. 19.64 lakhs-March 1974) and three consultancy firm (Rs. 3.75 lakhs-August 1974) before the incorporation of SCGL.

In the wake of recessionary trends in the steel industry due to world wide inflation in 1973-74 the mini steel plants in the country started closing down. The Board of Directors of SCGL at its first meeting in February 1975 decided to go slow with the deliveries of equipment and machinery ordered. All the three consultants were informed (July 1975) to discontinue the design and other work until further instructions. During discussions with the State Government (February 1976) it transpired that the State Government was not in favour of implementing the project. The Board of Directors of SCGL then decided (March 1976) to terminate the agreements with the consultants (total fee : Rs. 18 lakhs) and to negotiate with the firms on whom orders for equipment had been placed (value : Rs. 84.64 lakhs) for the cancellation of the orders. On the basis of negotiations SCGL had to pay cancellation charges of Rs. 6.50 lakhs to the two equipment suppliers and Rs. 3.65 lakhs to the three consultants in full and final settlement of their claims and recovered (August 1977 to August 1979) the balance amounts of advances.

The land at Ukai on which an expenditure of Rs. 00.38 lakh had been incurred on survey and soil investigations was surrendered to Government.

(*b*) As the project could not be implemented, the letter of intent granted in August 1973 and extended up to August 1976 was finally treated as lapsed by the Government of India (August 1977). The Board of Directors of SCGL decided in June 1978 to abandon the project and to get the subsidiary Company struck off (as defunct) under the Companies Act, 1956. Later in December 1978, however, the Board of Directors changed the earlier decision and decided to keep the subsidiary company in a state of suspended animation. An expenditure of Rs. 24.21 lakhs had been incurred towards the project report and other expenses (March 1979).

2.08.4 *Cement Corporation of Gujarat Limited*

A subsidiary company, Cement Corporation of Gujarat Limited (CCGL) was incorporated on 29th March 1973 with an authorised capital of Rs. 3 crores for setting up a cement manufacturing plant with a capacity of 600 tonnes per day subsequently increased to 1500 tonnes per day

(February 1975). As on 31st March 1979, CCGL had a paid-up capital of Rs. 2.50 lakhs fully subscribed by the Company ; in addition, the Company had advanced an unsecured loan of Rs. 0.74 lakh.

The consultancy firm appointed to prepare a feasibility report (fee : Rs. 0.88 lakh) had recommended (January 1973) a split location plant. The clinker unit was recommended for location at Jafrabad due to availability of rich limestone deposits in surrounding area and other facilities of labour, water and power. In order to overcome the transport bottlenecks for the out-flow of the finished product at Jafrabad, the grinding unit was recommended to be located at a suitable place on South Gujarat coast for clinker to be transported by the sea route.

Government of India had assured (June 1975) reimbursement of sea freight incurred in transporting clinkers from clinker plant to the grinding unit and fixing the ex-works retention price of cement at such a level as to yield a 12 *per cent* return on the capital cost calculated at Rs. 650 per tonne of the installed capacity. The project was estimated to cost Rs. 30 crores, which was considered to be very high and not viable by CCGL. Besides on account of the problems involved in creating additional infrastructure facilities of a jetty (and other port facilities) at the two locations, the project on which an expenditure of Rs. 2.82 lakhs had been incurred, had made no headway (March 1979). The letter of intent which expired on 31st December 1976 was treated as lapsed (June 1978) by the Government of India. Thereafter the Board of Directors of CCGL decided to abandon the project (June 1978).

However, later in December 1978, keeping in view the likely increase in demand for cement for the Narmada River Project, the Board of Directors of CCGL decided to review the feasibility of the project. A cement manufacturing firm was appointed (March 1979) at a fee of Rs. 1.10 lakhs to conduct a detailed geological survey (Saurashtra region) to assess the quality, quantity and availability of lime stone deposits and techno-economic feasibility of setting up a cement plant of one million tonnes per annum capacity at Veraval. An advance of Rs. 27,500 was paid to the firm in March 1979. CCGL had also applied to the State Government for a prospecting mining lease, and to the Government of India for a letter of intent for the said project.

Meanwhile, it was noticed that a private industrial house had set up a new Company to instal a cement plant with split locations at Jafarabad and Magadalla with a capacity of 3,000 tonnes per day. The State Government, up to March 1979, had invested Rs. 120 lakhs in the share capital of this Company.

2.08.5 *Gujarat Tyres Limited*

In December 1970, the Company obtained a letter of intent from the Government of India for the manufacture of 4,00,000 automobile tyres and tubes each per annum.

The Company floated on 29th March 1973 Gujarat Tyres Limited (GTL), a fully owned subsidiary company, with an authorised capital of Rs. 3 crores. Besides subscribing Rs. 5.00 lakhs to the share capital, a sum of Rs. 64.84 lakhs was advanced as unsecured loans up to 31st March 1979 to enable the company to meet pre-operation and project expenses.

In order to implement the project expeditiously, GTL finalised and executed a technical collaboration agreement with a firm of U. S. A. in September 1973 for technical know-how at a fee of U. S. $ 2,00,000 (Rs. 15.66 lakhs) and basic engineering information at a fee of U. S. $ 2,50,000 (Rs. 19.57 lakhs). The agreement as approved by the Government of India came into effect from 1st June 1974 for a period of eight years from the effective date of agreement or five years from the date of production, whichever was earlier.

The collaborators has already been paid U. S. $ 4,00,000 (Rs. 33.56 lakhs including bank service charges Rs. 0.75 lakh) during June 1974 to July 1975 against despatch of technical know-how and basic engineering documents leaving a balance of U. S. $ 50,000 (Rs. 3.91 lakhs).

The project cost, originally estimated (May 1974) at Rs. 27.75 crores was revised to Rs. 34.80 crores (June 1977). As the major source of financing the project depended upon term loans, GTL had, in May 1974 applied to 5 major financial institutions for financial assistance up to Rs. 24.36 crores. Revised applications (after up-dating the information) were submitted to the financial institutions in June 1977, and these were still under their consideration (December 1980), pending a policy decision of IDBI and the Government of India on the scope for additional capacity for production of automobile tyres and tubes.

In the meanwhile, no decision could be taken on the tenders invited in June 1975 with the approval of the Government of India (May 1975) for the import of capital equipment (Rs. 7.17 crores). The validity of the industrial licence (July 1975) expired in July 1978. Land admeasuring 27.96 hectares acquired by GTL at a cost of Rs. 11.18 lakhs was lying unused since March 1976. The expenditure on land and pre-operation and project expenses amounted to Rs. 69.16 lakhs (including foreign collaboration charges of Rs. 33.56 lakhs) up to 31st March 1979.

2.08.6 *Gujarat Nylons Limited*

In December 1971, the Company obtained a letter of intent from the Government of India for setting up a plant to manufacture nylon-6 filament yarn with an annual capacity of 2,100 tonnes. For implementing the project, Gujarat Nylons Limited (GNL) a wholly-owned subsidiary was formed on 26th March 1973 with an authorised capital of Rs. 1 crore. Besides subscribing Rs. 2.50 lakhs to the share capital, the Company had advanced Rs. 6.27 lakhs as unsecured loans upto 31st March 1979 to enable the Company to meet pre-operation and project expenses.

Due to non-availability of caprolactum and as the prospect involved an outgo of foreign exchange to a foreign firm selected by the Company for technical collaboration (on basic engineering), the Government of India did not approve (May 1975) foreign collaboration proposed by the Company. Thus an expenditure of Rs. 0.75 lakh incurred (on the evalution of collaboration proposal and a foreign tour) was rendered infructuous.

GNL then considered (July 1975) an offer of technical know-how from an Indian firm which was found to be attractive in terms of outgo of foreign exchange. Before finalising the collaboration, GNL requested the Government of India and the Planning Commission (October 1976) for clearance of a project with an increased capacity of 4,200 tonnes per annum. The approval of the project was still under consideration pending a decision on the findings of the working group on petrochemicals (December 1980).

Pre-operation and project expenses amounting to Rs. 8.52 lakhs had been incurred up to 31st March 1979. This included an expenditure of Rs. 5.31 lakhs incurred during the years 1975-76 to 1978-79, (including Rs. 0.35 lakh incurred on a foreign tour of the Project Manager (1978-79), even after the Government of India had treated (March 1975) GNL's application as closed.

2.08.7 *Fuel injection equipment project*

The Company intended to undertake the manufacture of fuel injection equipment/test benches for which letters of intent were received in July 1970/January 1971. The project could not be implemented because no foreign collaboration was forthcoming and the letter of intent was cancelled by the Government of India in May 1974.

The Company abandoned the project, and the expenditure of Rs. 0.77 lakh incurred on the project excluding Rs. 0.36 lakh incurred on four foreign tours (May 1971-June 1973) and Rs. 0.30 lakh on consultancy fees paid for the preparation of pre-feasibility reports were written off (June 1978).

2.08.8 *Sponge Iron project*

In November 1973, the Company obtained a letter of intent for establishing a sponge iron project with a capacity of 1,80,000 tonnes per year. The project envisaged the basic raw material of iron ore pellets to be brought from Hospet of Goa to Gujarat to be reduced to sponge iron with the use of natural gas available in Gujarat.

The project did not make any headway due to the following reasons :

(*i*) The cost of the project had increased from Rs. 15 crores to Rs. 25 crores.

(*ii*) Availability of iron ore pellets and natural gas in required quantities was not certain.

(*iii*) The crisis faced by arc furnace operated mini steel plant had affected the demand for sponge iron, which was a substitute for steel scrap for use in arc furnaces.

The Company abandoned the project in September 1977 and had written off (June 1978) the expenditure of Rs. 2.81 lakhs (including Rs. 0.75 lakh paid to the consultants and Rs. 0.38 lakh on foreign tour) incurred up to 31st March 1978.

The Company had appointed (March 1974) a firm of consultants to prepare a feasibility report in two parts :

(*i*) Part I—covering availability and quality of iron ore, selection of location, preliminary examination of process, and cost estimates, *etc.*, at a fee of Rs. 0.20 lakh ; and

(*ii*) covering selection of raw materials, laboratory tests on samples, process evaluation, plant layout, utility and auxiliary service facilities, capital and production cost estimates, construction schedule, *etc.*, at a fee of Rs. 1.30 lakhs.

An advance of Rs. 0.75 lakh was paid to the firm in March 1974, as 50 *per cent* of the fees for both the reports. The consultants submitted Part I of the report (July 1974), but had not submitted Part II of the report, resulting in an excess payment of Rs. 0.55 lakh which had not been recovered from the firm (March 1980). The Management stated (April 1980) that keeping in view the latest developments the Company had decided to implement the project and a revised application had been made to Government of India for a letter of intent for setting up capacity of 4,00,000 tonnes per annum and, in the meantime, the same consultants were being requested to prepare a revised report and hence had not been requested to refund the amount advanced to them.

2.09 Summing up

(*i*) The Company set-up on 12th August 1968 has been providing financial assistance by way of investment in shares, long-term loans, deferred payment guarantees, promoting industrial projects and implementing Government-sponsored schemes.

(*ii*) The Company had a paid-up capital of Rs. 5 crores and borrowings of Rs. 35.74 crores (March 1979).

(*iii*) While the Company had surplus funds (Rs. 2.0 to Rs. 5.4 crores) a sum of Rs. 1.10 crores raised against bonds (August 1978) carrying interest at 6.5 *per cent* per annum had been kept in short-term deposits carrying interert at 2.5—3.0 *per cent* resulting in a loss of interest of over Rs. 4.17 lakhs (up to September 1979). In addition the Company obtained a project loan of Rs. 3.00 crores (1978-79) from the State Government (with interest at 6 *per cent*) resulting in an avoidable loss on account of interest of Rs. 4.50 lakhs (up to March 1979).

(*iv*) The Company had up to 31st March 1979 sanctioned loans for Rs. 51.17 crores (1,604 cases) against which cumulative disbursements amounted to Rs. 27.23 crores (1,345 cases), *i. e.*, 53.2 *per cent*. This was attributed, *inter alia*, to delays in formalities and inability of the units to raise matching contributions.

(*v*) In the absence of a system for watching recoveries of commitment charges (for undrawn loans) a test check revealed 16 cases in which recoveries aggregating Rs. 5.58 lakhs had not been effected.

(*vi*) Loans outstanding of Rs. 20.45 crores (March 1979) included Rs. 5.36 crores (26.2 *per cent*) overdue for recovery. Of these, Rs. 2.99 crores (55.8 *per cent* were in arrears for over 3 years. A sum of Rs. 59.34 lakhs was recoverable from 70 units which had ceased functioning.

(*vii*) The Company had filed suits against 177 loanees (March 1979) for recovery of Rs. 3.45 crores including Rs. 95.69 lakhs (71 cases) written off as bad debts.

(*viii*) Out of 84 cases (Rs. 125.01 lakhs) decided in the Company's favour, in 11 cases (Rs. 7.81 lakhs) the Company had recovered Rs. 3.85 lakhs, in 35 cases (Rs. 69.82 lakhs) the loanees were either untraceable or had no assets; the remaining 38 cases (Rs. 47.38 lakhs) were pending in the courts.

(*ix*) In 29 cases (Rs. 21.22 lakhs) loans were given without the mortgage of the loanees' assets and the Company had to write off dues of Rs. 9.02 lakhs (5 cases).

(*x*) The Company had written off Rs. 39.47 lakhs (including interest) invested in two textile mills without adequate security; civil suits filed were pending.

(*xi*) The Company had advanced Rs. 5 lakhs to a textile unit (January 1969) for allotment of preference shares. The allotment of shares (August 1970) by the textile company was irregular; the company was later ordered by the court to be wound up (July 1972). The Company's claim for Rs. 6.36 lakhs (including interest) was not accepted by the official liquidator as the Company was listed as a preference share holder, and the amount was written off by the Company (March 1977). The outcome of a suit filed (May 1979) against the guarantors for Rs. 18.26 lakhs was awaited.

(*xii*) The Company wrote off (January 1979) Rs. 1 lakh advanced (November 1977) to an entrepreneur for the preparation of a feasibility report for setting up a meat project in Kandla Free Trade Zone which was not approved by the State Government.

(*xiii*) In 3 cases, the Company had, under the interest-free sales tax loan scheme disbursed amounts in excess of what was admissible under the scheme. The excess in 2 cases amounted to Rs. 6.97 lakhs.

(*xiv*) Against an investment of Rs. 165.98 lakhs in the shares of 39 companies (March 1979) no dividend had been received from 26 companies (investment : Rs. 106.81 lakhs up to March 1978), and the accumulated dividend on preference shares (Rs. 63.60 lakhs) in 20 companies worked out to Rs. 34.41 lakhs (March 1979).

(*xv*) Out of 17 letters of intent received from the Government of India (March 1979) for different industrial projects, the Company had abandoned 2 projects and written off Rs. 3.58 lakhs being the expenditure incurred on those projects ; 5 projects (expenditure : Rs. 29.39 lakhs) were in preliminary stages and 10 companies had been formed for the implementation of the remaining projects. Of these, 5 companies (Company's investment : Rs. 10.43 crores) had commenced production and the other 5 companies (Company's investment : Rs. 1.11 crores) had not been able to implement the projects.

(*xvi*) Unsecured loans of Rs. 96.20 lakhs to 4 companies did not carry any interest while the Company had to pay an interest of Rs. 5.77 lakhs per annum on the loans from Government.

(*xvii*) Delay in the drawal of loans (sanctioned by the financial institutions) by the Polymers Corporation of Gujarat Limited had resulted in the payment of Rs. 5.59 lakhs as commitment charges (March 1979). By having to avail of bridge loans (as against term loans) of Rs. 1.20 to 1.74 crores (February 1977—February 1979), the Company had to pay an additional amount of Rs. 8.55 lakhs by way of interest at higher rates.

(*xviii*) The Steel Corporation of Gujarat Limited established (1975) for setting up a mini steel plant (paid-up capital : Rs. 70) has been in a state of suspended animation. The letter of intent was treated as lapsed in August 1977. In the meantime, an expenditure of Rs. 24.21 lakhs (including Rs. 3.65 lakhs paid to the consultants and Rs. 6.50 lakhs paid for the cancellation of orders for plant and equipment) incurred by the Company had remained infructuous.

(*xix*) While the Cement Corporation of Gujarat Limited established (March 1973) for setting up a cement manufacturing plant could not implement the project and the letter of intent was treated as lapsed (June 1978), a private industrial house had, in the meantime, set up a cement plant in the State with an investment of Rs. 1.20 crores by the State Government.

(*xx*) Gujarat Tyres Limited established (March 1973) for manufacturing automobile tyres and tubes had incurred an expenditure of Rs. 69.16 lakhs (including foreign collaboration charges of Rs. 33.56 lakhs) up to 31st March 1979. The project (for which the industrial licence lapsed in July 1978) could not, however, be implemented due to non-availability of funds from the financial institutions.

(*xxi*) The Gujarat Nylons Limited established (March 1973) for manufacturing nylon-6 filament yarn had incurred an expenditure of Rs. 8.52 lakhs (March 1979). The foreign collaboration proposed by the Company was not approved by the Government of India (May 1975) and the alternate proposal made by the Company (October 1976) was awaiting approval.

SECTION III

GUJARAT AGRO-INDUSTRIES CORPORATION LIMITED

3.01 Introduction

Gujarat Agro Industries Corporation Limited was incorporated on 9th May 1969 as a joint venture with the Government of India to promote agricultural activities and agro-industries.

The working of the Company was last reviewed in Section II of the Audit Report (Commercial) for 1973-74 and was dealt with in the Eighth Report (August 1978) of the Committee on Public Undertakings (Fifth Gujarat Vidhan Sabha).

3.02 Objects

The main objects of the Company are to :—

(*a*) finance, protect and promote agricultural activities and industries based upon agriculture ;

(*b*) carry on business of manufacture and dealing in implements, machinery and tools which would help promotion and modernisation of agriculture ; and

(*c*) promote, establish, own and run industries for processing and preservation of agricultural produce, forest produce, *etc.*

3.03 Organisational set-up

The management of the Company is vested in a Board of Directors consisting of twelve directors including the Chairman and the Managing Director. One-third of the directors including the Chairman and the Managing Director are nominated by the Government. The Managing Director is the chief executive and has been delegated with full powers for the day to day management of the Company.

3.04 Capital structure

Against the initial authorised capital of Rs. 200.00 lakhs increased from time to time to Rs. 700.00 lakhs, the paid-up capital as on 31st March 1979 was Rs. 496.00 lakhs (including Rs. 98.12 lakhs for which shares were yet to be allotted), contributed equally by the State and Central Governments.

The Company had also obtained loans from the State Government and the balance outstanding on 31st March 1979 was Rs. 105.86 lakhs. This included interest-free loans aggregating Rs. 81.60 lakhs for the purchase of deep-sea fishing trawlers by its subsidiary, Gujarat Agro-Marine Products Limited.

3.05 Financial analysis

3.05.1 *Financial position*

The financial position of the Company for three years up to 1978-79 is summarised below :—

	1976-77	1977-78	1978-79
	(Rupees in lakhs)		
A. Liabilities :			
Paid-up capital	397.88	397.88	496.00
Reserves and surplus	28.14	45.35	66.05
Borrowings	105.19	83.65	105.86
Trade dues and other current liabilities.	127.46	106.13	271.54
Total ..	658.67	633.01	939.45

	1976-77	1977-78	1978-79
B. Assets :	(Rupees in lakhs)		
Gross block	199.80	211.36	217.43
Less : Depreciation	30.02	36.70	46.41
Net fixed assets	169.78	174.66	171.02
Capital works-in-progress ..	0.47	0.24	0.16
Investments	44.49	44.50	44.50
Current assets, loans and advances ..	443.53	413.38	723.72
Miscellaneous expenses ..	0.40	0.23	0.05
Total ..	658.67	633.01	939.45
Capital employed*	485.85	481.91	623.20
Net worth @	425.62	443.00	562.00

3.05.2 *Working results*

The working results of the Company for the three years up to 1978-79 were as follows :—

	1976-77	1977-78	1978-79
	(Rupees in lakhs)		
Income :			
Sales (including service charges and commission).	709.11	701.70	1,093.29
Other income	14.61	29.21	13.23
Increase (+) / decrease (—) in stock	(+) 4.12	(—) 53.62	(+)46.34
Total ..	727.84	677.29	1,152.86

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

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

Expenditure :	1976-77	1977-78	1978-79
		(Rupees in lakhs)	
Staff salaries and wages ..	42.61	45.65	56.52
Trading goods purchased ..	479.63	361.32	636.88
Raw materials, stores, packing, *etc.*, expenses	131.99	161.35	267.68
Aerial spraying expenses ..	12.43	24.20	53.72
Other expenses	38.40	49.58	75.91
Interest	11.49	7.03	3.99
Depreciation	9.18	10.35	9.95
Total ..	725.73	659.48	1,104.65
Profit before tax	2.11	17.81	48.21
Tax provision	..	..	12.13
Net profit after tax	2.11	17.81	36.08
Percentage of net profit after tax to :		(*Percent*)	
Sales	0.3	2.5	3.3
Capital employed	0.4	3.7	5.8
Net worth	0.5	4.0	6.4
Equity capital	0.5	4.5	7.3

The improved working results in the year 1977-78 and 1978-79 were due to :

(*i*) recovery of guarantee fees (Rs. 9.59 lakhs) and service charges (Rs. 4.11 lakhs) from the subsidiaries during 1977-78 ; and (*ii*) increase in turnover and income from formulation and marketing of insecticide products (in collaboration with Hindustan Insecticides Limited) during 1978-79.

For the fiirst time the Company paid a dividend (Rs. 15.92 lakhs) at 4 *per cent* of the paid-up capital for the year 1978-79.

3.05.3 *Sundry debtors*

The following table indicates the volume of book debts and the total turnover (sales, service charges, commission, *etc.*) for the three years up to 1978-79 :—

As on 31st March	Book debts			Turnover during the year	Percentage of	
	Considered good	Considered doubtful	Total		Total debts to turnover	Doubtful debts to total book debts
	(Rupees in lakhs)					
1977.. ..	22.25	0.66	22.91	709.11	3.2	2.9
1978.. ..	18.93	2.14	21.07	701.70	3.0	10.1
1979.. ..	23.73	2.37	26.10	1,093.29	2.4	9.1

The agewise analysis of book debts is given below :—

	From Government	From Others	Total
	(Rupees in lakhs)		
Debts outstanding up to 1 year.	3.01	15.19	18.20
More than one year and up to three years.	0.04	1.22	1.26
More than three years.	1.21	5.43	6.64
Total ..	4.26	21.84	26.10

3.06 Activities

The Company has taken up the following activities :—

(*a*) running a factory for the manufacture of cattle feed,

(*b*) manufacture of compost manure from city garbage,

(*c*) operation of a pesticides formulation plant,

(*d*) running of agro-service centres for providing farm input services to the farmers,

(*e*) manufacture of grain storage bins and installation of gobar gas plants, and

(*f*) aerial spraying of pesticides.

3.07 *Cattle feed factory*

3.07.1 The operational details of the factory for the four years up to 1978-79 are indicated below :—

	1975-76	1976-77	1977-78	1978-79
		(Tonnes)		
Available capacity* ..	22,800	22,800	22,800	22,800
Budgeted production ..	12,000	10,000	12,000	14,000
Actual production ..	8,064	10,054	12,218	11,911
Raw material used in production. ..	8,222	10,437	12,608	12,450
Loss in production ..	158	383	390	539
Percentage of		(*Per cent*)		
(a) Plant utilisation ..	35.4	44.1	53.6	52.2
(b) Process loss of raw material	1.9	3.6	3.1	4.3

* Available capacity has been worked out at the rate of 75 tonnes per day of 3 shifts for 304 days in the year.

The Management stated (November 1979) that the plant capacity was utilised to the extent of demand for the finished goods.

The process loss during the three years up to 1978-79 had exceeded the prescribed (March 1974) ceiling of 2 *per cent*. The Management stated (February 1980) that the process loss at 2 *per cent* was fixed considering the average quality of raw materials as per trade practice, but the percentage of impurities and foreign elements in foodgrains, particularly damaged foodgrains purchased from Food Corporation of India fluctuated and consequently increased the process loss.

3.07.2 *Selling arrangements* :

(*i*) For the sale of cattle feed, the Company had appointed, as far as possible, co-operative societies as its sole distributors in the Saurashtra region on commission basis. Besides commission, the Company also offers incentive bonus for exceeding the sales targets in specified periods, so as to increase the off-take.

The table below indicates the quantities of cattle feed manufactured and sold during the four years up to 1978-79.

	1975-76	1976-77	1977-78	1978-79
		(Tonnes)		
Opening stock	458	366	31	380
Quantity manufactured ..	8,064	10,054	12,218	11,911
Quantity sold	8,156	10,389	11,869	12,276
Closing stock	366	31	380	15*

(*ii*) *Sole Distributorship for Rajkot district*.—The Company appointed (October 1971) a firm of Rajkot as a distributing agent for the sale of cattle feed in Rajkot district. According to the agreement (valid for

* Includes 3 tonnes distributed as samples.

5 years from 1st October 1971), the agent was to deposit the sale proceeds within 45 days even though the firm was authorised to sell on credit to co-operative societies and to private parties (up to 100 tonnes).

The agent defaulted in making remittances of sale proceeds and had accumulated arrears of Rs. 3.50 lakhs up to 31st December 1973. The position of arrears was reviewed by the Company (January 1974) and the agent was directed to clear the dues by 31st March 1975 at monthly equated instalments of Rs. 26,333 including an interest element of Rs. 3,000. For the current transactions, the firm was allowed credit from January 1974 up to Rs. 50,000 on a security bond of Rs. 5 lakhs. Depending on the clearance of arrears, the credit limit was to be increased up to a maximum of Rs. 1 lakh.

The agent did not pay the stipulated amount regularly every month. Further, while a cheque for Rs. 0.45 lakh issued by the firm was dishonoured on 8th September 1975 by the bank (as the firm had stopped the payment), the party was allowed to lift 59 tonnes of cattle feed (Rs. 0.43 lakh) on that date against an order for 92 tonnes placed (on the same date) without payment. There were no further transactions with the agent after September 1975.

The total outstanding dues against the cost of cattle feed lifted by the agent up to September 1975 was Rs. 2.29 lakhs (includes Rs. 1.86 lakh recoverable against the earlier dues of Rs. 3.50 lakhs). The security bond furnished by the firm was, however, not invoked. The agency was terminated with effect from 1st January 1976 and the Company filed (January 1976) a criminal complaint and civil suit against the agent for the recovery of dues amounting to Rs. 2.97 lakhs (includes Rs. 0.94 lakh towards interest less commission Rs. 0.26 lakh payable to the party) the outcome of which was awaited (December 1980).

As per the agreement, the agent was to lift the material at 4,000 tonnes per annum from 1st October 1971, 2,500 tonnes from 1st October 1973, and 2,800 tonnes from 1st October 1974 and in case of shortfall he was required to pay a penalty of Rs. 10 per tonne which was increased to Rs. 15 per tonne from 1st October 1973.

The details of quantity required to be lifted and actually lifted are shown below :—

Year (October to September)	Quantity to be lifted.	Quantity actually lifted.	Shortfall
		(Tonnes)	
1971-72	4,000	3,082	918
1972-73	4,000	2,956	1,044
1974-75	2,800	1,045	1,755

The Company had, however, not raised any demand for the penalty of Rs. 0.46 lakh due from the agent.

(*iii*) *Supply of dry ration food* :

As per instructions received from the State Government (December 1974), the Company supplied 1,490 tonnes (value : Rs. 10.50 lakhs) and 5,288 tonnes (value : Rs. 37.28 lakhs) of dry ration food for cattle during the years 1974-75 and 1975-76 respectively in the scarcity affected areas of the State. The material was to conform to the specifications prescribed by Government and in case of deviation a penalty at 25 *per cent* was to be levied. The District Collector, Rajkot, who was in overall control of the supply, collected six samples out of the supplies made during May and June 1975 and got them tested. As the material was not in conformity with the specifications, a penalty of Rs. 1.03 lakhs was levied and the amount adjusted from the payments due to the Company. The Company did not agree to such test results and in a joint meeting between the Collector and the representatives of the Company (October 1976), it was agreed to carry out a second test. The Company's request for reconsideration of the case was, however, turned down by Government (April 1977).

(iv) Payment of incentive bonus on sales :

With a view to boost the sales of cattle feed, the Company offered incentive bonus on sales during March, October and December 1977. The following table gives details of stocks available, orders booked, goods despatched during the operation of the scheme, goods despatched after the expiry of the scheme and incentive bonus paid :

Period of the scheme	Stock available	Orders booked	Sales		Rate of incentive (Rupees per tonne)	Total amount paid as incentive bonus (Rupees in lakhs)
			During the period of the scheme.	After the expiry of the scheme.		
	(Tonnes)					
23rd-31st March, 1977	262	575	242	333	25	0.14
24th-31st October, 1977	370	668	331	337	30	0.20
20th-31st December, 1977	382	637	346	291	30	0.19
Total ..	1,040	1,880	919	961	..	0.53

It would be evident that the stocks were not such as to justify an incentive scheme to promote sales. The Company had also accepted order much in excess of the stocks involving Rs. 0.27 lakh towards incentive bonus on despatches made after the expiry of the scheme.

(*v*) Loss due to supplies at lower rates :

The price of cattle feed was increased from Rs. 850 per tonne to Rs. 880, Rs. 915 and Rs. 965 per tonne with effect from 1st December 1977, 25th October 1978 and 1st July 1979 respectively. However, a sum of Rs. 1.24

akhs was short realised on the despatches made (3,130 tonnes) after the evision of rates, which were billed at the pre-revised rates. The Management stated (November 1979) that the orders booked prior to the dates of ncrease in the price could not be executed in full for want of stocks and he balance orders were, therefore, executed at the prices prevailing at the ime the orders were placed.

It was noticed that orders were booked by the Company on the basis of etters received from the distributors without any indication of the prices. There was, however, no way of ensuring that in such cases the benefit of ower prices (after a price increase had been notified) was actually passed on by the distributors to the farmers.

It will be seen further that while the Company had increased the price by Rs. 30 per tonne from 1st December 1977 it had notified a bonus incentive of Rs. 30 per tonne from 21st—31st December 1977 (Rs. 0.19 lakh on the sale of 637 tonnes), thus fully neutralising the price increase.

3.08 Compost manure plant

3.08.1 The Company, with a view to manufacture manure, from the city garbage, to cater to the needs of the cultivators and incidentally, help the civic body in garbage disposal, approved (December 1971) the project report for the installation of a mechanical compost plant at Ahmedabad on land admeasuring 5 acres.

3.08.2 *Contract for the plant*

A contract for the supply, erection and commissioning (including all civil works) of the plant with a capacity to process 120 tonnes of garbage per day was placed (May 1973), on a turn-key-basis, on a firm of Pune at a total cost of Rs. 39.80 lakhs. Due to price escalation, the actual payment to the contractor was Rs. 48.11 lakhs.

As per the terms and conditions of the contract, the plant was to be commissioned by March 1975. The erection work of the plant was completed in May 1975, but it could not be commissioned for commercial operation due to certain teething troubles until November 1975.

The penalty recoverable as per the contract (Rs. 2.41 lakhs) was waived by the Company (January 1976) on the ground that the assistance of the suppliers and their foreign collaborators would be required in meeting unforeseen problems in future in running the plant. which was the first of its kind in India.

3.08.3 *Subsidy from Government of India*

(*a*) The Company applied to the Government of India (October 1974) for subsidy towards 33 *per cent* of the capital cost of the plant, admissible under the 'Central Scheme of Solid Waste Disposal' and received Rs. 20 lakhs in March 1975. Out of this amount a sum of Rs. 2.44 lakhs was refunded (December 1975) on the basis of capital expenditure (Rs. 53.22 lakhs) incurred.

The capital cost of the plant to the end of March 1978, however, worked out to Rs. 59.88 lakhs. The Company approached the Government of India (November 1978) for payment of further subsidy of Rs. 2.26 lakhs. The amount had not been received so far (November 1979).

(*b*) The Government of India under the 'Central Scheme of Solid Waste Disposal' decided (August 1975) to give subsidy to meet 50 *per cent* of the recurring establishment expenditure on technical staff for running the compost plant, subject to a maximum of Rs. 1 lakh per annum, during the first five years of operation. The details of expenditure incurred on technical staff and subsidy received/receivable from the Government of India for the four years up to 1978-79 are given below :—

	1975-76	1976-77	1977-78	1978-79
	(Rupees in lakhs)			
Expenditure on technical staff ..	0.94	1.96	2.47	2.66
Subsidy received / receivable from Government	0.47	0.98	1.00	1.00

The subsidy (Rs. 2.00 lakhs) in respect of the years 1977-78 and 1978-79 has not been received so far (March 1980).

3.08.4 *Performance of the plant*

The details of the working of the plant for the four years up to 1978-79 are given below :—

Particulars	1975-76	1976-77	1977-78	1978-79
Working days available ..	127	306	316	304
Number of days worked ..	93	262	256	170
Shortfall	34	44	60	134
Input required (in tonnes) ..	11,160	31,440	30,720	20,400
Actual input (in tonnes) ..	6,892	17,166	20,049	18,120
Compost produced (in tonnes)	3,980	8,255	7,221	7,444
Percentage of plant utilisation	61.7	54.6	65.3	88.8
Percentage of output to input	57.7	48.1	36.0	41.1

The percentage of production of compost during the three years upto 1978-79 was less than the standard production of compost as envisaged in the project report (54.6 *per cent* of the input). The Management stated (November 1979) that the standard yield in the project report envisaged a moisture percentage of 45 to 50 *per cent* which was not attainable in actual working.

The Management attributed (November 1979) low utilisation of the plant to (i) non-availability of garbage in sufficient quantity and of required quality, (ii) high moisture content during monsoons, (iii) power failures and mechanical breakdowns and (iv) accumulation of stocks and shutdown of the plant (May to July 1978) due to shortage of storage space.

3.08.5 *Sales performance and economic viability*

The details of targets of sales and actual production/sales of compost for the four years up to 1978-79 are given below :

Year	Target of Sales	Actual Production (Tonnes)	Sales
1975-76	10,500	3,980	214
1976-77	20,000	8,255	5,136
1977-78	15,000	7,221	5,931
1978-79	14,000	7,444	7,312
Total ..	59,500	26,900	18,593

The Management attributed (November 1979) lower sales to the following :—

(i) Being a new type of fertilizer difficulties were experienced in making it acceptable to the farmers and pushing up sales.

(ii) In and around Ahmedabad, alternative compost manures like cow dung manure and sewage sludge were available in sufficient quantity and at lower rates.

(iii) Sale of compost in the areas farther away from Ahmedabad was not economical to the farmers due to heavy incidence of transport costs.

In order to attract buyers for this manure, the Company had kept the selling price at a level much below the cost of production. The selling price had been fixed keeping in view the price of alternative compost available. As a result, the running of the plant resulted in heavy losses since inception.

The details of revenue earned, expenses incurred and loss suffered for the four years up to 1978-79 are given below :—

	1975-76	1976-77	1977-78	1978-79
	(Rupees in lakhs)			
Revenue : (including subsidy receivable)	0.57	2.36	2.62	3.37
Expenses				
Fixed cost	3.49	6.13	7.31	6.43
Variable cost	1.74	2.94	3.47	3.33
Adjustments for inventory ..	(—) 0.87	(—) 0.69	(—) 0.41	(+) 0.14
	4.36	8.38	10.37	9.90
Loss	3.79	6.02	7.75	6.53

The cumulative loss to the end of 1978-79 amounted to Rs. 24.09 lakhs. The Company's request to the Government of India (September 1976) for financial assistance equal to the loss, at least for the first three years, was turned down (February 1977). The Company also approached (March/ May 1977) the State Government for a revenue subsidy for the first 3-4 years to meet the losses, which was also not accepted (October 1977).

3.08.6 *Idle laboratory equipment*

The Company had purchased (March 1977 and February 1978) equipment worth Rs. 0.40 lakh for setting up a laboratory for the plant. The laboratory was, however, not set up and the chemist appointed (May 1975) was deployed on production and quality control. The Management stated (November 1979) that in view of the plant incurring heavy losses, the overhead water tank essential for the laboratory had not been constructed to avoid additional capital investment.

3.09 Pesticides formulation plant

3.09.1 With a view to streamlining the distribution of technical grade pesticides to the formulators (through the State Government) at reasonable price, the Government of India decided (July 1974) to reserve 50 *per cent* of the indigenously manufactured technical grade material for formulation by the small scale and non-associate formulators.

As per the scheme, the allocation of the technical grade pesticides was to be made quarterly by the Government of India to the State Government for issue to the non-associate formulators. The State Government entrusted (September 1974) this work to the Company. The Company also decided (November 1974) to establish its own pesticides formulation plant. The unit was commissioned in October 1976 at a cost of Rs. 26.76 lakhs.

3.09.2 *Production and sales*

The details of purchases, production and sales of pesticide formulations for the four years up to 1978-79 are given below :—

		1975-76	1976-77	1977-78 (Tonnes)	1978-79
Dust formulations :					
Purchases	..	..	..	..	213
Production@	..	1,730 (1,730)	1,986 (798)	4,939 (3,312)	12,250 (6,835)
Sales	..	1,041	2,101	5,197	12,144
Closing stock	..	689	574	316	635
Liquid formulations			(kilo-litres)		
Purchases	..	1	..	..	264
Production	..	..	..	95	221
Sales	..	3	14	68	429
Closing stock	..	20	6	33	89

3.09.3 *Loss on sale of ineffective 'Agrogor* 30 *per cent EC'*

In September 1978 the Company supplied on credit, 17,400 litres (value : Rs. 8.01 lakhs) of Agrogor (30 *per cent* EC) to 3 sahakari sugar factories The factories returned 13,856 litres (value : Rs. 6.38 lakhs) in September 1978

@ Figures in brackets indicate the quantities processed through outside agencies.

on the plea that the same was found to be ineffective for aerial spraying on the crops. The factories had not paid the price of 3,544 litres used by them and the Company decided (February 1979) not to press for the payment (Rs. 1.63 lakhs).

The Plant Manager stated (November 1979) that the product was analysed in the factory's quality control cell before despatch and was as per ISI specifications. As ascertained by the Company, the purchasers had got the same tested in Government laboratory (September 1976) and Import-Export House (October 1978), which also confirmed to the analysis of the Company.

3.09.4 *Under recovery on sale of Parathion 2 per cent Dust*

For sale of Parathion 2 *per cent* dust to co-operative societies and the distributors the Company allows discount at 13 *per cent* and 14 *per cent* respectively on the general sale price. In July 1977, the Company increased the price of the material by Rs. 92 per tonne. Although according to the policy of the Company, sale price ruling on the date of delivery was chargeable, 206.5 and 486.5 tonnes of Parathion 2 *per cent* dust was supplied to the co-operative societies (September 1977 to January 1978) and distributors (July 1977 to December 1977) respectively at the old rates. This resulted in a short recovery of Rs. 0.60 lakh.

The Management stated (November 1979) that these formulations were processed from technical material procured at the old rates and there was no substantial change in the cost of production and hence, the parties having booked the confirmed orders prior to the revision of rates, were supplied material at the pre-revised rates. Approval of the Board had, however, not been obtained.

3.09.5 *Lindane plant*

Mention was made in paragraph 8 of Section II of the Audit Report (Commercial) for the year 1973-74 regarding the lindane plant installed at Godhra in September 1971 at a cost of Rs. 0.75 lakh. Due to the locational disadvantage of the plant, in April 1976, the Company, on the advice of the Central Food Technological Research Institute (CFTRI), Mysore, decided to shift the plant to the site of its pesticides unit at Ahmedabad.

The plant was shifted and re-erected at Ahmedabad (capacity increased to 50 kg. per day) with additional machinery at a cost of Rs. 0.77 lakh and commenced commercial production in April 1977. The plant was operated up to June 1978 and produced 789 kg. of lindane (as against the capacity of 18,750 kg.) before it was shut down (July 1978). The Management stated (February 1980) that the plant had not been operated on commercial basis because of the poor market potential. The investment of Rs. 1.52 lakhs has been idle since July 1978 and 789 kgs of lindane (value : Rs. 0.56 lakh) produced is lying unsold (July 1980).

3.10 Agro-service division

3.10.1 The Company, with a view to providing facilities of mechanised cultivation and other farm in-put services to the farmers, particularly the small cultivators, had set up four regional agro-service complexes at Ahmedabad, Gondal, Mehsana and Surat, and 17 agro-service centres (functioning under the complexes) at the district level.

These agro-service centres undertake activities of (*i*) sales of tractors, trailors, implements, diesel engines, submersible pumps, gobar gas holders, grain storage bins, fertilisers, pesticides, petroleum products, etc ; (ii) custom hiring of tractors and (iii) servicing and repairs of tractors. The gross value of business/turnover, direct operational expenses, gross margin, other expenses and net profit/loss from these activities of the agro-service centres for the four years up to 1978-79 are given below :—

	1975-76	1976-77	1977-78	1978-79
	(Rupees in lakhs)			
Gross value of business/turnover	313.24	440.71	406.43	569.02
Direct operational expenses	294.43	419.41	375.12	523.42
Gross margin	18.81	21.30	31.31	45.60
Other expenses	30.17	33.74	40.56	45.03
Profit(+)/loss(—)	(—)11.36	(—)12.44	(—)9.25	(+) 0.57

3.10.2 *Custom hiring of tractors*

For providing the facility of mechanised ploughing to small farmers, /ho cannot afford to own tractors, the Company maintained tractors at :s agro-service centres which were hired out to the needy parties. The etails of utilisation of the tractors during the four years up to 1978-79 re given below :—

Year	Number of tractors in operation	Available hiring hours (at 1000 hours per tractor)	Actual hiring hours worked	Percentage of utilisation
1975-76	66	66,000	42,681	64.7
1976-77	66	66,000	46,484	70.4
1977-78	58	58,000	40,018	69.0
1978-79	58	58,000	36,033	62.1

The Management stated (February 1980) that the staff of the agro-ervice centres had been offered an incentive scheme for improving the tilisation of tractors.

3.10.3 *Training to entrepreneurs*

With the twin objectives of providing self-employment opportunities to ›chnical personnel and providing the much needed technical services to ie farming community, the Government of India (Ministry of Agricul-ure) formulated a scheme under which selected entrepreneurs were to be iven training for a period of 3 to 4 months.

The Company undertook the above scheme in November 1971 and started training cell at its agro-service complex, Mehsana. Under the scheme, ι addition to theoretical training to the trainee entrepreneurs, the Company 'as to assist the entrepreneurs in preparing viable schemes for setting up gro-service centres and securing loans from financial institutions. For ie execution of the scheme, the Company was to receive capital grant of .s. 3.45 lakhs for the establishment of a training cell and revenue grants to cover the expenses on staff for the training cell, stipend to trainees (Rs. 250 per month per trainee), incidentals (Rs. 125 per month per trainee) and interest subsidy equal to the difference between normal lending rate of the bank and 5 *per cent* maximum rate payable by the entrepreneur for a period of 3 years (5 years in case of backward areas).

The trainees who did not set up the centres after receiving the training had to refund the stipend and the expenditure incurred on their training.

During the seven years up to 1978-79, 278 entrepreneurs were trained, (including 53 trainees sponsord by other states) of whom only 109 entrepreneurs had set up agro-service centres.

A reveiew revealed that in 4 cases loans were not sanctioned by the banks; 8 centres were opened and subsequently closed, 2 trainees had deserted the training, 40 trainees either did not set up the centres after sanction of loans by the banks or were not interested in setting up the centres; in the remaining 62 cases, either the project reports were awaited or applications were pending with the banks. Out of 40 trainees, who had not set up centres, two trainees had refunded Rs. 2,500 (April 1976/June 1977) and the remaining 38 trainees had been asked by the Company (January 1978) to refund Rs. 47,500 towards stipend and expenditure on incidentals. The recoveries are still awaited (December 1980).

3.10.4 *Loss due to excess stocks*

The inventory at the agro-service centres included tyres, tractor spares and pumps valued at Rs. 3.35 lakhs for which there was no demand from the farmers and the stocks had either to be sold at reduced prices or the value was written down in the accounts resulting in a loss of Rs. 1.46 lakhs as detailed below :—

(*i*) The Company purchased (February 1976) 50 sets of imported tyres and tubes from U. P. State Agro Industrial Corporation Limited for Rs. 0.69 lakh. As the price of indigenous tyres and tubes was much lower, the Company could not sell these tyres and tubes and had to dispose them of (December 1977) at reduced prices fetching only Rs. 0.48 lakh and resulting in an avoidable loss of Rs. 0.21 lakh.

(*ii*) Spares of MTZ 5 MC tractors valuing Rs. 0.73 lakh imported in 1971-72 and lying in stock were sold (June 1978), after inviting tenders, for Rs. 0.40 lakh resulting in a loss of Rs. 0.33 lakh.

(*iii*) Value of spares of imported tractors (Rs. 1.93 lakhs) which could not be sold was reduced to Rs. 1.01 lakhs for accounting purposes, writing off the difference of Rs. 0.92 lakh as a loss (1977-78).

3.11 Aerial spraying of pesticides

3.11.1 In 1973-74, Government formulated a scheme for assistance to the farmers in aerial spraying of pesticides/insecticides. The Company took up the above activity in 1973-74 on behalf of Government. It also took up from 1976-77 onwards the activity of cloud seeding (for rains) in the dry areas of the State.

The details of area covered under aerial spraying, expenses incurred, revenue earned and gross margin for the six years up to 1978-79 (as per the Company's annual reports) are given below :—

Year	Area covered (lakh acres)	Expenditure (Rupees in	Income lakhs)	Gross margin
1973-74	1.11	11.23	12.89	1.66
1974-75	0.55	4.64	5.22	0.58
1975-76	1.10	17.97	19.01	1.04
1976-77	1.21	12.43	13.26	0.83
1977-78	1.79	24.20	25.62	1.42
1978-79	4.67	53.72	56.80	3.08
Total	10.43	124.19	132.80	8.61

The Company had received a subsidy of Rs. 34.18 lakhs from Government during the period from 1974-75 to 1977-78 including Rs. 16.54 lakhs received under the Central Scheme (1977-78) for disbursement to the beneficiaries, *viz* farmers and co-operative societies getting the pesticides sprayed on crops towards the cost of pesticides. Of this, Rs. 7.30 lakhs (inclusive of Rs. 3.94 lakhs under the Central Scheme) which had remained undisbursed, were refunded in August 1979. Similarly, out of the subsidy of Rs. 100.15 lakhs (inclusive of Rs. 43.03 lakhs under the Central Scheme) received during 1978-79, the Company had disbursed Rs. 72.89 lakhs (October 1979) leaving a balance of Rs. 27.26 lakhs which had not been refunded (December 1980).

3.11.2 *Purchase of Endrine 20 per cent*

The Company purchased (August/September 1974) 24,200 litres of "Endrine 20 *per cent*" at a cost of Rs. 8.51 lakhs for use in aerial spraying. It utilised only 2,018 litres valued at Rs. 0.70 lakh during 1974-75. As the use of endrine for aerial spray was banned by the Governfent of India, the Company got the balance material re-packed in 1/5 litre tins at a cost of about Rs. 0.65 lakh. It had sold 21,218 litres of re-packed material up to 1977-78 and realised Rs. 6.28 lakhs, leaving a balance of 790 litres valued at Rs. 0.18 lakh (after adjusting shortages of 174 litres due to leakage). The Company incurred a loss of Rs. 2 lakhs on this transaction.

3.12 Other points of interest

3.12.1 *Collection and sale of mahuda seeds and flowers*

The Company was entrusted by the State Government (December 1972) with the work of collection of mahuda seeds and flowers in the entire State for the 1973 season on payment of royalty which was fixed at Rs. 3.44 lakhs based on the average realisation by Government during the three years up to 1971-72 with an average collection of 8,310 tonnes of flowers and 2,577 tonnes of seeds. The Company (in consultation with the Forest Department) had envisaged the collection of about 8,000 tonnes of seeds and flowers. Actual collection, however, amounted to only 848.374 tonnes of seeds and 124.148 tonnes of flowers during the year 1973-74.

In anticipation of the collection of seeds and flowers, the Company entered into contracts (April 1973) with four firms for the sale of 2,000 tonnes of mahuda seeds and flowers. The Company could not fulfil the sale obligation due to poor collection. One of the firms filed a suit against the Company for short supply of seeds and flowers to the extent of 274 (out of 400) tonnes. The Company having lost the suit (March 1977), deposited Rs. 1.81 lakhs in the court (August 1977) and simultaneously filed an appeal in the High Court which was pending (June 1980).

The Company had paid (April 1973) only Rs. 1.06 lakhs to Government and requested for a waiver of the balance amount of Rs. 2.38 lakhs on the ground that the collection was much lower than the expectation ; a decision was still awaited (June 1980).

3.12.2 *Misappropriation of cash and stores*

The Agro-Service Centre, Bharuch, did not submit monthly trial balances from April to October 1977. On receipt of the first trial balance for the period up to November 1977 the Company noticed a debit balance (Rs. 0.27 lakh) in the name of the Centre-in-charge. The firm of internal auditors having reported irregularities in the maintenance of the cash book, the management audit cell of the Company carried out a special audit of the centre in February 1978. The audit team pointed out that all the books of accounts were more or less unreliable and there were too many alterations in the figures in the cash book, ledger, register. bills, material receipt vouchers, etc. Shortages amounting to Rs. 0.64 lakh in the stock of fertilisers and Rs. 0.13 lakh in the stock of pesticides were also noticed. Against the debit balance of Rs. 0.32 lakh, the Centre-in-charge deposited Rs. 0.21 lakh (February 1978). The Company had filed (August 1978) a criminal suit against the Centre-in-charge ; its outcome was awaited (June 1980).

3.12.3 *Loans to Hindustan Tractors Limited*

In March 1973 the Company was appointed by the Government of India as the authorised controller of Hindustan Tractors Limited (HTL) under the Industries (Development and Regulation) Act, 1951 for a period of 5 years. In June 1973 the Company paid a sum of Rs. 25 lakhs carrying interest at 12.5 *per cent* per annum to meet the emergent requirements of HTL. This amount, together with interest of Rs. 11.46 lakhs thereon accumulated up to 31st March 1978 was not repaid by HTL. On 31st March

1978 the Government of India terminated the arrangement of authorised controller and took over the properties of HTL and handed over the same to the State Government which formed a separate company named Gujarat Tractor Corporation Limited (April 1978).

Under the Hindustan Tractors Limited (Acquisition and Transfer of Undertakings) Act, 1978 the Company was to prefer a claim for the amount advanced and the interest thereon up to 31st March 1978 (Rs. 36.46 lakhs) before the Commissioner of Payments to be appointed under the said Act who has not yet been appointed (December 1980). In the absence of a specific provision for the payment of interest on the loan after the appointed date of take over, according to the legal opinion, the Company is not likely to get any interest after 31st March 1978 which (at 12.5 *per cent*) works out to Rs. 4.56 lakhs per annum.

3.13 Summing up

(i) The joint venture Company, set up in May 1969, had taken up the manufacture of cattle feed, compost manure and pesticides formulation besides operation of agro-service centres and aerial spraying etc.

(ii) The utilisation of the cattle feed manufacturing plant had varied between 35.4 and 53.6 *per cent* of the capacity ; the process losses had exceeded the prescribed norm of 2 *per cent* during the 3 years up to 1978-79. Dues against a sole selling agent were allowed to accumulate and the Company had filed a suit (1976) for the recovery of Rs. 2.97 lakhs which was pending. The Company had to pay a penalty of Rs. 1.03 lakhs (due to inferior quality) on the sale of dry ration food for cattle. Charging of lower rates for supplies effected after the revision of rates had resulted in a short recovery of Rs. 1.24 lakhs.

(iii) The Company had waived the penalty of Rs. 2.41 lakhs for the delay in the delivery/commissioning of the compost manure plant ; the plant had worked below capacity because of non availability of garbage, mechanical breakdowns, shortage of storage space due to accumulation of stocks *etc.* and with sales at levels lower than the cost of production, the running of the plant had resulted in losses amounting to Rs. 24.09 lakhs up to 1978-79 even after adjusting a subsidy of Rs. 3.45 lakhs.

(iv) The pesticide formulation plant had incurred a loss of Rs. 1.63 akhs because of non-payment by 3 sahakari sugar factories for 3,544 itres of Agrogor 30 *per cent* E C because of inferior quality.

(v) The lindane plant installed at Godhra in 1971 (cost : Rs. 0.75 lakh), ınd shifted (1976) to Ahmedabad (expenditure : Rs. 0.77 lakh) was operated rom April 1977 to June 1978 before it was shut down, and 789 kg of indane produced (Rs. 0.56 lakh) was lying unsold (July 1980).

(vi) The agro-service centres had incurred an aggregate loss of Rs. 33.05 akhs during the 3 years up to 1977-78. The tractors maintained for customs hiring were under-utilised. An estimated loss of Rs. 1.46 lakhs vas incurred on the stocks of tyres, tractor spares, pumps (value : Rs. 3.35 akhs) for which there was no demand. Only 109 out of 278 entrepreneurs rained by the Company since 1971 had set up agro-service centres ; an ımount of Rs. 0.48 lakh was yet to be recovered from 38 trainees.

(vii) The Company had incurred a loss of Rs. 2 lakhs on the purchase/ disposal of 'endrine 20 *per cent*'.

(viii) Due to a shortfall (87.8 *per cent*) in the collection of mahuda seeds and flowers the Company had incurred a liability of Rs. 3.44 lakhs by way of royalty of which Rs. 1.06 lakhs had been paid to Government and the Company's request for a waiver of Rs. 2.38 lakhs was still pending.

(ix) As a result of a suit filed against the Company for its failure to supply the contracted quantity of mahuda seeds and flowers, Rs. 1.81 lakhs had been deposited in the court pending an appeal filed in the High Court.

CHAPTER II

STATUTORY CORPORATIONS

SECTION IV

4.1 Introduction

There were five Statutory Corporations in the State as on 31st March 1979. Four Corporations, *viz.*, Gujarat Electricity Board, Gujarat State Road Transport Corporation, Gujarat State Financial Corporation and Gujarat State Warehousing Corporation were set up under the Acts of Parliament ; and one Corporation, *viz.*, Gujarat Industrial Development Corporation under an Act of the State Legislature.

4.2 Gujarat Electrity Board

4.2.1 Gujarat Electricity Board was formed in May 1960 under Section 5(1) of the Electricity (Supply) Act, 1948.

4.2.2 *Capital*

The capital requirements of the Board are provided by loans from Government, the public, the banks and other financial institutions.

The aggregate of long-term loans (including loans from Government) obtained by the Board was Rs. 53,416.46 lakhs at the end of 1978-79 and represented an increase of Rs. 8,372.37 lakhs over the long-term loans of Rs. 45,044.09 lakhs at the end of the previous year. Details of loans obtained from different sources and outstanding as on 31st March 1979 were as follows :—

Sources	Amount (Rupees in lakhs)
State Government	35,784.90@
Deferred payment credit from suppliers of equipment	24.00
Other sources	17,607.56
Total ...	53,416.46

@ Difference between this figure and the figure of Rs. 35,762.66 lakhs indicated in the Finance Accounts is under reconciliation.

Instalments of loans aggregating Rs. 1,858.04 lakhs which fell due for repayment to the State Government up to 31st March 1979 had not been paid.

4.2.3 *Guarantees*

Government had guaranteed repayment of loans raised by the Board to the extent of Rs. 19,183.70 lakhs* and payment of interest thereon. The amount of principal guaranteed and outstanding on 31st March 1979 was Rs. 12,272.41 lakhs.*

4.2.4 *Profits*

During the year 1978-79, the Board did not appropriate any sum to the general reserve (previous year : Rs. 213.28 lakhs) due to priorities laid down in the amended Section 67 of the Electricity (Supply) Act, 1948. In view of the revised priorities the Board paid in full interest amounting to Rs. 2,508.87 lakhs pertaining to the year 1978-79 on loans from the State Government. However, depreciation to the extent of Rs. 392.31 lakhs for the year 1978-79 could not be provided because adequate surplus was not available. The cumulative interest on loans from the State Government due but not paid as on 31st March 1979 was Rs. 4,970.73 lakhs.

A synoptic statement showing the summarised financial results of the Board for the year 1978-79 is given in Appendix 'C'.

4.3 Gujarat Industrial Development Corporation

4.3.1. Gujarat Industrial Development Corporation was established in August 1962 under the Gujarat Industrial Development Act, 1962.

4.3.2 *Capital*

Under the Act, the capital requirements of the Corporation are provided by loans from the State Government, the public, the banks and other financial institutions.

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* These figures differ from Rs. 18,366.97 lakhs and Rs. 18,294.11 lakhs indicated in the Finance Accounts; the differences are under reconciliation.

The aggregate amount of long-term loans, (including loans from Government) obtained by the Corporation was Rs. 4,395.34 lakhs at the end of 1978-79 and represented an increase of Rs. 233.25 lakhs over the long-term loans of Rs. 4,162.09 lakhs at the end of the previous year. Details of loans obtained from different sources and outstanding as on 31st March 1979 were as follows :—

Source	Amount (Rupees in lakhs)
State Government	1,255.15
Other sources	3,140.19
Total ...	4,395.34

4.3.3 *Guarantees*

Government had guaranteed repayment of loans raised by the Corporation to the extent of Rs. 3,430.87 lakhs* and payment of interest thereon. The amount of principal guaranteed and outstanding on 31st March 1979 was Rs. 2,755.74 lakhs.*

4.3.4 *Profits*

The Corporation earned an excess of income over expenditure of Rs. 3.06 lakhs on revenue account during the year 1978-79 as against Rs. 16.43 lakhs earned in the previous year.

4.4 Other Statutory Corporations

4.4.1 *Paid-up capital*

The aggregate of the paid-up capital of the remaining three Corporations, *viz.*, Gujarat State Road Transport Corporation, Gujarat State Financial

* These figures differ from Rs. 4,037.99 lakhs and Rs. 3,804.86 lakhs indicated in the Finance Accounts; the differences are under reconciliation.

Corporation and Gujarat State Warehousing Corporation as on 31st March 1979 was Rs. 6,591.63 lakhs as against Rs. 5,004.33 lakhs on 31st March 1978. The break-up of investments made by the Central Government, the State Government and other parties in the capital of these Corporations as on 31st March 1979 is indicated below :—

Name of the Corporation	Amount invested by			
	State Government	Central Government, Industrial Development Bank of India and Central Warehousing Corporation	Others	Total
	(Rupees in lakhs)			
Gujarat State Road Transport Corporation	3,646.42**	1,823.21	..	5,469.63
Gujarat State Financial Corporation	489.01	470.00	40.99	1,000.00
Gujarat State Warehousing Corporation	64.50	57.50	..	122.00
Total	4,199.93	2,350.71	40.99	6,591.63

4.4.2 *Long-term loans*

The long-term loans obtained by the three Corporations and outstanding as on 31st March 1979 amounted to Rs. 8,869.76 lakhs and represented an increase of Rs. 1,371.07 lakhs over the outstanding balance of Rs. 7,498.69

** Difference between this figure and figure of Rs. 3,605.99 lakhs indicated in the Finance Accounts is under reconciliation.

lakhs at the end of the previous year. The details of the long-term loans outstanding as on 31st March 1979 were as under :

Name of the Corporation	Sources of loans			Total
	State Government	Central Government, Industrial Development Bank of India and Central Warehousing Corporation	Others	
	(Rupees in lakhs)			
Gujarat State Road Transport Corporation	3.82	32.00	959.60	995.42
Gujarat State Financial Corporation	42.10	3,745.71	4,082.53	7,870.34
Gujarat State Warehousing Corporation	..	4.00	..	4.00
Total ..	45.92	3,781.71	5,042.13	8,869.76

4.4.3 *Guarantees*

Government has guaranteed repayment of the share capital of Rs. 900.00 lakhs** of the Gujarat State Financial Corporation which was outstanding on 31st March 1979 and payment of annual dividend of 3½ *per cent.*

Government has also guaranteed repayment of loans obtained by the Gujarat State Road Transport Corporation and the loans raised and deposits obtained by the Gujarat State Financial Corporation to the extent

** As per Finance Accounts the amount guaranteed and amount outstanding there against are Rs. 700 lakhs and Rs. 600 lakhs respectively; the differences are under reconciliation.

of Rs. 6,694.39 lakhs, of which, the amount outstanding as on 31st March 1979 was Rs. 4,803.37 lakhs as shown below :—

	Gujarat State Road Transport Corporation	Gujarat State Financial Corporation
	(Rupees in lakhs)	
Amount guaranteed ..	875.84@	5,818.55
Sums guaranteed and outstanding on 31st March 1979	720.84@	4,082.53£

4.4.4 *Profits and dividend*

The Gujarat State Road Transport Corporation incurred a loss of Rs. 381.89 lakhs while the Gujarat State Financial Corporation and the Gujarat State Warehousing Corporation earned profits of Rs. 207.74 lakhs and Rs. 20.24 lakhs respectively during 1978-79.

Relevant details in this regard are indicated below :—

Name of the Corporation	Profit (+) Loss (—) before tax	Interest paid	Dividend declared	Percentage of dividend
	(Rupees in lakhs)			
Gujarat State Road Transport Corporation	(—)381.89	299.49	..	..
Gujarat State Financial Corporation	(+)207.74	..	24.55	3.5
Gujarat State Warehousing Corporation	(+)20.24	..	7.32	6.0

A synoptic statement showing the summarised financial results of working of these three Corporations for 1978-79 is given in Appendix 'C'.

@ These figures differ from those (Rs. 1,361.61 lakhs and Rs. 1,247.61 lakhs) in the Finance Accounts. The differences are under reconciliation.

£ Difference between this figure and figure of Rs. 5,274.67 lakhs in the Finance Accounts is under reconciliation.

SECTION V

GUJARAT ELECTRICITY BOARD

5.1 Rural electrification programme

5.1.01 *General*

The performance of the Board in rural electrification of the State up to 1972-73 was reviewed in para 9 of Section IV of the Audit Report (Commercial) for the year 1972-73.

According to 1971 census, Gujarat had 216 urban areas and 18,275 villages. At the time of the formation of the State on 1st May 1960, there were only 537 electrified towns and villages. As on 31st March 1979 the number had increased to 9,497 (rural villages : 9,320; urban areas : 177). Besides, the rural and urban areas electrified by the licensees were 144 and 38 respectively making a total of 9,679. The number of wells and tubewells energised had increased from 3,940 as on 1st May 1960 to 1,77,798 (including 4,068 wells energised by the licensees) as on 31st March 1979.

5.1.02 *Performance*

The district-wise break-up of the total number of villages electrified and wells energised up to 31st March 1979 are given below :—

Name of the district	Total number of villages	Number of villages electrified	Percentage of total villages	Number of wells/tube-wells energised
Gandhinagar ..	75	75	100.00	2,788
Kheda ..	957	815	85.16	12,394
Mehsana ..	1,084	851	78.51	18,158
Ahmedabad ..	674	486	72.11	9,845
Junagadh ..	1,092	719	65.84	21,918

Name of the district		Total number of villages	Number of villages electrified	Percentage of total villages	Number of wells/tube-wells energised
Rajkot	..	859	545	63.45	11,372
Amreli	..	595	374	62.86	7,333
Bulsar	..	823	499	60.63	9,816
Sabarkantha	..	1,386	827	59.67	18,906
Bhavnagar	..	879	482	54.84	9,921
Jamnagar	..	706	377	53.40	6,091
Vadodara	..	1,677	868	51.76	9,644
Surat	..	1,218	563	46.22	8,454
Kutch	..	900	408	45.33	9,687
Surendranagar	..	648	277	42.75	5,594
Bharuch	..	1,137	425	37.38	4,142
Panchmahal	..	1,903	385	20.28	3,415
Banaskantha	..	1,351	455	33.68	8,307
Dangs	..	311	33	10.61	13
Total	..	18,275	9,464	51.79	1,77,798

The number of villages electrified includes villages which had been electrified for agriculture purposes alone (break-up not available). The rural population covered under 9,464 villages was 137.12 lakhs, that is, 71.41 *per cent* of the total rural population (192.01 lakhs).

5.1.03 *Targets and achievements*

The details of annual physical targets and achievements for the fiv years up to 1978-79 are given below :—

Year	Targets for electrification			Actual achievement		
	Villages	Wells	Tube-wells	Villages	Wells	Tube-wells
1974-75	500	15,000	80	350	10,994	46
1975-76	500	12,000	54	277	7,799	54
1976-77	800	16,000	70	801	16,003	59
1977-78	1,200	22,500	200	1,013	17,985	127
1978-79	1,350	22,500	250	1,336	21,650	120
Total ..	4,350	88,000	654	3,777	74,431	406

The aggregate shortfalls for the 5-year period were as follows : —

	Number	Per cent
Electrification of villages ...	573	13.2
Energisation of wells ...	13,569	15.4
Tubewells	248	37.9
	13,817	15.6

The shortfalls were attributed by the Management (February 1980) tc shortage of aluminum conductors and after-effects of State-wide drought in 1974 which impoverished the agriculturists during 1974-75 and 1975-76.

5.1.04 *Financial targets and achievements*

In the absence of specific provisions for funds for the physical targets envisaged in the Fifth 5-year Plan, these schemes were financed from funds made available by the State Government from its annual plans or by raising funds from institutions such as Agricultural Finance Corporation (AFC). Rural Electrification Corporation Limited (REC), Agricultural Refinance and Development Corporation (ARDC), for specific schemes approved by them, and the Board's own internal resources.

During the period of 5 years up to 1978-79 the Board had received Rs. 6,260.65 lakhs for rural electrification from the State Government (Rs. 2,203.66 lakhs including Rs. 533.66 lakhs for specified schemes) and other sources (Rs. 4,056.99 lakhs), but had incurred an expenditure of Rs. 4,746.94 lakhs on such schemes, resulting in a shortfall of Rs. 1,513.71 lakhs (24.2 *per cent*).

In respect of the funds provided by Government, the Board was not required to maintain schemewise accounts and, therefore, it was not possible to identify/verify the actual expenditure incurred against each scheme.

5.1.05 *Rural electrification schemes financed by Government*

5.1.05.1 Government provided funds for the execution of specific rural electrification schemes, such as, Gandhi centenary financial participation scheme, electrification of 200 adivasi villages, district level schemes, electrification of tubewells, tribal area sub-plan schemes. Mention of two schemes, *viz.* Gandhi centenary financial participation scheme and electrification of 200 adviasi villages was made in Section VI of the Audit Report (Commercial) for the year 1974-75.

5.1.05.2 *District level scheme*

Government had provided Rs. 119.75 lakhs for the district level scheme taken up during the Fourth Plan period for electrification (for domestic, street lighting and industrial purposes) of 338 villages by 31st March 1974. Only 263 villages were electrified up to that date ; the remaining villages were electrified by 31st March 1978. Details of actual expenditure incurred were not available. The Management attributed (February 1980) the slow progress of the scheme to the shortage of aluminium conductors and transport problems in the case of remote areas.

Dangs district is a backward area with practically no agricultural c industrial loan potential. Since extension of electricity was not considere financially viable, Government sanctioned (March 1976) a grant c Rs. 6.72 lakhs to the Board for the electrification of eight importan villages and one primary health centre in the district. The Board complete this work in May 1977 at a total cost of Rs. 5.19 lakhs. The unutilise grant of Rs. 1.53 lakhs had not been returned to Government. Th Management stated (February 1980) that though major works wer completed, the expected number of connections had not been forthcomin and attempts were being made to spend the remaining amount.

5.1.05.3 *Electrification of Government Tubewells*

Against estimates aggregating Rs. 415.71 lakhs furnished by the Boar (1964-65 to 1975-76) for the electrification of 1,145 tubewells, Govern ment had granted loans agreegating Rs. 305.86 lakhs without specifying th number of tubewells. The Board had completed the work on 923 tubewell up to 31st March 1976 at a total cost of Rs. 291.20 lakhs. Of these, 1 tubewells (cost : Rs. 6.84 lakhs) had not been energised (March 1979 The work on 81 more tubewells had been completed up to 31st March 197 (cost : Rs. 16.47 lakhs); details of their energisation were, however, nc available.

From 1976-77, Government handed over the work of Government tube wells (hitherto looked after by the PWD) to a Government compan Gujarat Water Resources Development Corporation Limited. Governmer initially decided to advance loans to this Company which in turn was t pass on the amount to the Board on the same terms and conditions excep the rate of interest which was fixed at $7\frac{1}{2}$ *per cent* per annum. Howeve due to legal restraints of the Company granting loans to the Board, th amounts were being accepted by the Board as deposits bearing interest a $7\frac{1}{2}$ *per cent* per annum and refundable in full on completion of 10 year Electrification of tubewells was being done under "financial participatio schemes".

The details of physical and financial targets, deposits received and th number of tubewells energised up to 1978-79 are given on page 79 :—

Year		Number of tubewells to be energised	Estimated cost	Deposits received	Number of tubewells energised	Actual expenditure incurred
			(Rupees in lakhs)			(Rupees in lakhs)
1976-77	..	70	28.00	30.00	..	..
1977-78	..	200	80.00	30.00	113	28.03
1978-79	..	250	112.50	50.00	112	27.04
	Total..	520	220.50	110.00	225	55.07

It will be seen that only 225 tubewells (43 *per cent*) against the target of 20 tubewells had been energised during the 3 years up to 1978-79. The Management stated (February 1980) that the work on the remaining tubewells would be completed as soon as survey, feasibility and clearance had een done.

.1.05.4 *Tribal area sub-plan scheme*

For the electrification of 232 villages under the Tribal area sub-plan cheme Government had granted loans amounting to Rs. 276.94 lakhs upto 978-79 (Rs. 174.94 lakhs in 1976-77, Rs. 37.00 lakhs in 1977-78 and Rs. 65.00 lakhs in 1978-79) bearing interest at $7\frac{1}{2}$ *per cent* per annum. With view to encourage the farmers to avail of the benefit of electricity, Government decided (January 1978) to grant subsidy to meet 50 *per cent* f service connection charges, the difference between the actual energy harges and the minimum annual guarantee and for the payment of energy eposits. It was later decided (August 1978) to grant 100 *per cent* (instead f 50 *per cent*) subsidy towards the service connection charges. However, he response from the farmers was poor and the Board could electrify only 13 (out of 232) villages (43 in 1977-78 and 70 in 1978-79) at a cost of Rs. 93.09 lakhs. The shortfall was attributed (February 1980) by the Management to lack of response for connections from the farmers due to heir poor financial conditions.

The unspent balance of the loans amounted to Rs. 183.85 lakhs of which Rs. 102 lakhs (involving an interest liability of Rs 7.65 lakhs per annum) had been drawn in 1977-78 and 1978-79.

5.1.06 *Schemes assisted by Agricultural Finance Corporation*

5.1.06.1 A mention was made in para 4.05 of the Audit Repor (Commercial) for the year 1972-73 about the increase in the rate of interes on the loan of Rs. 8 crores raised by the Board from Agricultural Financ Corporation (AFC) for the energisation of 20,000 wells. The Boar submitted (June 1972) its second scheme for approval of AFC for th energisation of 20,000 wells at a cost of Rs. 8 crores. The number of well to be energised was subsequently (October 1973) raised to 25,000 at a cost of Rs. 10 crores, and was to be completed within a period of tw years (October 1973 to September 1975). The scheme was approved i October 1973 on the same terms and conditions as applicable to the firs scheme, except that the rate of interest was to be $3\frac{1}{2}$ *per cent* over th bank rate subject to a minimum of $10\frac{1}{2}$ *per cent* with $\frac{1}{2}$ *per cent* rebate fo prompt payment of interest and repayment of instalments of the principal The Board commenced (October 1973) the work on the scheme, but du to delay in finalising the agreement, an expenditure of Rs. 383.34 lakh incurred by the Board up to 30th September 1974 was not reimbursed. I January 1975 AFC furnished the revised terms and conditions, under whic the period of completion of the scheme was fixed at 31st December 1976 the amount of the loan was reduced to Rs. 8 crores (at Rs. 3,200 per well a against Rs. 4,000 per well) and the balance 20 *per cent* amount was to be raise either from the consumers or met from the Board's own resources. The rat of interest was to be 6 *per cent* over the bank rate with a minimum of 15 *pe cent* per annum or the minimum lending rate whichever was more, with n rebate for prompt payments, but 1 *per cent* additional penal rate for dela in payment of interest and repayment of instalments of the principal The Board had by then completed the work on 9,621 wells at a cost o Rs. 475.38 lakhs (January 1975). The Board accepted these terms and the agreement was signed in October 1975. The Board had energised 23,256 well by 31st March 1977 at a total cost of Rs. 1,232.33 lakhs and had receive reimbursement of Rs. 739.35 lakhs from AFC up to June 1977. Fo discontinuing the scheme and for not claiming the balance amount o Rs. 60.65 lakhs, the Board paid (January 1978) commitment charges o Rs. 0.15 lakh (at one *per cent* per annum for the last quarter ending 30t June 1977) in terms of the agreement.

5.1.06.2. The Board, having surplus funds of Rs. 20 crores, enquire from AFC in February 1978 whether it would accept advance paymen of the instalments against the loan due for repayment in 1978-79 and 1979-80. AFC indicated it's willingness to appropriate the advance payments to the first loan where the interest rate was low. As the Board had Rs. 20 crores and the amount outstanding against the two loans was only Rs. 12.91 crores as on 31st March 1978, the loans could have been repaid in full to wipe out the interest liability (Rs. 203.94 lakhs). However, the Board did not pay anything against these loans.

In January 1979, the Board again took up the matter to pay in advance the instalments of both the loans due in 1979-80 and 1980-81. In February 1979 AFC agreed to this proposal and the Board made an advance payment of Rs. 409 lakhs on 31st March 1979 towards instalments falling due in 1979-80 and 1980-81. The Board also paid commitment charges (at ¼ *per cent*) amounting to Rs. 0.32 lakh for premature repayment of loan instalments, although the agreement did not provide for such payments for premature repayment of instalments. The balance amount payable as on 31st March 1979 was Rs. 675.69 lakhs bearing interest of 13.5 to 15 *per cent* per annum.

To utilise the surplus funds the Board made an advance payment of Rs. 10 crores in December 1978 to a supplier, carrying interest at 10.25 *per cent* per annum. As AFC was willing to acctpt full repayment of the amount outstanding against both the loans, the Board could have repaid the entire amount of both loans in February 1978 or later and reduced its interest liability.

5.1.07 *Schemes assisted by Rural Electrification Corporation Limited*

5.1.07.1 Since 1970, Rural Electrification Corporation Limited (REC) had also been advancing loans to the Board for rural electrification. Upto 31st March 1979, 130 rural electrification schemes (under various categories) were approved by REC at a total estimated cost of Rs. 3,883.87 lakhs. The core of the schemes was to energise a substantial number of agricultural pump sets in a compact area, though the potential non-agricultural load could also be taken into account.

In addition, the REC had also advanced loans for electrification of backward and Harijan Bastis of already electrified villages.

5.1.07.2 *Ordinary advance areas first schemes*

REC approved 14 schemes during the period from 1970-71 to 1973-74 unde this category. Loans to the extent of full cost of the execution of the scheme were advanced by REC with interest at $6\frac{1}{4}$ *per cent* per annum with a rebat of $\frac{1}{4}$ *per cent* for prompt payment. The following table gives details of th schemes sanctioned, loans received for these schemes from REC and th progress of expenditure up to 1978-79.

Year of sanction	Number of schemes sanctioned	Electrification of villages		Energisation of wells		Total cost of the scheme as sanctioned by REC	Loans availed up to 31st March 1979	Actual expend ture up to 31st March 1979
		Target	Actual	Target	Actual			
		(Number)				(Rupees in lakhs)		
1970-71 ..	7	274	273	6,179	6,073	408.23	382.72	399.2
1971-72 ..	2	83	79	1,659	1,095	102.10	95.31	86.1
1972-73 ..	3	136	134	4,510	1,299	143.59	143.89	150.1
1973-74 ..	2	83	82	2,155	713	94.96	87.15	97.9
Total..	14	576	568	14,503	9,180	748.88	709.07	733.5

According to the terms and conditions of the loan agreement, the scheme were to be completed in five years, and the loans were repayable in 15 equa annual instalments commencing from the close of the fifth year. However only two of the schemes undertaken in 1970-71 were completed upt 1978-79 and work on the other 12 schemes was in progress (April 1980).

In respect of schemes sanctioned in 1972-73 and 1973-74 the actua expenditure incurred was more than the estimates and the loans received This was due to increase in the cost of materials, *etc.*, due to delays in th completion of the schemes.

In terms of the agreement, the Board had to achieve a minimum return of 2 *per cent* on the completion of the scheme at the close of the fifth year and of 3½ *per cent* within five years thereafter. The Board had, however, not maintained any records to watch whether the minimum return as contemplated in the scheme was being earned.

5.1.07.3 *Ordinary advance areas—second and subsequent schemes*

(*a*) For the second and subsequent schemes for the electrification of the same area, only 60 *per cent* of the total cost of the scheme was being sanctioned by REC. The loans were repayable in 15 equal annual instalments commencing from the close of the fifth year and carried interest at 7½ *per cent* per annum for the first 5 years, 8 *per cent* from the 6th to 10th year, 8¼ *per cent* from 11th to 15th year and 9¼ *per cent* thereafter. The Board had to meet the balance amount of 40 *per cent* of the cost either from its own resources or by issue of rural debentures. REC had agreed to subscribe 50 *per cent* of the value of debentures as matching contribution.

During the years 1971-72 to 1974-75 and 1976-77 REC approved 10 such schemes. The following table gives details of the schemes sanctioned, loans received from REC for these schemes and the progress of expenditure up to 1978-79 :

Year of sanction	Number of schemes sanctioned	Electrification of villages		Energisation of wells		Estimated amount of loan at 60 *percent* of cost	Loans availed up to 31st March 1979	Actual expenditure up to 31st March 1979
		Target	Actual	Target	Actual			
		[Number]				(Rupees in lakhs)		
1971-72 ..	1	35	35	560	369	30.43	25.62	48.29
1972-73 ..	4	156	155	3,670	1,950	108.24	100.74	177.71
1974-75 ..	4	174	165	3,270	1,019	124.43	90.02	146.13
1976-77 ..	1	35	22	281	95	35.95	22.21	16.67
	10	400	377	7,781	3,433	299.05	238.59	388.80

To meet the balance 40 *per cent* cost of the schemes (Rs. 199.36 lakhs), the Board had raised rural debentures for Rs. 164.00 lakhs. Out of Rs. 402.59 lakhs available for these schemes, the actual expenditure was Rs. 388.80 lakhs (March 1979).

None of the 5 schemes undertaken upto 1972-73 and scheduled for completion by 31st March 1978 had been completed (June 1980), though the repayment of loans from REC had already commenced. The Management attributed (February 1980) the slow progress, *inter alia*, to non-availibility of materials, transportation problems to remote areas, inadequate response from the villagers, shortage of power in 1973-74 and famine conditions in 1974-75.

(*b*) To raise funds for 40 *per cent* of the cost of the schemes, the Board decided (July 1972) to issue rural debentures bearing interest at $7\frac{1}{2}$ *per cent* on debentures subscribed by the rural people and at $4\frac{1}{2}$ *per cent* on those subscribed by REC, as matching contribution. However, due to delay in completing formalities like Government's approval under Section 65 of the Electricity (Supply) Act, 1948, Government's guarantee required by REC, exemption from payment of stamp duty, besides severe drought conditions in the State, the Board could not issue the debentures until July 1974 when the bank rate was revised upward. REC informed the Board (January 1975) that the rates of interest for debentures would be revised to 10 *per cent* and $7\frac{1}{2}$ *per cent* respectively. The Board issued the debentures valuing Rs. 95.92 lakhs in March 1976 against which debentures valuing Rs. 82.00 lakhs only were subscribed with a matching contribution of Rs. 82.00 lakhs by REC. Due to the delay of about 4 years, the Board lost the benefit of lower rates of interest, atleast on Rs. 92.45 lakhs for 5 schemes already approved (March 1973). The additional interest liability on this account would be Rs. 25.40 lakhs (10 years).

5.1.07.4 *Ordinary backward area schemes*

During the years 1971-72 to 1978-79, REC sanctioned 21 schemes under the backward area category, involving an expenditure of Rs. 302.17 lakhs. The duration of the loan was 25 years and the rate of interest was 5.25 *per cent*, 5.75 *per cent* and 6.25 *per cent* for the first 10 years, next 5 years and for the remaining period respectively. The scheme was to be completed in years and the loan amount was to be drawn in five instalments. The ıeme envisaged a minimum return of 0.5 *per cent* at the end of fifth year ɲn completion), 2 *per cent* within the next 5 years and 3.5 *per cent* within years thereafter. There was a moratorium of 5 years for the repayment loans.

The following table gives details of schemes sanctioned, loans received ɔm REC for and the progress of expenditure up to 1978-79.

Year of anc-tion	Number of schemes sanc-tioned	Electrification of villages		Energisation of wells		Total cost of the schemes	Loans availed up to 31st March 1979	Actual expen-diture up to 31st March 1979
		Target	Actual	Target	Actual			
	(Number)					(Rupees in lakhs)		
971-72 ..	2	88	87	2,087	650	102.63	93.98	94.26
972-73 ..	3	98	98	1,800	1,126	88.82	82.14	96.60
973-74 ..	1	10	10	55	21	4.75	4.75	4.98
974-75 ..	..	..	..	..	..	..	..	..
975-76 ..	1	21	19	400	217	42.50	32.39	29.73
976-77 ..	1	18	16	450	215	27.90	20.21	16.72
977-78 ..	5	196	63	3,396	299	215.16	116.50	55.17
978-79 ..	8	308	37	3,796	79	302.17	113.38	3.92
Grand Total	21	739	330	11,984	2,607	783.93	463.35	301.38

As against 6 schemes approved up to 1973-74 scheduled for completion ɔ to 1978-79, 3 schemes still remained to be completed (March 1980). /hile the actual expenditure on these schemes (up to March 1979) amounted › Rs. 195.84 lakhs as against the estimated cost of Rs. 196.20 lakhs, only ,797 (45.6 *per cent*) out of 3,942 wells had been energised. The Board had ot maintained any records to watch whether the minimum return as con-ːmplated in the schemes was being earned.

1977-78 ..	2	24	15	817	32	49.28	25.77	9.13
1978-79 ..	4	55	25	1,690	90	136.32	68.16	16.49

* Includes electrified villages.

5.1.07.5 *Mini farm production schemes*

REC decided (February 1975) to introduce a new 'Mini farm pro scheme with a view to electrify a group or cluster of villages which, of their isolated locations or for other reasons, could not be covere any scheme. REC approved 32 such schemes (estimated cost : Rs. lakhs) during 1975-76 to 1977-78. The loan was for a period of 10 yea moratorium for 2 years for repayment of principal, and carried inte 8 *per cent* per annum with 0.25 *per cent* rebate for prompt paymen scheme envisaged a gross revenue return of not less than 10 *per cen* annum on the capital base to be achieved at the end of two years.

The following table gives details of the schemes sanctioned, loans re from REC and the progress of expenditure up to 1978-79.

Year of approval	Number of schemes approved	Electrification of villages		Energisation of wells		Total cost of the schemes	Loans availed up to 31st March 1979	Ac exp tu as 3 Ma 19
		Target	Actual	Target	Actual			
	(Number)					(Rupees in lakhs)		
1975-76 ..	10	99	92	1,353	853	110.66	109.83	78.
1976-77 ..	19	227	175	2,903	1,567	202.04	199.27	149.
1977-78 ..	3	40	25	505	123	39.26	30.63	20.
	32	366	292	4,761	2,543	351.96	339.73	248.

The Board had implemented 30 schemes and had covered 267 villages against 326 villages envisaged.

The criteria of a minimum of 10 pumpsets per village as envisaged the scheme had not been fulfilled.

Out of loans of Rs. 309.10 lakhs obtained in respect of 29 schem approved in 1975-76 and 1976-77 the Board had incurred an expenditu of Rs. 228.06 lakhs (31st March 1979) leaving an unutilised balance Rs. 81.04 lakhs, involving an interest liability of Rs. 6.28 lakhs per annu

The Board had not maintained any records to watch whether the pecified minimum gross return (10 *per cent* per annum) on the capital ase was actually achieved after two years of the completion of the cheme.

.1.07.06 *Special project (Agriculture) scheme*

(a) With the extension of the distribution network of electric power 1 large areas, there was considerable increase in the demand for electri- ity for pumpsets in the electrified areas. With a view to energise such umpsets, REC introduced in January 1978, a new category of loan known s "Special project (agriculture) loan". The scheme envisaged electri- ication of pumpsets for immediate agricultural production purposes in reas administratively co-terminus with electrical sub-divisions or divisions. The scheme provided for electrification of wells/tubewells, pumpsets/lift rrigation pumpsets of private individuals, Government or co-operative ocieties in a sub-division or a division. The cost of the scheme, to be mplemented within 2 years, was to be between Rs. 15 lakhs and Rs. 50 akhs with a minimum return of 10 *per cent* on the capital base at the nd of the second year. The loan was for a period of 14 years and carried nterest at 9.25 *per cent* per annum with a rebate of 0.25 *per cent* for rompt payment and a 2 year moratorium on the repayment of the loan.

During the two years upto 1978-79, REC approved six such schemes estimated cost Rs. 185.60 lakhs). The following table gives details of chemes sanctioned, loans received from REC and the progress of expen- liture upto 1978-79 :—

Year of sanction	Number of schemes sanctioned	Electrification of villages		Energisation of wells		Total cost of the scheme	Loans availed up to March 1979	Actual expenditure up to 31st March 1979
		Taget	Actual	Target *	Actual			
		(Number)				(Rupees in lakhs)		
1977-78 ..	2	24	13	817	52	49.28	23.77	9.13
1978-79 ..	4	55	25	1,690	90	136.32	68.16	16.49

* Includes electrified villages.

5.1.07.7 *Electrification of left out backward and harijan areas in elec trified villages*

In November 1969, the Board approved the electrification of harijai and backward areas in already electrified villages at a total cost of Rs. 18 lakh to be shared equally between the Board and Government. The schem was completed, but since there were many villages having unelectrifie areas, the Board prepared 18 schemes to cover 1,277 such areas at a tota cost of Rs. 36.50 lakhs. All these schemes were sanctioned by REC durin the period from 1971-72 to 1974-75. The duration of all these scheme was only one year. The loans were for 15 years bearing interest at 5 *pe cent* per annum with 0.25 *per cent* rebate for prompt payment but withou any moratorium for repayment of the principal and withoutt any viabilit criteria.

The following table gives details of schemes sanctioned, loans receive from REC and progress of expenditure up to 1978-79 :—

Year of sanction	Number of schemes approved	Number of areas included in the scheme	Number of areas actually covered	Estimated cost of the scheme	Loans received up to 31st March 1979	Actual expenditure up to 31st March 1979
					(Rupees in lakhs)	
1971-72	1	66	..	4.37	4.37	2.48
1972-73	1	279	53	6.43	6.43	4.95
1973-74	1	168	142	4.93	4.93	4.39
1974-75	15	764	177	20.77	20.77	15.63
1975-76	..	..	267			
1976-77	..	..	632			
1977-78	..	..	6			
	18	1,277	1,277	36.50	36.50	27.45

The Board had completed the work in 1,277 areas up to 1978-79 at a cost of Rs. 27.45 lakhs. The delay in completion of work ranged from 12 to 24 months.

5.1.08 *Finance from Agricultural Refinance and Development Corporation*

The Board commenced availing of the loans (April 1977) against the refinance scheme of Agricultural Refinance and Development Corporation (ARDC). Under this scheme, the financial institutions like commercial banks, district co-operative banks, *etc.,* advance loans to the Board for financing electrification of pumpsets and in turn these institutions get 90 *per cent* refinance from ARDC. The loans to the Board were given at 10.5 *per cent* per annum interest whereas the banks got refinance from ARDC at 7.5 *per cent* per annum. The loans granted to the Board were to be repaid in seven years and the payment of principal and interest was to be guaranteed by the State Government.

Initially, the loans were being granted on reimbursement basis up to maximum of Rs. 4,500 per well (increased to Rs. 5,500 per well from 1st July 1978) if a motor of up to 5 H. P. was connected and an additional Rs. 1,000 for every increase of 2.5 H.P.

The following table gives the details of schemes sanctioned, number of wells to be energised, number of wells energised, loans sanctioned and amounts received up to 1978-79 :

Year of sanction		Number of schemes approved	Number of wells to be energised	Number of wells actually energised	Total amount of loan sanctioned	Amount of loan received
					(Rupees in lakhs)	
1977-78	..	2	19,400	4,702	1,059.65	265.26
1978-79	..	4	7,120	13,926*	392.24	854.66*
Total	..	6	26,520	18,628	1,451.89	1,119.92

* Excludes 3,372 wells energised during the last quarter of 1978-79 for which Rs. 22.08 lakhs were reimbursed in 1979-80.

Full details of the actual expenditure incurred on the wells energised [...] these schemes were not available, as schemewise accounts were not [...] ned, but as per information furnished to the State Government, the [...] had incurred an expenditure of Rs. 987.39 lakhs on these schemes [...] 31st March 1979 leaving an unutilised balance of Rs. 132.53 lakhs [...] interest liability of Rs. 13.91 lakhs per annum.

5.1.09 *Extra expenditure due to non-finalisation of tender within period*

Tenders invited for supply of 3 phase 4 wire meters of various ca[...] opened on 11th September 1978 were to remain valid for 90 days [...] the date of opening. For 10 and 30 Amp meters, the offer of firm 'A' [...] lowest technically acceptable at Rs. 174.57 (end cost) per meter [...] capacities. However, the Board could not finalise the tender with[in] validity period of 90 days and the firm 'A' was asked to extend the va[lidity] period. The firm 'A', while extending the validity period for 30 [...] increased the prices of these categories of meters to Rs. 195.37 (end [...] The Board placed (January 1979) order for 26,750 meters of these cat[egories] on firm 'B' at Rs. 177.24 per meter. As a result of not placing the [...] on firm 'A' within the validity period, an extra expenditure of Rs. 0.71 [...] had to be incurred.

The Management stated (February 1980) that based on the gradati[on] [...] quality, the meters of firm 'B' had been graded first amongst all makes, wh[...] meters of firm 'A' stood next to meters of firm 'B' and the Board [...] purchased 'A-1' quality meters from firm 'B'. It may, however, be st[ated] that firm 'A' is one of the regular suppliers of meters of different capa[cities] and phases and performance of their meters according to the Board is [...] satisfactory.

5.1.10 *Loss of conductors and transformers*

One 11 KV line erected between Garej and Bagasara villages during 197[...] at a cost of Rs. 2.02 lakhs fell down during the cyclone in Saurash[tra] area in October 1975. Neither was the line re-erected nor was the [...] material collected and removed to the Board's stores. In October 19[...] two transformers and conductors valuing Rs. 1.71 lakhs were found to h[ave]

[...]stolen. The Board's field engineer stated (May 1978) that as the [...]n of re-erection of the line was under consideration, the material [...]t removed and taken to the stores. Although a complaint was lodged [...]he police on 5th October 1977, the stolen materials had not been [...]red (November 1979).

Summing up

[...] Out of 216 urban areas and 18,275 villages in the State (1971 [...]s), 215 urban areas and 9,464 villages had been electrified and 1,77,798 [...] and tubewells energised up to March 1979.

[...] Against the targets of electrification of 4,350 villages, 88,654 wells/ [...]wells for the 5 years up to 1978-79, the Board had electrified 3,777 [...]es (86.8 *per cent*) and energised 74,837 wells/tubewells (84.4 *per* [...] The shortfalls were attributed to the shortage of aluminium con[...]rs and the after-effects of 1974 drought.

[...]) As against Rs. 62.61 crores received by the Board (from the State [...]rnment and other sources) for rural electrification during the 5 years [...] 1978-79, actual utilisation amounted to Rs. 47.47 crores (75.8 *per* [...]) resulting in a shortfall of Rs. 15.14 crores.

[...]) An expenditure of Rs. 6.84 lakhs (up to March 1976) on 19 [...]ernment tubewells had remained blocked as these tubewells had not [...] energised (March 1979). Details of energisation of 81 other Govern[ment] [...]t tubewells on which work was completed during April 1976 to March [...]8 were not available.

[...]) Due to delay in the finalisation of the agreement for AFC assistance [...] the energisation of 25,000 tubewells at a cost of Rs. 10 crores, an expen[dit]ure of Rs. 3.83 crores incurred by the Board was not reimbursed. [Be]sides, the amount of loan was reduced to Rs. 8 crores and the interest [...]e was revised from $3\frac{1}{2}$ *per cent* above the bank rate (minimum : $10\frac{1}{2}$ *per* [ce]nt) with $\frac{1}{2}$ *per cent* rebate for prompt payment (October 1973) to 6 *per* [ce]nt above the bank rate (minimum : 15 *per cent*) with additional 1 *per* [cent] for delayed payments (January 1975). Against an expenditure of [Rs.] 12.32 crores (23,256 wells), the Board had received reimbursement of [Rs.] 7.39 crores (June 1977).

(vi) In March 1978, while the amount outstanding against two AFC loans was Rs. 12.91 crores, the Board which had surplus funds of Rs. 20 crores did not make any payments. In December 1978, the Board advanced Rs. 10 crores to a supplier with interest at 10.25 *per cent.* In March 1979, the Board paid back Rs. 4.09 crores, leaving a balance of Rs. 6.76 crores with interest ranging from 13.5 to 15.0 *per cent.*

(vii) A review revealed that loans for various schemes were drawn much in excess of actual requirements resulting in an avoidable interest burden :

(*a*) Against Rs. 20.43 crores drawn in respect of 101 schemes undertaken with the assistance of REC the Board had incurred an expenditure of Rs. 17.25 crores leaving an unutilised balance of Rs. 3.18 crores (March 1979).

(*b*) Against Rs. 11.20 crores drawn in respect of 6 schemes approved by ARDC the Board had incurred an expenditure of Rs. 9.87 crores, leaving an unutilised balance of Rs. 1.33 crores (March 1979).

(viii) The Board lost the benefit of lower rates of interest due to delay in the issue of rural debentures and the revision of the rates of interest by REC resulting in an additional interest liability of Rs. 25.40 lakhs.

(ix) The Board had not been maintaining any records to watch whether the minimum return as envisaged for the different schemes was in fact being achieved.

(x) Delay in the finalisation of tenders had resulted in an extra expenditure of Rs. 0.71 lakh on the purchase of meters.

(xi) Failure to remove or re-erect an 11 KV line brought down by a cyclone had resulted in a loss of Rs. 1.71 lakhs due to theft of 2 transformers and conductors.

5.2 Ukai and Gandhinagar Thermal Power Stations

5.2.1 *Introductory*

The estimated load in the State at the end of the Fourth 5-Year Plan (1973-74) was assessed at 1,500 MW requiring an installed capacity of 2,000 MW. The aggregate generating capacity available in the State by e end of 1973-74 was estimated at 1,367 MW. To make up the deficit, e Board submitted (August 1968) to the Planning Commission a proposal r the construction of a coal-based conventional thermal power station at kai, with a generating capacity of 480 MW (consisting of four sets of !0 MW each) at an estimated cost of Rs. 57.50 crores, which was revised Rs. 68 crores in February 1969. The construction was to be completed two phases ; first phase (240 MW capacity) to be completed in the ourth Plan and the balance (240 MW capacity) covering the second phase, be completed in the beginning of the Fifth 5-Year Plan.

Meanwhile, keeping in view the need to maximise power generation uring the Fourth 5-Year Plan period, and in the context of increasing emand for power in north Gujarat region, the State Government decided April 1970) to split up the proposed Project at Ukai into two power ations (240 MW each) one at Ukai and the other at a suitable location 1 north Gujarat and the Board was directed accordingly.

The Board submitted a project report to the Planning Commission June 1970) for setting up a thermal power station (240 MW capacity) t Gandhinagar at an estimated cost of Rs. 41.62 crores, which was cleared y the Planning Commission in October 1972 at an estimated cost of .s. 45.62 crores for inclusion in the State's Fourth 5-Year Plan.

The Board also submitted a project report (August 1971) for the nstallation of two units of 120 MW each at Ukai at an estimated cost of ts. 39.50 crores to be commissioned by December 1973/June 1974.

The estimated cost of Rs. 68 crores (February 1969) thus went up to Rs. 85.12 crores-an increase of Rs. 17.12 crores (25 *per cent*).

.2.2 Ukai Thermal Power Station

.2.2.1 *Project estimates and cost*

The project cost of Rs. 39.50 crores (August 1971) for the setting up of wo units of 120 MW each at Ukai was revised to Rs. 43.06 crores in April 1973 and to Rs. 53.43 crores in August 1974-an increase of Rs. 13.93 crores (35 *per cent*). The actual expenditure incurred up to 31st October 1979 amounted to Rs. 49.69 crores although the project was completed/

commissioned in June 1976, all the bills of the contractors had not been finalised/paid, and the final cost of the project had not been determined (March 1980). The upward revision in cost estimates was attributed by the Board (August 1974) to all-round escalation in the prices of plant and machinery, construction material and labour.

In order to meet the increasing demand for power, the Board had taken up (1973-74) a programme for the expansion of the Ukai power station by putting up units III and IV of 200 MW each at an estimated cost of Rs. 93.30 crores. Unit III which was scheduled to be completed in October 1977, was commissioned in January 1979 and Unit IV scheduled to be completed in October 1978 was commissioned in September 1979. The actual expenditure up to 31st March 1980 amounted to Rs. 87.27 crores. Further expansion of this power station by adding one more unit of 200 MW at an estimated cost of Rs. 66.83 crores had also been approved (February 1978) by the Planning Commission and work was in progress (March 1980). This unit is expected to be completed in 1982-83.

5.2.2.2 *Delay in completion of the Project* (2 × 120 MW)

(*a*) When the Board placed a firm order for two units of main generating plant in August 1969, Bharat Heavy Electricals Limited, Bhopal (BHEL) indicated (December 1969) a delivery schedule commencing from March 1972.

As per the project report prepared in August 1971, the first unit was scheduled for commissioning in December 1973, followed by the commissioning of the second unit in June 1974.

The following table indicates the stipulated and actual dates of supply of generating plant and the target dates and actual dates of commissioning of the two units :

	Unit I		Unit II	
A. Supplies	As indicated by BHEL	Actual	As indicated by BHEL	Actual
Condenser	March 1972	October 1973	December 1972	August 1973
Turbine	July 1972	January 1974	March 1973	April 1974
Generator	January 1973	October 1974	October 1973	March 1975

Commissioning	As per project report (August 1971)	As revised (September 1973)	As revised (July 1974)	Actual
Unit I	December 1973	December 1974	March 1975	March 1976
Unit II	June 1974	March 1975	June 1975	June 1976

It will be seen that the commissioning of Units I and II was delayed by 27 and 24 months respectively. This was the result of delays in supplies, defects in the equipment supplied and delay in the erection of the main generating plant.

(*b*) Besides, there were delays in the placement of orders for some essential auxiliary equipment. To illustrate :—

(*i*) The order for the supply and erection of five cooling water pumps was placed in August 1972 with ex-works delivery of the first pump after 22/24 months and the remaining four at the rate of one pump per month thereafter.

(*ii*) The order for the supply and erection of the coal handling plant and wagon tipplers was placed in August 1972 with a completion period of 24 months.

(*iii*) The order for the supply of 'butterfly' valves was placed in July 1972 with the delivery date after 24/30 months.

(*iv*) The contract for the supply and erection of the ash handling plant was placed in January 1973 with a completion period of 22 months.

(*v*) The contract for the water treatment plant was placed in May 1973 with a completion period of 14 months.

(*vi*) The contract for electrical installation work was placed in February 1974 with 12/13 months' completion time.

The Management stated (March 1980) that the delay in completion w largely attributable to delays in the supply of the main generating plant a instrumentation and control equipment ; the designs of auxiliary equi ment depended on various parameters of the main plant and could completed only after the design of the main plant was finalised and th in none of the cases, the delay was considered avoidable.

5.2.2.3 *Extra-contractual payment of escalation*

(*i*) The contract for the construction of reinforced cement concrete fou dation for the power house was awarded in June 1971 to firm 'C' Bombay, on item rate basis at a total value of Rs. 69.59 lakhs. The pri were firm except for escalation for labour which was subject to a ceili of Rs. 2.00 lakhs. The work was to be completed by 24th September 19 (*i. e.* 18 months from 24th March 1971). However, the work was actua completed on 27th June 1974.

The firm was paid Rs. 2.00 lakhs towards labour escalation up September 1973 as against Rs. 0.21 lakh that would have been admissi up to September 1972, *i. e.* the stipulated date for completion. Further, a representation from the firm the ceiling limit on labour escalation removed in December 1973 without the approval of the Board. Althou the work was completed in June 1974 the firm had claimed additio escalation of Rs. 3.26 lakhs including Rs. 0.49 lakh (for the period J 1974 to September 1974) which was paid in November 1974.

The Management had stated (March 1979) that the ceiling had to removed lue to an unprecedented increase in the cost of labour ; ex payment of Rs. 0.49 lakh on this account beyond the date of actual c pletion of work was under scrutiny. The approval of the Board however, obtained in May 1980.

(*ii*) The contract for the supply and erection of power plant piping awarded in September 1973 to firm 'D' of Baroda at Rs. 51.74 lakhs. price was firm and not subject to any variation, statutory or otherw during the contract period up to 31st December 1975. Thereafter, if work was not completed for reasons attributable to the Board, a lump ayment of Rs. 0.30 lakh per month towards extra charges was to be made o the firm till the contract was completed.

In May 1974, the firm reported that prices of pipes had gone up and they vere not able to get them unless the prices quoted by them were increased, leading further that the price increase was not provided in their tender/ contract as they wanted it to be treated as a 'force majeure' condition. After negotiations the Board agreed, in May 1975, to pay Rs. 2.62 lakhs owards price increase, against which a sum of Rs. 2.02 lakhs (for pipes urchased) was paid up to May 1976. Meanwhile, on the ground that the irm was not able to procure all the pipes required, the Board had supplied November 1974—January 1975) 166.144 tonnes of pipes (value : Rs. 2.30 akhs), the cost of which had not been recovered from the firm (March 980). While the work had been completed in May 1976 the final bill ad not been prepared so far (March 1980).

The Management stated (March 1980) that during 1974, there was a 0-100 *per cent* increase in the prices accepted in the contract and the equest of the firm for increase in price was accepted as a special case. The Management stated further that the question of recovery was under consideration and the amount finally decided to be recovered would be adjusted n the final bill.

(*iii*) A contract for supply, delivery at site, fabrication and erection of ower house steel structures, coal bunkers, switch yard structures and torage tanks was awarded in March 1972 to firm 'E' of Ahmedabad at Rs. 89.33 lakhs, which was subject to variation in prices of bolts and nuts, tainless steel and cement up to the contractual date of completion of the vork and that of steel and zinc during the entire period of execution of he contract. While the date of completion of the contract was May 1973, he work was actually completed in July 1976, and the bill of the firm was et to be finalised (March 1980). Extension in time limit without enforcing the penalty clause was approved by the Board in December 1977 on he ground that the contractors were not responsible for the delay.

The firm claimed and the Board paid price variation claims of Rs. 3.79 akhs which included Rs. 1.10 lakhs in respect of steel and mild steel pipes Rs. 0.78 lakh), stainless steel (Rs. 0.03 lakh) and bolts and nuts Rs. 0.29 lakh) supplied after the contractual delivery date. The extension in time limit without limiting escalation up to the stipulated delivery schedule resulted in an extra expenditure of Rs. 1.10 lakhs.

The escalation charges of Rs. 3.79 lakhs covered escalation charges for zinc (Rs. 1.55 lakhs) which included Rs. 0.54 lakh against supplies effected during 4th August-23rd September 1974. The claim was based on an invoice dated 31st August 1974 for purchase of zinc from Minerals and Metals Trading Corporation Limited. On being pointed out in audit (November 1975) that the supplies effected up to 31st August 1974 could not have been fabricated, galvanised and supplied from zinc received against an inivoice dated 31st August 1974, the Board stated that the zinc purchased by the firm for another contract had been utilised and hence the claim was admitted. However, the Board had not called for any evidence for the actual price paid by the firm.

(*iv*) In November 1973, a contract for the supply and erection of instrumentation and control equipment for the boilers for Ukai and Gandhinagar power stations was awarded, on a turn-key basis, to Instrumentation Limited, Kotah, at Rs. 99.00 lakhs for each station. The price was, however, revised (November 1977) to Rs. 110.96 lakhs and Rs. 123.70 lakhs for Ukai and Gandhinagar stations respectively, due to increase in the scope of supplies. The prices were firm without any variation, statutory or otherwise. Due to an all-round increase in prices, however, the undertaking had claimed (October 1977) a price escalation of Rs. 20.34 lakhs for Ukai and Rs. 19.30 lakhs for Gandhinagar against which the Board allowed (November 1977) Rs. 10 lakhs as *ex-gratia* payment for both the stations.

5.2.2.4 *Performance of the Ukai power station*

After the commissioning of the two units (March-June 1976) manufacturing/fabrication defects were noticed in soot blowers, burner tilting mechanism, coal mills, turbine (leakages), *etc.* and as such the performance guarantee tests have not been taken so far (March 1980). The Management stated (March 1980) that a high level committee of the supplier's experts as well as the officers of the Central Electricity Authority and the Board was going into various aspects to identify the defects and to suggest corrective measures.

The following table analyses the overall performance of the power station on the basis of hours available and hours actually used for generation of electricity during the three years up to 1978-79 :—

	1976-77	1977-78	1978-79
(1) Total hours available for operation in the year :			
Unit-I	8,760	8,760	8,760
Unit-II	6,746	8,760	8,760
Total	15,506	17,520	17,520
Less			
(2) (a) Planned shut down hours	60	153	326
(b) Forced shut down hours	7,840	2,054	1,191
(c) Major equipment rehabilitation hours	..	6,251	3,724
Total	7,900	8,458	5,241
(3) Hours actually operated	7,606	9,062	12,279
(4) Percentage of total hours	49.1	51.7	70.1
(5) Units which could have been generated in the actual hours operated (MKwh)	912.720	1,087.440	1,473.480
(6) Units actually generated (MKwh)	423.713	671.616	934.442
(7) Shortfall in generation (5-6) (MKwh)	489.007	415.824	539.038
(8) Percentage of shortfall	53.6	38.2	36.6

The Management stated that the hours lost were mostly on account of leakages in boilers, super heater and condenser tubes, for acid cleaning of tubes, checking of generator guide valves, checking of thrust bearing, *etc.* The shortfalls in generation (related to actual hours of operation) had not been analysed by the Board.

In June 1978 the Board decided on an inspection and general overhaulir of both the units and to engage the services of the engineers of the supplie for supervision of overhauling at an estimated cost of Rs. 2.54 lakh Besides, the cost of spares and consumable stores and other labour ar supervision charges were to be borne by the Board. The work of ove hauling was undertaken from June-September 1978 (unit I) and July October 1979 (unit II). The actual expenditure incurred on overhauling two units amounted to Rs. 55.02 lakhs (supervision services : Rs. 3.31 lakh job work : Rs. 1.85 lakhs; labour : Rs. 13.04 lakhs and materials/tools Rs. 36.82 lakhs).

5.2.2.5 *Cost analysis*

The cost of generation worked out on the basis of actual expenditure c operating the power station during the three years up to 1978-79 is give below :—

Particulars	1976-77	1977-78	1978-79*
Units generated (in MKwh)	423.713	671.616	985.902
Auxiliary consumption (in MKwh)	45.276	66.948	118.138
Percentage of units generated	10.7	10.0	12.0
Power available for sale ..	378.437	604.668	867.764
Total cost of generation (excluding interest) (Rupees in lakhs)	818.28	998.32	1,761.04
Cost per unit (in paise)	21.6	16.5	20.3

The Board had neither worked out the cost of generation nor analyse the reasons for variations in actual cost from year to year.

The sharp increase in the cost of generation during 1978-79, as compare to 1977-78 was due mainly to increase in the price of coal, oil, *etc*.

* Figures include units generated (51.460 MKwh) and units available for sal (44.291 MKwh) and operating cost of unit No. III commissioned on 21st Januar 1979. (No separate operation and maintenance accounts for unit III had bee maintained).

As per the project report of August 1974, cost per unit (excluding interest charges) was estimated at 9.2 paise. The actual cost had been higher due, *inter alia*, to the following :—

(*i*) The project estimates were based on 60 *per cent* load factor whereas the actual load factor achieved ranged between 25 and 39 *per cent*.

(*ii*) Low calorific value of coal received (4,770 K. Cal/kg on an average) against that assumed (5,400 K. Cal/kg) in the project estimates.

(*iii*) Prolonged shutdowns and non-stabilisation of sets due to manufacturing and fabrication defects.

5.2.2.6 *Inventory control*

The details of receipts and issues of stores during the five years up to 1978-79 are given below :

Year	Opening Balance	Receipts	Issues	Closing Balance
1974-75	..	569.55	233.13	336.42
1975-76	336.42	683.34	829.13	190.63
1976-77	190.63	589.23	374.95	404.91
1977-78	404.91	318.03	321.33	401.61
1978-79	401.61	280.78	298.95	383.44

The power station had not identified slow moving, non-moving, obsolete/scrap and unserviceable stores until August 1979 when an analysis of 353

(value : Rs. 275.59 lakhs) out of 5,821 items of stores (value : Rs. 3,21.7 lakhs) revealed the following position :—

	Total items	Total value (Rupees in lakhs)	*Per cent*
Fast moving stores	43	75.52	27.4
Slow moving stores	229	188.89	68.6
Non-moving stores	33	2.45	0.9
Scrap and unserviceable stores	38	8.63	3.1
Obsolete stores	10	0.10	
Total	353	275.59	

It will be seen that slow moving stores constituted 68.6 *per cent* (value Rs. 188.89 lakhs) of the inventory (August 1979). No action had bee taken for the disposal of 48 items of obsolete/scrap/unserviceable store (value : Rs. 8.73 lakhs) including mild steel/galvanised iron scrap of th value of Rs. Rs. 4.97 lakhs.

5.2.2.7 *Man-power analysis*

The total staff requirement for the operation and maintenance of th power station was approved by the Board at 451 in January 1974, whic was increased to 594 in May 1977 and to 694 in December 1978 for a the four sets.

The details of actual posts operated during the four years up to 1978-7 are given below :—

Year	Office	Operation and maintenance	Work charged staff	Nominal muster roll	Total
1975-76	60	..	98	435	593
1976-77	69	189	97	334	689
1977-78	65	218	64	365	712
1978-79*	77	383	81	415	956

* Including Unit III from January 1979.

The total number of employees engaged was much in excess of the pproved strength, the reasons for which had not been analysed.

In addition, the project office had entered into labour contracts for iscellaneous items of work like providing the approaches, levelling the eas, supply of water, cleaning of power house, *etc.*, and incurred an penditure of Rs. 2.77 lakhs on such labour contracts during the three years to 1978-79.

2.2.8 *Losses due to an accident*

A Railway diesel engine with a rake of 28 box-wagons loaded with coal ished (23rd May 1979) against the Board's diesel shunting engine (shunter) hich was removing wagons near tippler No. 2 and pushed the Board's iunter and empty wagons against the platform of the tippler causing very eavy damage to the diesel shunter, empty wagons and the tippler. The loss the Board's property was estimated at Rs. 39.11 lakhs, for which the oard lodged a claim (June 1979) with the Railways. The Railway authoties had not accepted the claim so far (March 1980).

2.3 *Gandhinagar Thermal Power Station*

.2.3.01 *Project estimates and cost*

The project report for the Gandhinagar power station (240 MW) at an stimated cost of Rs. 45.62 crores was approved by the Planning Commission October 1972. Due to all-round increase in costs, the estimates were evised to Rs. 60.44 crores in August 1974, against which the expenditure icurred was Rs. 56.30 crores up to 30th September 1979 excluding xpenditure on spares valuing Rs. 60 lakhs. Though the project had been ompleted in April 1977, bills against some of the major contracts had not een settled and hence the final expenditure on the project was not ascerainable (March 1980). The Management stated (February 1979) that the final xpenditure on the project was expected to be of the order of Rs. 58.20 crores fter all the claims have been settled.

5.2.3.02 *Delay in the completion of the project*

The Planning Commission while approving the scheme (November 1972) had fixed the schedule for the commissioning of the power station in the year 1975-76. However, on the basis of the delivery schedule (from January 1974 to January 1975) for the main machinery indicated by BHEL, target dates of commissioning the power station were fixed by the Board as October 1975 for first unit and April 1976 for the second unit. Actual dates of supply of the main machines and commissioning of the units were as under:—

	Unit I		Unit II	
A. Supplies	As indicated by BHEL	Actual	As indicated by BHEL	Actual
Condenser	January 1974	March 1975	May 1974	June 1975
Turbine	May 1974	October 1975	September 1974	February 1976
Generator	September 1974	November 1975	January 1975	March 1976

B. Commissioning	As per Project Report (June 1970)	As revised (April 1976)	Actual
Unit I	October 1975	December 1976	March 1977
Unit II	April 1976	September 1976	April 1977

It will be seen that commissioning of the units I and II was delayed by 17 and 12 months respectively. This was the result of delays in placing/ execution of orders in respect of essential auxiliary equipment, *etc.* To illustrate :—

(i) On the basis of tenders invited (September 1975), an order was placed in February 1976 for two radial wells for cooling water to be completed within 9 months. The first well was completed in May 1977 and the second in August 1978.

(*ii*) Order for the coal handling plant was placed in March 1974 with September 1976 as the completion date. The plant was completed in September 1977.

(*iii*) The contract for the supply of 5 cooling water pumps (with motors) was placed in March 1974 with a stipulated delivery at the rate of one pump per month commencing after 24/26 months and was to be completed by September 1976. Supply was completed by February 1977.

The Management stated (March 1980) that specifications for these items auxiliary equipment required detailed study of various factors such as ıalysis of raw water, composition of available coal, decision regarding ıurce of water for cooling (whether to have radial wells or jack wells), c. and since the main equipment was already delayed, advantage of the me available was taken to ensure that proper specifications for auxiliary ıuipment before the orders were placed.

2.3.03 *Excessive wastage in fabrication*

The contract for the supply, fabrication and erectcion of switchgear and ɔwer house steel structure, coal bunkers and storage tanks was awarded to rm 'E' in March 1972 at a total cost of Rs. 89.33 lakhs. The steel requireıent for the job was estimated at 3,970 tonnes (including $2\frac{1}{2}$ *per cent* ıaccounted wastage). However, due to insufficient storage facility at the ɔwer station site, the actual quantity of steel issued by the Board to the ɔntractor till June 1977 was 5,508 tonnes, of which 4,412 tonnes were ctually used in fabrication works. Out of the remaining quantity of 1,096 ɔnnes, 340 tonnes (full length) were returned by the contractors, 744 ɔnnes were returned as cut pieces and scrap and 12 tonnes remained unccounted for. Against the permissible wastage of 110 tonnes (at $2\frac{1}{2}$ *per ent*) the total wastage of steel (including cut and scrap pieces) works out ɔ 756 tonnes. The value of excess wastatge of 646 tonnes at Joint Plant Committee rates works out to Rs. 8.78 lakhs. The Board had not investiated the reasons for issuing steel much in excess of actual requirements nd the heavy incidence of wastage of steel.

5.2.3.04 *Ex-gratia payment*

The Board placed an order on firm ' F ' of Bombay in October 1973 for th supply of 415 volts A. C. switchgear, 220 volts D. C. switchgear, lightin distribution load and D. C. starting and relays for a total value of Rs. 64.0 lakhs, exclusive of sales tax. The price (which included an increase c Rs. 3.91 lakhs over the tendered price allowed while placing the order) wa firm except for variations in the exchange rate, customs duty, freight an insurance in respect of imported components (valuing Rs. 2.50 lakh *c. i. f.*). The supply was to be completed before March 1975. However, du to delay (ranging from 3 to 18 months) on the part of the Board in approv ing the drawings and power cuts in the State of Maharashtra from Octob 1974 onwards, the supplies were commenced in April 1975 and completed i May 1976. The suppliers demanded price increase due to rise in price of ra materials and labour cost against which the Board allowed (Novemb 1975) an *ex-gratia* payment of Rs. 5.0 lakhs (not covered by the terms c the order). The Management stated (March 1980) that the *ex-gratia* pay ment was approved after taking into account the extra-ordinary increase i the prices of raw materials and labour rates during the period of supply.

5.2.3.05 *Delay in supply of equipment*

In November 1973 an order for the supply of 4 (2 for Ukai and 2 fc Gandhinagar power stations) tractor dozers with coal dozing attachmen at a total cost of Rs. 25.00 lakhs (at Rs. 6.25 lakhs each), was placed o firm ' G ' (a Central Government undertaking). In terms of the contrac 30 *per cent* advance (Rs. 7.50 lakhs) was paid alongwith the order an these dozers were to be delivered in 6 to 8 months from the date of th order, *i. e.* by 23rd July 1974. After supplying one tractor dozer at Uk the firm contended (October 1974) that sudden and abnormal price increa in the wake of oil crisis had upset their arrangement with the sub-supplier who had gone back on their commitments for the supplies of component Further, there was a sharp increase in the labour costs due to a wag settlement, which had increased their cost of manufacture and they we thus unable to supply the remaining three units at the agreed price. Th two tractors meant for Gandhinagar station and the remaining one for Uk were finally supplied in May 1976. During the period of delay of abo

2 months, there were increases in statutory duties and the Board paid .s. 0.38 lakh being 1 *per cent* execise duty and 1 *per cent* Central sales tax nposed from March 1975 and July 1975 respectively. Further, due to delay, e Board lost about Rs. 1.13 lakhs by way of interest at (11 *per cent* or 22 months) on Rs. 5.63 lakhs advanced for the equipment. In the osence of a penalty clause in the contract, the Board could not impose ny penalty for the delayed supplies.

2.3.06 *Supply and installation of coal handling plant*

(*i*) On the basis of tenders invited in October 1973, the contract for the ipply and commissioning of the coal handling plant along with wagon pplers was placed on firm 'H' in March 1974 at a price of Rs. 300.00 khs. The contract price was inclusive of excise duty and was firm. owever, the contractor claimed Rs. 1.00 lakh due to Central excise duty at *per cent* imposed from 1st March 1975, for the supplies made during the eriod from 1st March to 26th July 1975 and the same was paid by the oard. Further claim for the supplies made after 26th July 1975 had not een admitted by the Board, as not payable in terms of the contract. The lanagement stated (March 1980) that a sum of Rs. 0.82 lakh had been covered from the bills of the supplier and the balance was proposed to e recovered from the works bills.

(*ii*) The plant was to be supplied and commissioned in 30 months, *i. e.* y September 1976. However, the same could not be put to use by the oard till September 1977. The actual date of commissioning was, however, ot on record.

(*iii*) The firm was paid an advance of Rs. 60.00 lakhs (20 *per cent*) earing interest at 11 *per cent* per annum. The Board had neither extended le time for delivery nor imposed the penalty of Rs. 15.00 lakhs for delays s leviable in terms of the contract (December 1980).

(*iv*) The contract price of Rs. 300.00 lakhs was reduced (October 1979) Rs. 298.20 lakhs on account of reduced rating of the motors. However, e firm had already been paid Rs. 300.06 lakhs. The excess payment of s. 1.86 lakhs had not been recovered (March 1980). The Management stated (March 1980) that the matter was being looked into and if exce payment was established, the same would be recovered.

5.2.3.07 *Non-availment of benefit of fall in prices*

(*a*) The contract for civil works for the coal handling plant was plac in January 1975 on firm 'I' at the total cost of Rs. 69.37 lakhs. The wo was to be completed in 9 months from 4th December 1974, *i. e.* by 3 September 1975. The price was subject to adjustment, due to variation respect of cost of labour, materials and petroleum products, up to a ceili of Rs. 1.50 lakhs. The labour rates were based on the consumer's pr index for October 1974 for Baroda. The work was completed on 30 August 1976. The contractor had not claimed any escalation charges. perusal of the Gujarat Labour Gazette revealed that the consumer pr index for working class for October 1974 was 322 which came down 296 in September 1975, 289 in December 1975 and 279 in August 1976 which time the work was completed. The Board had not sought any redu tion in the prices due to the fall in the consumer's price index wh paying contractor's running account bills. Although this was pointed in audit in May 1978 to the project office, no action had been taken to wo out the price adjustment and recover the same from the firm (March 198

(*b*) An order for the supply of 50 km. of 650/1100 volt grade, 3 co 6 sq. mm. (7/1.06 mm. stranded) aluminium cable was placed on firm ' on 31st January 1974 at Rs. 7,170 per km. *f. o. r.* destination (total co Rs. 3.59 lakhs) on a firm price basis. Supply was to commence af 2½ months and completed within six months, *i. e.* by 15th October 19 Soon after the placement of the order, the firm represented (February/Ju 1974) that on account of heavy increase in the prices of raw materi such as PVC, galvanised steel wire, aluminium, etc., it would not be ab to make the supplies at the ordered prices and demanded a price increa to the extent of 51 *per cent*. The Board considered the request and allow (October 1974) a price increase of 14 *per cent*, raising the price Rs. 8,173.80 per km. and also instructed the firm to deliver the cables 12 weeks from 4th October 1974, *i. e.* by the end of December 1974. T firm had supplied 28.050 km. of cable up to November 1975, and the balar quantity of 21.950 km. was received during the period from December 19 to February 1976 and was paid for the entire quantity at the increased price of Rs. 8,173.80 per km.

The Board had placed another order for the same type of cable in January 1976 on another firm 'K' at a firm price of Rs. 6,622 per km. *f. o. r.* destination, on the basis of tenders invited in November 1975. As the prices had dropped and firm 'J' had delayed the supplies acceptance of 21.950 km. of cable delivered after November 1975, by firm 'J' had resulted in an avoidable expenditure of Rs. 0.34 lakh.

5.2.3.08 *Payments not covered by contracts* :

(*i*) The contract to design, manufacture, supply, unload, transport to site, erect, test and commission the chlorination equipment for Ukai and Gandhinagar power stations was placed on firm 'M' of Bombay for Rs. 5.07 lakhs on a firm price basis. As the price was firm and as this was a combined supply and works contract (without a break-up of the price between supply portion and erection in the contract), the Central sales tax was not payable. The firm claimed and the Board paid Rs. 0.19 lakh as Central sales tax which lacked justification.

(*ii*) In respect of all contracts for supply of equipment, *etc.*, the price for equipment to be supplied was deemed to be inclusive of sales tax, local or Central, paid by the suppliers on the bought out items procured for the supplies under the contract. It was noticed, however, that six suppliers had claimed and the Board had paid surcharge/incidental charges of Rs. 4.18 lakhs to cover sales tax paid by them on such bought out items.

5.2.3.09 *Performance of the power station*

Although the sets are in operation since April 1977, performance guarantee tests have not yet been carried out (March 1980) due to manufacturing/fabrication defects noticed in the boilers as well as in the turbo generators. Although it was stated that no major manufacturing or fabrication defects were noticed, difficulties were experienced during operation of these sets and generation was reduced due to frequent failures of boiler tubes, vibrations of the turbine generator-sets, breakage of induced draft fan impellors, unsatisfactory operation of mills, oil leakage from the turbin bearings, etc. These defects were being rectified by the suppliers (Marc 1980).

The following table analyses the overall performance of the power statio on the basis of hours available and hours actually used for generation o electricity during the two years up to 1978-79 :

	1977-78	1978-79
1. Total hours available for operation		
Unit		
I	8,760	8,760
II	8,544	8,760
Total	17,304	17,520
Less		
2. (a) Planned shut-down hours	6,949	2,641
(b) Forced shut-down hours	1,138	910
(c) Reserve shut-down hours	187	..
Total	8,274	3,551
3. Total hours actually operated	9,030	13,969
4. Percentage of hours operated to available hours	52.2	79.7
5. Units which could have been generated in the actual hours operated (in MKwh).	1,083.600	1,676.280
6. Units actually generated (in MKwh)	553.422	1,015.553
7. Shortfall in generation (5—6) (in MKwh)	530.178	660.727
8. Percentage of shortfall	48.9	39.4

Hours lost were mainly due to planned shut-down for rectification o defects in the boilers and turbo generators. Forced shut-downs were due t (i) the failure of economiser tubes, (ii) tripping of boiler feed pumps resultin a low drum level in the boilers, (iii) protection equipment not functioning when initially put into service, (iv) failure of boiler water wall tubes and (v) steam leakage from main steam stop valve by-pass *etc.*

.2.3.10 *Cost analysis*

The cost of generation worked out on the basis of actual expenditure of operating the power station for the years 1977-78 and 1978-79 is given below :—

	1977-78	1978-79
Unit generated (in MKwh) ..	553.422	1,015.553
Auxiliary consumption (in MKwh)	69.703	105.449
Percentage of units generated	12.6	10.4
Power available for sale (in MKwh)	483.719	910.104
Total cost of generation (excluding interest) (Rupees in lakhs).	1,060.17	2,017.11
Cost per unit (in paise)	21.9	22.1

The Board had neither worked out the cost of generation nor analysed the reasons for variations in actual cost compared with the cost indicated in the project estimates. In the revised project estimates (August 1974) the cost per unit (excluding interest) was estimated at 10.2 paise. The actual cost was more than double the estimated cost due, *inter alia,* to the following :—

(*i*) The project estimates were based on 60 *per cent* load factor whereas the actual load factor during 1977-78 and 1978-79 was 29 *per cent* and 46 *per cent* respectively.

(*ii*) Low calorific value of coal received (4,600 K. cal/kg.) against that (5,400 K. cal/kg.) assumed in the project estimates.

(*iii*) Increased operational cost due to prolonged shut-downs and non-stabilisation of sets.

(*iv*) More use of light diesel oil/residual fuel oil in lieu of coal.

(*v*) **Imposition of Central excise duty, at 2 paise per unit on electricity generated.**

5.2.3.11 *Inventory Control*

The power station was under construction till April 1977 and the details of receipts and issues of stores during the two years up to 1978-79 are given below :

Year		Opening Balance	Receipts	Consumption	Closing Balance @
1977-78	..	138.06	753.56	711.10	180.52
1978-79	..	180.52	1,015.17*	991.11**	204.58

The Board had not yet fixed the maximum, minimum and ordering levels for different stores.

As on 31st March 1979, the project office had classified 3,868 items valuing Rs. 204.58 lakhs (including spares) as under :—

		Number of items	Value (Rupees in lakhs)	*per cent*
Fast moving material	..	1,598	117.46	57.4
Slow moving material	..	345	5.30	2.6
Non-moving (including spares)	..	1,800	78.22	38.2
Scrap and unserviceable	..	125	3.60	1.8
		3,868	204.58	

* This includes stores valuing Rs. 75.72 lakhs initially issued in excess to works, now returned to stores.

** Includes stores valuing Rs. 23.51 lakhs transferred to other stores centres.

@ The balance includes value of spares also.

The Management stated (March 1980) that once the power station came normal functioning, the stocks would be scrutinised and reclassified and solete and useless materials would be disposed of at the appropriate time.

5.2.3.12 *Manpower analysis*

As per the organisational chart given in the project report, the requirement personnel for the operation and maintenance of the power station was ed at 360. Against this, the number of sanctioned posts as on 31st March 79 was 579 while the actual number of persons employed was 639 91 persons on regular basis and 148 persons on nominal muster roll). addition, the project office had also engaged labour on contract basis d incurred an expenditure of Rs. 0.40 lakh and Rs. 3.18 lakhs during e years 1977-78 and 1978-79 respectively. The labour so engaged was used, *ter alia*, for cleaning and maintenance work in the power house including e stores branch. The Management stated (March 1980) that the staff gaged on workcharged basis as well as on nominal muster rolls was *hoc* and not part of the normal operation and maintenance staff.

5.2.4 *Payments of overtime and shift-cum-power station allowance*

(a) Under the Gujarat Electricity Board Service Regulations, overtime lowance is not payable to the Junior and Deputy Engineers of the Board. owever, the Junior and Deputy Engineers working at Ukai and Gandhinagar wer stations had been paid overtime allowance amounting to Rs. 6.12 lakhs ring the period from April 1976 to October 1979 (Ukai : Rs. 3.85 lakhs d Gandhinagar : Rs. 2.27 lakhs).

The Management stated (March 1980) that the Junior and Deputy ngineers working in the Power Stations were not considered supervisory aff as they were required to do original work and overtime allowance was yable to them in accordance with a compromise accepted in a dispute ith them.

(b) The Board sanctioned (June 1976) the payment of shift-cum-power ation allowance from 1st August 1976 at specified rates to engineers categorised as Junior Engineers and above) working in the power stations and sub-stations. This allowance was payable only to those engineers wh were working in general or rotating shifts in power houses and sub-statior and not to other engineers. However, this allowance was being paid to a the engineers posted at Ukai and Gandhinagar power stations, irrespectiv of their working on constrution jobs or in the power houses or even t those who were working in the offices. The payments already made to th engineers not entitled to this allowance amounted to Rs. 4.70 lakhs up t October 1979 (Ukai : Rs. 3.29 lakhs and Gandhinagar : Rs. 1.41 lakhs).

The Management stated (March 1980) that the shift-cum-power statio allowance was paid to the engineering staff in accordance with a compromis accepted in terms of the award of an arbitrator in a labour dispute an that a proposal to extend this allowance to all the engineers working in th power station was under consideration.

5.2.5. *Summing up*

(i) With the splitting up (April 1970) of the Ukai project (480 MW into two (Ukai and Gandhinagar), the project cost went up from Rs. 68 crore to Rs. 85.12 crores—an increase of Rs. 17.12 crores (25.2 *per cent*).

(ii) The project cost of Rs. 85.12 crores was revised further t Rs. 113.87 crores (August 1974) against which an expenditure of Rs. 105.9 crores had been incurred (September/October 1979). Though the Uka project was completed in June 1976 and the Gandhinagar project in Apri 1977, the accounts have yet to be finally closed.

(iii) As a result of delays in orders, delays in supplies and defects in th equipment supplied, the commissioning of the Ukai project was delaye by 24-27 months and the Gandhinagar project by 12—17 months.

(iv) The Board had paid Rs. 23.17 lakhs to equipment suppliers by wa of price escalation/*ex-gratia* not covered by the contracts ; this include delayed supplies/completion of works for which penalties were also no levied.

(v) The Board had not recovered Rs. 2.30 lakhs being the cost of pipes upplied to a contractor during November 1974-January 1975; while the vork was completed in May 1976, the final bill is yet to be prepared March 1980).

(vi) Due to manufacturing/fabrication defects noticed after the commissioning of the sets the performance guarantee tests have not been taken so ar (March 1980).

(vii) Out of 85,370 available machine hours (up to 1978-79), 23,295 iours (27.3 *per cent*) (Ukai : 21,060 hours or 41.7 *per cent* : Gandhinagar : ,235 hours or 6.4 *per cent*) were lost due to forced shut downs and major quipment rehabilitation. Planned shut downs accounted for 539 hours or .1 *per cent* in the case of Ukai and 9,590 hours or 27.5 *per cent* in the ase of Gandhinagar.

(viii) On the basis of hours actually operated, the shortfall in generaion varied from 36.6—53.6 *per cent* in the case of Ukai and 39.4—48.9 *er cent* at Gandhinagar.

(ix) Within about 2 years of the commissioning of the Ukai power station he Board decided on an overhaul of both the units which was completed during June 1978—October 1979) at a cost of Rs. 55.02 lakhs.

(x) The cost of generation per unit varied from 16.5 to 22.1 paise which vas far in excess of 9.2—10.2 paise per unit envisaged in the project estimates. This was partly due to the fact that the actual load factor achieved ranged rom 25 to 46 *per cent* as against 60 *per cent* envisaged in the project estimatets.

(xi) The Board had not fixed the maximum, minimum and ordering evels for stores. The slow moving and non-moving stores accounted for Rs. 191.34 lakhs (69.5 *per cent*) at Ukai and Rs. 83.52 lakhs (33.4 *per ent*) at Gandhinagar. The obsolete and scrap/unserviceable stores accounted for Rs. 12.33 lakhs (March 1979).

(xii) The total number of employees engaged at the generating stations vas far in excess of the standard force/sanctioned strength.

(xiii) A Railway diesel engine dashed against the Board's diesel shunt((May 1979) with heavy damage (estimated loss : Rs. 39.11 lakhs) to tl Board's diesel shunter, empty wagons and tippler. The Board's claim ha however, not been accepted by the Railway authorities so far (March 1980

(xiv) Excessive wastage of steel in the fabrication of structures by firm entrusted with this work (Gandhinagar project) resulted in an avoic able loss of about Rs. 8.78 lakhs which had not been investigated by th Board.

(xv) The Board had made payments aggregating Rs. 4.37 lakhs o account of Central sales tax and surcharge/incidental charges not covere by the contracts.

(xvi) Rs. 6.12 lakhs had been paid as overtime allowance (April 197 to October 1979) to the Junior/Deputy Engineers though no overtim allowance was payable to them under the Gujarat Electricity Board Servic Regulations. Besides, Rs. 4.70 lakhs had been paid by way of shift allowanc (up to October 1979) to non-entitled engineers.

5.3 Other interesting cases

5.3.1 *Loss due to excessive purchases*

The non-fixation of maximum, minimum and re-ordering levels of stock was mentioned in paragraph (B) (1) of Section VI of the Audit Repor (Commercial) for the year 1974-75. The system of assessing the require ments of materials before ordering them, was found to be defective as it di not take into account the stocks of materials in hand and quantities alread on order at the time of processing the indents/tenders. As a result, order had been placed for quantities in excess of requirements, resulting i avoidable extra expenditure to the Board. Excessive purchases notice in two cases are mentioned below :—

(*i*) In July 1975 the Board placed an order for the supply o 1,100 Kms. of A. C. S. R. 'DOG' conductor on firm 'N' of Ahmedaba at a total cost of Rs. 44.54 lakhs. The delivery was to be complete by August 1976. As the stock position of this conductor in June 1976 disclosed a large inventory of 2,202 Kms. (sufficient to meet the requirement of more than one year), the Board cancelled (November 1976) the unexecuted portion of the order for 988.843 Kms. of conductors. The supplier agreed to the cancellation provided the Board placed an order instead for the supply of 3,000 Kms. of A. C. S. R. 'RABBIT' conductor, tender enquiry for 6,000 Kms. of which had been issued earlier in August 1976. The Board placed the order (November 1976) for 3,000 Kms. of A. C. S. R. 'RABBIT' conductor on this firm at Rs. 2,615.65 per Km. as against the lowest acceptable offer of firm 'O' at Rs. 2,590.75 per Km. resulting in an extra cost of Rs. 0.75 lakh. The Board stated (November 1978) that several lines originally planned were dropped and for the 'RABBIT' conductors, the orders had to be split up as the supply of entire quantity could not be entrusted to one party. It may be mentioned that the lowest tenderer had offered to supply the entire quantity.

(*ii*) Tenders for the supply of 500 transformers (11 KV) and 1,250 transformers (22 KV) were opened in January 1975. While placing the orders (August 1975) on six local firms, the number of 22 KV transformers was increased to 1,650, on the ground of augmentation of programmed commitments for new connections as well as for maintenance. Orders were placed for the supply of the 11 KV and 22 KV transformers at a cost of Rs. 24.00 lakhs and Rs. 188.63 lakhs respectively. As per the orders, deliveries were to commence from November/December 1975 and completed by August 1976 at a uniform monthly rate of supply. A few months later (January 1976) the Chief Engineer informed the Controller of Stores and Purchase that 22 KV transformers were not required as there was sufficient stock of the transformers of this capacity. All the firms were, therefore, advised (January 1976) not to supply 22 KV transformers till further instructions and to agree to the cancelation of the balance order.

The firms, however, requested (March 1976) the Board to accept the 22 KV transformers which were in various stages of manufacture as the same ould not be diverted to other Electricity Boards. 701 transformers had meanwhile been received up to 5th April 1976. After discussions with th firms (April 1976) it was decided (May 1976) to accept 166 more transfor mers from four firms (duly converted to dual voltage, *i. e.* 22KV and 11 K' by providing a separate switch) and to cancel the order on one firm for 9 transformers. No decision was, however, taken about the balance of 68 transformers. Since the specifications for the dual voltage transformer could not be finalised, the Board had accepted the 22 KV transformers fron time to time.

After ascertaining the stock position of 22 KV transformers *vis-a-vi* the future requirements, the Board informed the four firms in January 197 to supply the balance quantity of 646 transformers (22 KV) against th original order by October 1978. The supplies were actually completed in October 1979. On 176 transformers supplied after March 1979 the Boar had to pay an extra amount of Rs. 0.74 lakh due to increase in sales ta and Central execise duty.

5.3.2 *Unintended benefit to the suppliers*

(*a*) After inviting open tenders the Board placed (March 1974) a order on firm 'J' for the purchase of 100 Kms. of A. C. S. R. "MOOSE' conductor (Rs. 16,900 per Km.) and 145 Kms. of A. C. S. R. 'GOAT conductor (Rs. 12,000 per Km.) at a total cost of Rs. 34.30 lakhs.

All the tenders received had stipulated that deliveries would be subjec to availability of raw materials. However, after negotiation, firm ' J withdrew (February 1974) this condition and offered a firm commitmen for delivery (within six/eight months from the date of the order) provide the Board gave an advance for 30 *per cent* of the value of the order Due to this commitment made by firm ' J ', certain lower offers involvin a price difference of Rs. 1.45 lakhs were ignored. An advance o Rs. 10.29 lakhs (bearing interest at the rate of 9.5 *per cent* per annum was paid to the firm in March 1974.

The firm had supplied 145 Kms. of 'GOAT' conductor by April 1975 The firm's request for extension of delivery period was not accepted an the Board recovered (August 1975) penalty charges of Rs. 0.47 lakh fron the firm's bills.

The firm had supplied 60.896 (out of 100) Kms. of 'MOOSE' conductor by August 1975. Earlier, in July 1975, the firm had requested for extension in the delivery period and for price increase which was rejected by the Board (August 1975). No further supplies were received.

Against a fresh request for price increase from the firm (March 1976) the Board agreed (August 1976) to a price increase, *ex-gratia,* of Rs. 4,581.86 per Km. or 27 *per cent* (*i. e.* to the extent of the subsidy receivable from Government of India) on the balance quantity of 39.104 Kms. of 'MOOSE' conductor (price increase : Rs. 1.79 lakhs) and directed the firm to complete the supplies by December 1976. The firm, however, completed the supplies by December 1977 and the Board had recovered a penalty of Rs. 0.38 lakh for delayed supplies (October 1978).

5.3.3 *Extra expenditure on purchase of insulators*

After inviting tenders in January 1978, the Board placed an order (May 1978) on firm 'P' for the purchase of 58,500 disc-insultators (value : Rs. 39.78 lakhs). The lowest offer of firm 'Q' which was cheaper by Rs. 1.81 lakhs (Rs. 3.09 per piece) was rejected on the following grounds :

(*i*) Electrical values were lower than specified and with variations ranging from ($\pm$) 5 *per cent* to ($\pm$) 10 *per cent*

(*ii*) The delivery schedule of about 19 months as offered by firm 'Q' was less favourable than the delivery schedule of about 11 months offered by firm 'P'.

It was, however, noticed that the Board had placed orders on firm 'Q' for over 2 lakhs insulators (since 1970) with the same electrical values as quoted against the Board's tenders in January 1978 and the last such order (for 66,660 insulators) was placed in March 1976. The specifications regarding the electrical values were, however, revised by the Board in the tender enquiry of January 1978 for reasons which were not on record.

The Management stated (January 1980) that the offer of firm 'P' was accepted because of a more favourable delivery schedule and that the specifications were revised to incorporate higher electrical values available in the market due to progress in technology as the insulators were required for high voltage lines of 220 KV passing through polluted terrain.

It may be mentioned in this connection that—

(*i*) The Board had in the past used these insulators (with lower electrical values) on equally high voltage lines, like 220 KV Tarapur-Navsari-Gotri line or Ukai-Jambuva line which passed through polluted terrain and elsewhere and no defects had been reported by the Board's field offices.

(*ii*) Besides, the Board did not derive any advantage of the favourable delivery schedule because firm 'P' had supplied only 32,220 (out of 58,500) insulators upto January 1980 against deliveries due for completion by April-May 1979.

(*iii*) What is more in a subsequent purchase finalised in December 1979, the Board had placed an order (May 1980) on firm 'Q' for 25,000 insulators (value : Rs. 40 lakhs) with the old 'lower' electrical values.

5.3.4 *Loss on the purchase of Transformers*

After inviting tenders, the Board placed four orders from time to time (February-November 1970) on firm 'R' of Madras for the supply of 22 power transformers of various capacities 150 MVA : 2 ; 50 MVA : one ; 25 MVA : one and 10 MVA : 18) at a total cost of Rs. 161.43 lakhs to be supplied from March 1971 to March 1973.

In regard to two orders the firm was allowed an interest-free advance of Rs. 12.95 lakhs (40 *per cent* of the value of the orders). The firm did not maintain the delivery schedule on grounds of scarcity of materials, steep increase in the prices of materials, acute power shortage and disturbed labour conditions in its factory. The firm had supplied only 4 (10 MVA)

ormers by November 1973 and 1 (25 MVA) transformer in February
At the request made by the firm (November 1974-July 1975), the
agreed (April 1976) to revise the terms of supply as under :—

i) The Board would reimburse the firm in full, for the increase in price of transformer oil (from the date of tender to the date one nth prior to the date of supply) in respect of the remaining 17 transmers and that the firm would not have to supply the transformer oil the 25 MVA transformer received/accepted earlier without the oil.

ii) Orders for 12 transformers were cancelled without any financial ercussion on either side and the delivery periods of the remaining transformers were revised as indicated below subject to a penalty for adhering to the revised schedule :

(a) 50 MVA Transformer : to be delivered by April 1977. If the supply was not made by that date, interest charges on the advance (Rs. 5.82 lakhs) would be recovered at 14 *per cent* per annum after April 1977.

(b) 150 MVA Transformer : one unit each would be ready for testing in June 1976 and October 1977.

(c) 10 MVA Transformer : two transformers would be delivered within 8/12 weeks. It was also decided that interest charges (Rs. 1.60 lakhs) on the advance (Rs. 7.13 lakhs) paid for the 25 MVA transformer supplied in February 1975 would be waived.

(*iii*) Any increase in sales tax, excise duty as per the accepted tender, would be shared between the Board and the firm in the ratio of 60:40 in espect of all the orders.

Even after the acceptance of the revised terms, the firm could supply y one 150 MVA transformer and two 10 MVA transformers (July 1976) was yet to supply one 50 MVA and one 150 MVA transformer arch 1980).

With the cancellation of the order for twelve 10 MVA transfo the requirement was met by the Board by placing orders (February on three other firms 'S', 'T', 'U', involving an extra expenditu Rs. 14.33 lakhs.

By accepting the revised terms and conditions, the Board had ac an extra liability of Rs. 21.92 lakhs due to the difference in the pr transformer oil (Rs. 7.21 lakhs), share of increase in the Central tax duty (Rs. 0.38 lakh) and extra expenditure on the purchase of t 10 MVA transformers (Rs. 14.33 lakhs).

Besides the Board had waived a penalty of Rs. 1.88 lakhs and foregone interest amounting to Rs. 4.88 lakhs on advances from originally stipulated dates of delivery to the revised dates of de (Rs. 1.60 lakhs on the advance of Rs. 7.13 lakhs from April 19 February 1975 and Rs. 3.28 lakhs on the advance of Rs. 5.82 lakhs October 1972 to April 1977). As the firm had not supplied one 50 transformer, interest on the advance of Rs. 5.82 lakhs also becomes rec able from May 1977. The Board had neither recovered the advance interest thereon (Rs. 2.65 lakhs) from May 1977 to July 1980 (A 1980).

While admitting the extra expenditure, the Board had stated (Nove 1978) that a risk purchase would have involved an extra expenditur Rs. 1 crore.

SECTION VI

GUJARAT STATE ROAD TRANSPORT CORPORATION

Avoidable expenditure on building bus bodies

The Corporation started building a prototype body on a new model of shok Viking chassis (received in December 1975) with 210 inch wheel ase (WB) plus 60 *per cent* rear overhang and an overall length of 0.26 metres for accommodating 62 seats for passengers, excluding the eats for driver and conductor. Due to difficulties in obtaining some pecial size materials, designing arrangement for passenger entrance, *etc.*, ie prototype body was ready on 30th March 1976. In the meantime the natter was taken up (January 1976) with Government for removal of estriction that overall length of buses could not exceed 10 metres as laid own in the Gujarat Motor Vehicles Rules. The restriction on overall ength of the vehicle was removed by Government on 27th April 1976 and ie vehicle was presented to the Regional Transport Authority on 1st May 976 for inspection and approval.

Meanwhile, the Corporation started receiving 'Viking' 210 inch WB hassis from 26th February 1976 onwards as chassis of other models were ot available in sufficient numbers. In order to keep the assembly line ccupied, the Corporation started building bodies on the new model chassis om March 1976. By the end of April 1976, when the restriction on verall length of the vehicle was removed by Government, 17 mofussil uses had been completed in all respects and 72 bodies were on the ssembly line in various stages of completion.

When the Regional Transport Authority was approached (1st May 1976) or registration of the first lot of 17 buses, registration was refused as the lear distance between the seats was not in accordance with the Motor 'ehicles Rules. The Regional Transport Authority, however, registered (May 976) the buses with only 58 seats for passengers, 72 buses on the ssembly line were also completed and got registered with 58 seats for assengers. As 58 seats for passengers could be accommodated with

54 *per cent* rear overhang, it was decided (May 1976) to build furthe[r] bodies with 54 *per cent* rear overhang with a saving of Rs. 700 per bus body. The Corporation was thus involved in an avoidable extra expenditure o[f] Rs. 0.62 lakh.

The Management stated (January 1980) that the vehicles could not be produced before the Regional Transport Authority until Government had amended the Gujarat Motor Vehicles Rules (27th April 1976) and that when any model of vehicles is changed abruptly, such things did occur in practice.

SECTION VII

GUJARAT INDUSTRIAL DEVELOPMENT CORPORATION

7 Construction of special type of factory shed for an industrial company

On 3rd April 1970, an engineering company of Ahmedabad applied for a plot measuring about 50,000 sq. yards in Vatwa Industrial Estate and deposited Rs. 0.62 lakh with the Corporation. The Corporation provisionally allotted (27th April 1970) a plot admeasuring 56,222 sq. yards at a premium price of Rs. 10 per sq. yard and the company deposited Rs. 0.79 lakh (21st October 1970) towards 25 *per cent* of the premium price after adjusting the advance of Rs. 0.62 lakh.

Although the normal practice of the Corporation is to construct standard (general purpose) sheds suitable for a variety of uses, the Corporation, at the request of the Company had offered (July 1970) to consruct a factory shed based on the design and drawings prepared by the Company. This was subject to the condition that the Company would pay 6¼ *per cent* of the estimated cost at the time of acceptance of tender and another 6¼ *per cent* of the estimated cost at the time of allotment of the factory building, which would be deemed to be the date when 50 *per cent* construction was completed. The balance amount was to be paid either by the financial institutions in the form of a loan to the Company or by the Company itself after obtaining a loan from the financial institutions. These conditions had been accepted by the Company in July 1970, and an agreement was entered into in June 1971.

The Company was also permitted to quote against the tenders for the work (estimated cost : Rs. 17.68 lakhs) invited by the Corporation in July 1970. After negotiations with the Company, the Corporation decided (September 1970) to award the work to the Company at an estimated cost of Rs. 17.68 lakhs (against its quotation for Rs. 17.99 lakhs) ignoring the lowest offer for Rs. 17.66 lakhs. The work was to be completed by February 1971. The plot (52,269 sq. yards) was, however, handed over in February 1971 and the work was completed in may 1973.

After discussion with the Company the total price (including the cost c the land and the shed) was fixed in April 1975 at Rs. 24.83 lakhs. Th Corporation also decided to fix 1st January 1973 as the date of allotmen of land and the shed. 25 *per cent* of the estimated price of the she having been recovered earlier, it was decided to recover the balanc 75 *per cent* in instalments over a period of 10 years from the date c allotment (*i. e.* 1st January 1973) with interest at 12 *per cent.* The sal agreement was finally executed on 12th May 1976. The following point were noticed :—

(i) While the plot of land (allotted in April 1970) was actually hande over to the Company in February 1971, the allotment was treated a effective from 1st January 1973 for the recovery of instalments an interest. This had resulted in a loss of interest of Rs. 0.72 lakh (a 10 *per cent* per annum for 22½ months).

(ii) The Corporation did not levy a charge of 25 *per cent* (Rs. 1.3 lakhs) as preferential charges applicable to this plot adjacent to th main road.

(iii) The Corporation had engaged a firm of structural engineers t scrutinise the Company's designs and drawings and to prepare the detaile plans and estimates at a cost of Rs. 0.34 lakh which was not recovered The Company argued that the shed was constructed in accordance wit its designs and drawings under the supervision of the Corporation' engineers.

(iv) According to the agreement of June 1971 the price of th factory building was to be determined by the Corporation. According t the criteria laid down by the Corporation 2 *per cent* on account of work charged establishment and 10 *per cent* by way of administrative overhead respectively are required to be added to the cost of construction. Thes charges were, however, reduced by the Corporation to 1 *per cent* an 5 *per cent* respectively resulting in an under-recovery of Rs. 1.02 lakhs

Thus while financing the Company in the construction of the factory uildings (to its own designs and drawings), the Corporation had oregone recoveries aggregating Rs. 3.39 lakhs.

hmedabad,
he 7 APR 1981

(S. RAMACHANDRAN)
Accountant General-I, Gujarat

Countersigned

lew Delhi,
he 18 APR 1981

(GIAN PRAKASH)
Comptroller and Auditor General of India

APPENDIX

Summarised financial results of

(Referred to in paragraph 1.1 of

Sr. No.	Name of the Company	Date of incorporation	Accounts for the year ending	Capital invested	Profit(+ Loss(–
1	2	3	4	5	6
				Industries,	**Mines an**
1	Gujarat State Textile Corporation Limited	30th November 1968	March 1979	428.82	(+) 22.06
2	Gujarat State Export Corporation Limited	14th October 1965	March 1979	35.13	(–) 6.68
3	Gujarat Industrial Investment Corporation Limited	12th August 1968	March 1979	..	(+) 4.75
4	Gujarat Mineral Development Corporation Limited	15th May 1963	March 1979	866.54	(+) 95.63
5	Gujarat Communications and Electronics Limited	30th May 1975	March 1979	164.46	(–) 0.5
6	Gujarat Small Industries Corporation Limited	26th May 1962	December 1978	276.52	(+) 11.0
					Public Work
7	Gujarat State Construction Corporation Limited	16th December 1974	July 1978	244.72	(–) 70.5

'A'

Government Companies

ection I of Chapter I)

(Figures in columns 5 to 11 are in lakhs of rupees).

Total interest charged to Profit and Loss Account	Interest on long-term loans	Total return on capital invested (6+8)	Capital employed	Total return on capital employed (6+7)	Percentage of total return on capital invested	Percentage of total return on capital employed	Remarks.
7	8	9	10	11	12	13	14
ower Department							
27.55	27.55	49.61	428.82	49.61	11.57	11.57	
3.86	..	(—)6.68	34.24	(—)2.82	..	..	
157.32	157.32	..	3,780.25	162.07	..	4.29	
14.37	13.38	109.01	674.22	110.00	12.58	16.31	
2.24	2.24	1.70	122.50	1.70	1.03	1.39	
53.06	16.32	27.41	593.64	64.15	9.91	10.81	
artment							
.30	21.94	(—)48.63	311.85	(—)39.27	..	..	

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APPENDIX

Summarised financial results

(Referred to in paragraph 1.1

Sr. No.	Name of the Company	Date of incorporation	Accounts for the year ending	Capital invested	Profit (Loss (
1	2	3	4	5	6
					Hor
8	Tourism Corporation of Gujarat Limited	10th June 1975	August 1978	16.51	(—) 2
			Agriculture, Forest a		
9	Gujarat Agro—Industries Corporation Limited	9th May 1969	March 1979	667.91	(+)48
10	Gujarat Dairy Development Corporation Limited	29th March 1973	March 1979	111.63	(—)20
11	Gujarat State Forest Development Corporation Limited	20th August 1976	September 1978	100.17	(+)1
12	Gujarat Sheep and Wool Development Corporation Limited	9th December 1970	March 1979	65.69	(—)1
13	Gujarat Tractor Corporation Limited	31st March 1978	March 1979	420.36	(+

A

Government Companies

Section I of Chapter I)

(Figures in columns 5 to 11 are in lakhs of rupees)

Total iterest harged Profit d Loss ccount	Interest on long-term loans	Total return on capital invested (6+8)	Capital employed	Total return on capital employed (6+7)	Percentage of total return on capital invested	Percentage of total return on capital employed	Remarks
7	8	9	10	11	12	13	14
Department							
..	..	(—) 2.29	13.38	(—)2.29	..	..	
Co-operation Department							
3.99	2.73	51.48	623.20	52.74	7.72	8.48	
5.49	2.99	(—)17.69	52.44	(—)15.19	..	..	
..	..	18.39	99.42	18.39	18.36	18.50	
1.47	1.06	(—)11.66	23.60	(—)11.25	..	..	
7.37	6.15	36.59	738.13	67.81	8.70	9.19	

APPENDIX

Summarised financial results of

(Referred to in paragraph 1.1 of

Sr. No.	Name of the Company	Date of incorporation	Accounts for the year ending	Capital invested	Profit(+) Loss (—)
1	2	3	4	5	6
Subsidiary Companies					
				Agriculture,	**Forest**
14	Gujarat Agro-Foods Limited	20th October 1970	December 1978	91.83	(—) 3.85
15	Gujarat Agro-Oil Enterprises Limited	21st April 1971	December 1978	43.00	(+) 50.91
16	Gujarat Agro-Marine Products Limited	17th December 1971	December 1978	173.99	(+) 8.47
				Industries,	**Mines**
17	Gujarat State Machine Tools Corporation Limited	15th February 1975	March 1979	370.35	(—) 23.55

Notes :—(1) Capital invested represents paid-up capital *plus* long-term

(2) Capital employed (excluding that in respect of Gujarat (excluding capital works-in-progress) *plus* working capital.

(3) Capital employed in respect of Gujarat Industrial Invest- closing balances of paid-up capital, bonds, reserves by outside investments) and borrowings.

A'

overnment Companies

ection I of Chapter I)

(Figures in columns 5 to 11 are in lakhs of Rupees)

Total nterest harged › Profit nd Loss ccount	Interest on long -term loans	Total return on capital invested (6+8)	Capital employ- ed	Total return on capital employed (6+7)	Percent- age of total return on capital invested	Percent- age of total return on capital employed	Remarks
7	8	9	10	11	12	13	14
d Co-operation Department							
2.18	0.69	(—)3.16	86.43	(—)1.67	..	..	
0.05	..	50.91	43.00	50.96	118.40	118.51	
5.38	5.38	13.85	145.98	13.85	7.96	9.49	
d Power Department							
2.04	2.04	(—)21.51	300.10	(—)21.51	..	..	

oans *plus* free reserves.

ndustrial Investment Corporation Limited) represents net fixed assets

nent Corporation Limited represents the mean of the opening and other than those specifically funded and backed

APPENDIX

Details of the Companies promoted by

(Referred to in paragraph 2.08.1

Sr. No.	Name of the Company (Year of incorporation)	Name of the project (Date of letter of intent)
1	2	3
1	Gujarat Alkalies and Chemicals Limited (March 1973)	Caustic soda/Chlorine (April 1970)
2	Polymers Corporation of Gujarat Limited (March 1973)	Methyl Methacrilate Monomar and Poli-Methyl Mathicrylate (Pellets and sheets) (May 1971)
3	Gujarat Aromatics Limited (December 1975)	Synthetic Cresols (January 1972)
4	Gujarat Carbons Limited (1974-75)	Carbon Black (February 1972)
5	Gujarat State Machine Tools Corporation Limited (February 1975)	Machine tools like Centre Lathes, Drilling machines and Hydro-copying attachments (May 1974)

'B'

Gujarat Industrial Investment Corporation Limited

of Section II)

Paid-up capital as on 31st March 1979 — Total	Paid-up capital as on 31st March 1979 — Contribution of G.I.I.C.	Loans advanced by G.I.I.C. as on 31st March 1979	Remarks
4	5	6	7
(Rupees in lakhs)			
593.71	248.00	150.51	The company is in joint sector with subscription of shares from the public. Commercial production started in November 1976.
532.26	280.00	70.22	It was to be joint sector with subscription of shares from public. As public issue was under subscribed, it has remained a subsidiary of Gujarat Industrial Investment Corporation Limited. Commercial production started in July 1979.
334.33	84.76	10.74	A joint sector company in collaboration with Raipur Manufacturing Company Limited, Ahmedabad, and subscription from Public. Commercial production commenced in February 1980.
Not available	43.68	52.87	Set up in collaboration with Phillips Carbon Black Limited, Calcutta and subscription from public. Commercial production started in July 1978.
114.75	57.38	44.57	Set up in collaboration with Hindustan Machine Tools Limited. Commercial production started in February 1979.

APPENDIX

Details of the Companies promot

(Referred to in paragraph 2.08.1

Sr. No.	Name of the Company (Year of incorporation)	Name of the project (Date of letter of intent)
1	2	3
6	Cement Corporation of Gujarat Limited (March 1973)	Cement (November 1971)
7	Steel Corporation of Gujarat Limited (January 1975)	Mild Steel (August 1973)
8	Gujarat Tyres Limited (March 1973)	Tyres and tubes (December 1970
9	Gujarat Nylons Limited (March 1973)	Nylon-6 filament yarn (Decembe 1970)
10	Gujarat Leather Industries Limited (April 1978)	Finished leather from hides and skins (April 1976)

'B'

by Gujarat Industrial Investment Corporation Limited

of Section II)

Paid-up capital as on 31st March 1979		Loans advanced by G. I. I. C. as on 31st March 1979	Remarks
Total	Contribution of G. I. I. C.		
4	5	6	7
(Rupees in lakhs)			
2.50	2.50	0.75	The project had not progress ed-see remarks in paragraph 2.08.4.
..	..	24.35	Paid-up capital on 31st March 1979 was rupees 70 only subscribed by Gujarat Industrial Investment Corporation Limited. The project had not progressed-see remarks in paragraph 2.08.3.
5.00	5.00	64.84	The project had not progressed-see remarks in paragraph 2.08.5.
2.50	2.50	6.27	The project had not progressed-see remarks in paragraph 2.08.6.
..	..	5.68	Paid-up capital on 31st March 1979 was rupees 70 only, subscribed by G.I.I.C. The Company is set up in collaboration with another State Government Company, *viz*. Gujarat Agro-Industries Corporation Limited. The project is under implementation. The land had been acquired and civil construction had commenced in May 1979.

APPENDIX

Summarised financial results of

(Referred to in paragraphs 4.2.4 and 4.4.4 of

Sr. No.	Name of the Corporation	Name of the Department	Date of incorporation	Total capital invested	Profit (+) Loss (—)
1	2	3	4	5	6
1	Gujarat Electricity Board	Industries, Mines and-Power	1st May 1960	58,335.48	..
2	Gujarat State Road Transport Corporation	Home	1st May 1960	6,465.05	(—) 381.90
3	Gujarat State Financial Corporation	Industries, Mines and Power	1st May 1960	..	(+) 207.74
4	Gujarat State Warehousing Corporation	Agriculture, Forest and Co-operation	5th December 1960	219.27	(+) 20.24

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

(2) Capital employed in respect of Gujarat State Financial of paid-up capital, reserves (other than those which bonds, deposits, and borrowing (including refinance). in-progress) *plus* working capital.

"

atutory Corporations for the year 1978-79

ction IV of Chapter-II)

Figures in Columns 5 to 11 are in lakhs of rupees.

otal terest iarged Profit id Loss ccount	Interest on long-term loans	Total return on capital invested (6+8)	Capital employed	Total return on capital employed (6+7)	Percentage of total return on capital invested	Percentage of total return on capital employed	Remarks.
7	8	9	10	11	12	13	14
,070.67	3,826.09	3,826.09	42,924.80	4,070.67	6.56	9.48	
408.44	405.56	23.66	4,109.52	21.75*	0.37	0.53	*Arrived at after deducting interest earned on investment of Rs. 4.79 lakhs.
475.86	..	..	8,569.91	683.60	..	7.98	
0.31	0.31	20.55	219.27	20.55	9.37	9.37	

ans *plus* free reserves.

orporation represents the mean of the opening and closing balances ive been funded specifically and backed by investments outside), other three cases, it represents net fixed assets (excluding capital works-

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