REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT
NO.9 (COMMERCIAL) OF 1991

NAGALAND PULP & PAPER COMPANY LIMITED

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PREFACE

1. A reference is invited to prefatory remarks in Report of the Comptroller & Auditor General of India - Union Government No. 1 (Commercial) of 1991 wherein mention was made that this Report will be presented in several parts.

2. This part contains review on the working of Nagaland Pulp & Paper Company Limited.

NAGALAND PULP & PAPER COMPANY LIMITED

OVER VIEW

Nagaland Pulp and Paper Company Limited was incorporated on 14th September, 1971. It had an installed capacity of 33000 tonnes of paper to be produced per year, and started commercial production in July, 1982 as against the scheduled date of commissioning in October, 1977. The authorised and paid up capital of the Company as on 31.3.1991 was Rs.50 crores and Rs.48.37 crores respectively. The entire project of paper production was most defectively planned and had,therefore, run into operational and financial difficulties since its inception and its operation became uneconomical.

2. Capital cost of Rs.19.76 crores envisaged initially increased to Rs.83.73 crores mainly due to locational disadvantages, delay in its execution and additional items of civil works and equipment not provided for earlier.(Para 3.01)

3. There was a shortfall in the utilisation of installed capacity ranging between 81.38 to 97.03 per cent. This shortfall was due to the following reasons:-

a) Non-availability of reeds as raw material;(Para. 3.03.1)

b) Shortfall in procurement of bamboos due to the absence of approachable roads and consequent procurement of bamboos from outside, resulting in increased cost of production;(Para 3.04)

c) Less acquisition of area for development of bamboos;(Para 3.04)

d) Erratic power supply by the State Government and negligible generation of power internally due to defective coal-fired boilers;(Para 3.05)

iii) The financial position of the Company was depressing as accumulated loss (Rs.180.60 crores) had already wiped off the paid up capital (Rs.48.37 crores) and net worth was minus Rs.142.23 crores on 31st March, 1991. Moreover, the adverse financial position of the Company prevented it from repaying the borrowed funds in time, resulting in a liability of Rs. 34.50 crores towards penal interest.(Para 4.00)

5. The installed capacity was 33,000 MT of paper for which 1622 posts were sanctioned. 70 to 78 percent of these posts remained filled during the period 1984-85 to 1990-91. But during this period the production ranged between 3 and 19 per cent of the

installed capacity indicating employment of staff surplus to its requirements. Besides,the Management was also paying overtime.Total overtime paid during seven years till 1990-91 to operatives and non-operatives worked out to Rs.179.44 lakhs (Paras 3.07.1 to 3.07.3)

6. The inventory holding (stores & spares) ranged between 32 and 116 months' consumption. Neither any standards for inventory holding had been laid down nor purchases controlled according to the situation which in turn increased the holding of un-serviceable stores;(Para 3.08)

7. The Management had also incurred unproductive expenditure of Rs.25.90 lakhs on reed chippers and digestors and Rs.19.54 lakhs on lime kiln equipment without examining their feasibility before hand. Further, due to improper handling of the issue of "Right of Use" of disputed land for laying of gas pipeline, the Management had incurred financial liabilities of Rs.80 lakhs towards advance to the suppliers of gas fired boiler.(Paras 3.03.1 and3.05.2)

1.00 INTRODUCTION

Nagaland Pulp and Paper Company Limited was incorporated on 14th September, 1971 as a subsidiary of Hindustan Paper Corporation Limited (HPC) in collaboration with the State Government of Nagaland (shareholding ratio between the two being 7:1) for production of paper at 33000 tonnes per year. The Company started commercial production from July, 1982.

2.00 CAPITAL STRUCTURE

The authorised and paid up capital of the Company as on 31st March 1991 were Rs.50.00 crores and Rs.48.37 crores respectively.

The Government of India granted through HPC, term loans under Plan and Non-plan heads from time to time to the Company. The total amount of loan together with interest outstanding as on 31st March, 1991 was Rs.134.03 crores (loan: Rs.71.38 crores; interest accrued and due : Rs.57.99 crores and interest accrued but not due : Rs.4.66 crores). Out of Rs.48.37 crores and Rs.37.08 crores received under Equity and Plan heads, the Company diverted Rs.2.36 crores to non-plan purposes mainly due to heavy cash losses.

The Company had a cash credit limit with a Bank upto Rs.1.00 crore which was being monitored by the holding Company (HPC) and reflected in the annual accounts of HPC under Secured Loan Funds, against which Rs.3.35 lakhs were outstanding as on 31st March, 1991.

3.00 EXECUTION OF THE PROJECT AND PRODUCTION PERFORMANCE

3.01 Execution of the Project

The original capital outlay of the Project estimated (1971) at Rs.19.76 crores was revised (March, 1977) to Rs.62.12 crores which was further revised (July, 1982) to Rs.83.73 crores as detailed in the table below:

TABLE -I

(Rs.in lakhs)

Major Head of Expenditure.	Original Estimate (1971)	Revised Estimate sanctioned by Govt. in March,77	Revised Estimate sanctioned by Govt. in July,82	% Increase/ Decrease over 1977 estimates	Reasons for increase in cost.
Land	1.00	1.00	1.00	-	
Civil Work	291.90	982.58	1293.40	31.63	(i)Inflation.
Plant & Machinery	1405.32	4046.68	4057.12	-	(ii)Locational disadvantages involving additional Civil Work cost, Transport cost, etc
Initial-spares	-	182.98	318.58	74.11	
Township	103.00	381.00	957.77	151.38	(iii) Margin money for working capital.
Projecting cost	174.50	513.88	1497.00	191.31	
Margin Money	-	88.00	162.00	84.10	
Lime kiln.	-	16.00	18.65	16.56	
Forestry,Fire fighting Trucks, Buses etc.	-	-	67.70	-	
	1975.72	6212.12	8373.22	34.79	

It would be evident from the above table that while there has been increase in costs on all items except land, the largest incrase is in "projecting cost", (being the expenditure incurred prior to commencement of commercial production) comprising mainly:

(a) Preliminary and promotional expenditure.

(b) Start-up and commissioning expenditure

(c) Technical Services expenditure.

(d) General construction charges and

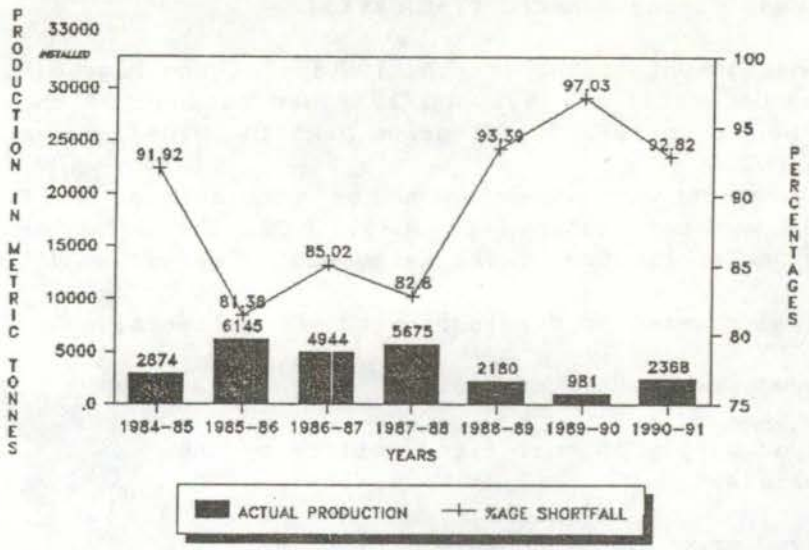
(e) Interest during construction period.

The management stated (March, 1990) that the huge difference between the estimates of 1971 and 1975 was because of the sudden inflation due to world-wide oil price hike in 1970-71.

The project was scheduled to be commissioned in October, 1977 but it was commissioned in July, 1982. The delay of nearly five years was attributed by the Management (September, 1989) to:

- delayed release of drawings by the Consultants;
- delayed preparation of design;
- delayed supply of coal fired boilers by the suppliers;
- delayed erection of boilers;
- delayed/defective construction of civil works;
- delayed commissioning of DM Plant and Coal Handling Plant;
- delayed acquisition of land for construction of water intake pumping house and for storage of coal etc., and
- delayed completion of Conveyor bridge;

It would, thus, be observed that the delayed execution of the project resulted not only in cost overrun but also in increased operational costs due to increased overheads affecting the viability of the Company as indicated in the succeeding paragraphs.It was stated by the Management that the project was conceived when HPC was in infancy and as such it could not examine all aspects of the project during planning,and also due to locational disadvantages.



3.02 Capacity Utilisation

The process of making finished paper from the stage of input of raw materials is indicated in the process flow chart appended at Annexure A.

Against an annual installed/licenced capacity of 33,000 Metric Tons of writing, printing and craft paper, the actual production fell far short as is indicated below:

T A B L E -2

Year	Installed capacity (MT)	Actual Produc-. tion (MT)	Shortfall in the utilis-ation of the capacity. (Percent.)
1984-85	33,000*	2,874	91.92
1985-86	do	6,145	81.38
1986-87	do	4,944	85.02
1987-88	do	5,675	82.80
1988-89	do	2,180	93.39
1989-90	do	981	97.03
1990-91	do	2,368	92.82

*(Annual rated capacity of 33000 MT of paper as envisaged in the DPR was based on daily output of 100 MT for 330 days in a year).

The shortfall in the utilisation of capacity ranged between 81.38 and 97.03 per cent during 7 years upto 1990-91. This was due to several operational problems which the Company had been facing since commissioning of the plant.The Management stated (March, 1990) that the shortfall in the utilisation of capacity was mainly due to:

- Inadequate and erratic supply of power from NED.
- Unsatisfactory performance of the boilers due to inferior quality of coal.
- Dearth of skilled personnel.
- Suspension of production activities during 1988-89 and 1989-90.

The major problems contributing to poor performance are indicated below:

3.03 Chipper House

The plant had two pulping streets, one for the use of bamboo and the other for reeds, each comprising of three and two chippers respectively with a capacity of 5 MT/hr. One more bamboo chipper with installed capacity of 12 MT/hr. was commissioned in December, 1986. There were six digesters, three each for bamboo and reed. Two chippers under each street were to run for two shifts.

3.03.1 Reed Chipper

The project was designed to have bamboo and reed as raw material in equal proportion. Since the trial testing of reed street, sufficient reeds were not available for running the reed street at its full capacity and only the bamboo street was in operation. Reed was a seasonal crop and when not harvested and utilised in time, got automatically converted into a jungle and lost their utility. Also, reeds available in Nagaland had thin walls and short and soft fibre which did not permit its storage for more than 4 to 6 months. Moreover, inaccessibility of the reed bearing areas was another contributory factor for the insufficient availability of reeds. As reeds were not available the reed street was discarded. It was also not technically feasible to convert the reed chippers into bamboo chipper. As regards the reed digester, the bamboo chips could be cooked in the existing reed digester only by converting it into stationery type digester with some additional expenditure. Thus, non-availability of reeds resulted in under utilisation of capacity and expenditure incurred on reed chippers (Rs.4.10 lakhs) and digesters (Rs.21.80 lakhs) proved unproductive.

Out of 1137 MT reeds procured during April, 1981 to June 1983, 604 MT could be consumed and the balance quantity valuing Rs.3.09 lakhs became unusable and unsaleable and was written off during 1986-87.

The Management stated (August, 1991) that the reeds were procured to produce paper on an experimental basis. Accordingly, more than 50% of the stock of reeds were used during the trial period and it was found that the yield was very poor. The operation of the mill had also not stabilized as expected. This resulted in longer storage of reeds than envisaged.

3.03.2 Bamboo Chipper

There was reduction in bamboo consumption and chip production as indicated below:

T A B L E -3

Year	Bamboo consumption. (MT)	Chips production. (MT)	Rated capacity (MT)	Percentage of utilisation
1984-85	7,742	7,475	52,800	14.16
1985-86	10,930	10,384	do	19.67
1986-87	9,022	8,696	do	16.47
1987-88	12,231	10,968	1,16,160	9.40
1988-89	5,380	4,938	do	4.20
1989-90	3,757	3,275	do	2.82
1990-91	6,750	6,139	do	5.28

Note: i)Annual working days =330

ii)Rated capacity from 1987-88 onwards increased due to installation of one more bamboo chipper in December, 1986.

The poor utilisation of installed capacity was mainly due to erratic power supply and inherent defect in the feeding devices.

3.04 Raw materials

Against the installed capacity of 33000 MT of paper, the requirement of bamboo and reeds was estimated at 50,000 MT each at a price of Rs.150 and Rs.140 per MT respectively. It was also estimated that 63 sq. miles of bamboo bearing and 12 sq. miles of reed bearing areas would be required for extraction of the raw material. The land would be acquired by the State Government and passed on to the Company.The Government acquired upto August 1991, 35.65 and 11.77 sq.miles for bamboo and reed bearing areas respectively. Due to non-availability of reeds, this line was discarded. Extraction of bamboo could not be effected due to the

absence of feeder/approach roads in leased areas. Thus, one of the main reason for setting up a Paper mill having raw material free of costs other than extraction and transportation charges was proved wrong. The Company had to purchase bamboo from outside resulting in increased cost of production.

As against the original estimated extraction cost of Rs.90 per MT(1971), the revised estimated cost was assessed at Rs.150 per MT (1977). However, the company purchased bamboo from outside sources at a cost of Rs.500 per MT (1984-85), Rs.553 per MT (1985-86), Rs.584 per MT (1986-87),Rs.687 per MT(1987-88), Rs.604 per MT (1988-89),Rs.664 per MT (1989-90) and Rs.642 per MT (1990-91).

The Cabinet Committee on Economic Affairs (CCEA) directed (January, 1985) that an expert study by the Bureau of Industrial Costs and Prices (BICP) should be undertaken for further viability of the Company.

Based upon the recommendations of the BICP in March, 1985, the Company appointed a Consultant to make suggestion for ensuring sustained supply of bamboo on long term basis. The Consultant recommended (1985) captive plantation of the forest leased area, river stream banks etc. The Company spent Rs.4.03 lakhs till March, 1987 on captive plantation but without any results.

The Management stated (March,1990) that as the Company could not achieve the targeted production due to erratic power supply and non-availability of the required quality of coal, the programme of captive plantation could not be carried out. The Management further stated (August, 1991) that experimental captive plantation was done but the same was stopped for want of proper feeder roads.

Out of the expenditure of Rs.4.03 lakhs incurred by the Company on captive plantation, Rs.3.16 lakhs had been written off upto March, 1991.

3.05 Power Supply

3.05.1 Three coal fired boilers (value Rs.150.90 lakhs) supplied by a firm were commissioned in March, 1981, July, 1982 and January, 1983.

The performance of the boilers was not found satisfactory since commissioning. The Company reported (March,1988) to the HPC the following reasons for poor performance of the boilers.

- defective coal feeder design;
- defective chain grate;
- defective pressure parts; and
- defective auto-control system etc.

The instruments and controls were rectified/replaced many times but these measures could not put the boiler on auto-control on a sustained basis. Failure in the coal feeding system was due to the feeding of inferior quality of coal as available in Margherita, instead of quality of coal for which the boilers were designed. As such, the entire system was removed and new coal feeding system was designed and put into operation departmentally. Further the boilers No. 1 and 2 had to be repaired at a cost of Rs.4.27 lakhs while Rs.48.60 lakhs was paid to the manufacturers for repair of boiler No.3.

Since captive power generation was negligible, power was purchased from the State Government. The table below indicates the position of power supply.

T A B L E -4

Year	Power generated		Cost per (KWH)	Power purchased		Cost per KWH	Total power available	Estimated requirement.	Shortfall (percent)
	(MW)	Cost (Rs.in lakhs)	(Rs)	(MW)	Cost(Rs. in lakhs)	(Rs)	(MW)	(MW)	
1984-85	NIL	-	-	18424	116.87	0.63	18424	82,870*	78
1985-86	4293	113.73	2.65	21701	142.55	0.66	25994	do	69
1986-87	3039	139.85	4.60	13236	86.46	0.65	16275	do	80
1987-88	NIL	-	-	14574	97.41	0.67	14574	83,097	82
1988-89	NIL	-	-	7907	92.85	1.17	7907	82,870	90
1989-90	NIL	-	-	8118	54.75	0.67	8118	-do-	90
1990-91	NIL	-	-	13795	91.94	0.67	13795	-do-	83

*Calculation of Estimated requirement:
(9.46 MW x 24 hrs.x 365 days)
For 1987-88, being leap year(9.46 MWx24 hrs.x366 days).

It would be seen from the above table that shortfall in the availability of power ranged between 69 and 90 per cent. Besides, the negligible generation of captive power resulted in increased cost of generation as against the price paid for power purchased.

The frequent interruption of power supply and failure of boilers contributed to mechanical/electrical breakdowns also as indicated below:

T A B L E -5

Year	Total hours available	Hours lost	Percentage of hours lost to hours available	Percentage of hours lost due to boiler and erratic power supply
1983-84	8,784	6,601	75.15	33.00
1984-85	8,760	6,075	69.35	53.17
1985-86	8,760	5,031	57.43	32.92
1986-87	8,760	6,075	69.35	28.30
1987-88	8,664	6,013	69.40	53.00
1988-89	8,640	7,630	88.31	56.00
1989-90	8,640	8,329	96.40	93.00
1990-91	8,640	7,594	87.89	74.00

3.05.2 BICP observed (March, 1985) that the coal fired boilers were poorly designed with improper coal feeder design and frequent breakdown of moving grate; the tubes needed repair; maintenance was inadequate and DM water and poor instruments were problems. BICP recommended that the Company must work out feasibility level estimates with full cost break-up of the alternative of one gas fired boiler if the coal fired boilers did not stabilize and the case should be sent to CCEA since gas fired boilers had the additional advantage of easier operation.

As a consequence, the Government of India approved a scheme of modernization with gas fired boilers at a cost of Rs.11 crores. The Company entered into (July, 1986) an agreement with Oil and Natural Gas Commission (ONGC) for supply of gas through an underground pipeline the cost of which, initially borne by ONGC, would be recoverable from the Company in ten annual instalments.ONGC was to start construction of pipeline after the Company obtained Right of Use (ROU) of land for the purpose.

The Company also placed (December, 1987) letter of intent on Firm "A" for supply of one gas fired boiler and conversion of one coal fired boiler into gas fired boiler at a cost of Rs.5.95 crores. The firm was advanced Rs.80 lakhs in December, 1987, January/February, 1988.

Of the total 13.5 Kms area of land required for laying the pipeline, 8 Kms was a disputed area between the Government of Assam and Nagaland. The Company obtained from the village councils ROU over the disputed land occupied by the villagers of Nagaland.

The Government of Assam protested against the survey being conducted by the Company officials.The matter remained under negotiation when the possibility of obtaining gas through Assam Gas Company Limited (AGCL) was explored in June, 1989 on the following considerations:

(i) AGCL would procure ROU from Assam Government.
(ii) The contract with ONGC would be terminated and new contract for supply of gas through AGCL would be entered into;
(iii) The ONGC's expenditure would be determined and paid by the Company; and
(iv) The pipes procured by ONGC would be handed over to AGCL.

ONGC informed (August, .1989) the Company that the claim for termination of contract was Rs.167.50 lakhs apart from the likely compensation claim from the sub-contractors.The matter was pending finalisation.

The Management stated (August, 1991) that they would negotiate with ONGC for amicable settlement of the claims made by them on approval of the new revival plan by the Government of India. Moreover, the pipes procured by ONGC for gas pipeline were being used by them for their own purpose.

In the meanwhile the Company requested the Firm "A" to suspend its work on gas fired boiler. The firm, however, informed that it had placed orders worth Rs.3.50 crores on sub-vendors.Any postponement would result in payment of interest, penalty, escalation charges etc., which would be borne by the Company. The case was pending decision (August, 1991). Thus, failure of the Management to settle the issue of ROU before award of contracts to ONGC and the firm resulted in huge financial liability.

The Management stated (March, 1990) that no-objection certificate had been obtained from Government of Assam in January, 1990 for granting ROU to NPPC and the proposal for environmental clearance was sent to the Government of India by the Govt. of Assam in February, 1990. The Government of Assam granted ROU in August, 1990 at a cost of Rs.2.05 lakhs.

3.06 Process commodities

Lime is required in pulping mill for recausticising process and liquor preparation. The DPR envisaged installation of coal fired vertical shaft lime kiln at a total cost of Rs.18.65 lakhs against which 2 lime kilns were purchased (January, 1985) at a total cost of Rs.19.54 lakhs to produce 28 tonnes of lime per day

from each kiln. However,as the lime stone was available at a distance of 400 to 500 kms from the project area and also as the coal available from Margherita was not suitable for lime stone burning, the proposal for installation of lime kilns was shelved in December, 1985.

Thus failure of the Management in not having examined the feasibility of installation of lime kilns before hand has rendered the expenditure of Rs.19.54 lakhs unproductive so far.

The Management stated (August, 1991) that fresh initiatives were being taken to dispose of the same.

3.07 Utilisation of manpower

3.07.1 The table below indicates the requirement of manpower for the rated capacity, manpower actually employed and the percentage of actual production to the rated capacity during the last 7 years ending March, 1991.

TABLE -6

	Manpower.			Production		
Year	Sanctioned strength	Actuals	Percentage.	Rated capacity	Actuals	Percentage.
	(Number)				(Tonnes)	
1984-85	1622	1135	70	33,000	2,874	9
1985-86	do	1158	71	do	6,145	19
1986-87	do	1144	71	do	4,944	15
1987-88	do	1193	74	do	5,675	17
1988-89	do	1224	75	do	2,180	7
1989-90	do	1198	74	do	981	3
1990-91	do	1271	78	do	2,368	7

The actual employment of manpower ranged between 70 and 78 per cent when the production was between 3 and 19 per cent of the rated capacity and was thus far in excess of the requirement. The poor performance of the project was attributed by the Management in its Annual Report (1987-88) to non-availability of skilled/experienced manpower,in addition to other reasons.

3.07.2 The table below indicates the mill-wise man hours available and actually utilised during the 7 years ending 1990-91.

T A B L E -7

Year	Plant/Mill	Man-hours available	Man-hours utilised	Percentage of utilisation.
	Chipping Plant.			
1984-85		79872	39470	49
1985-86		77376	32294	42
1986-87		77376	21193	27
1987-88		77376	29553	38
1988-89		79872	11236	14
1989-90		51840	7782	15
1990-91		51840	22518	43
	Pulp Mill			
1984-85		94848	20173	21
1985-86		129792	39122	30
1986-87		119808	27040	23
1987-88		129792	44796	35
1988-89		124800	15114	12
1989-90		195840	15254	8
1990-91		195840	27766	14
	Paper Mill.			
1984-85		199680	67646	34
1985-86		274560	115512	42
1986-87		269568	80964	30
1987-88		264576	84027	32
1988-89		309504	36897	12
1989-90		457920	31906	7
1990-91		457920	61374	13

It would be seen from the above table that the utilisation of manpower ranged between 7 and 49 per cent.

The Management stated (March, 1990) that shortfall in the utilisation of manpower in Chipping Plant, Pulp mill and Paper mill was mainly due to non-achievement of targeted production since commissioning. As mentioned in the preceding paragraph, the management had mentioned in their annual reports that the poor performance of the project was due to non-availability of skilled/experienced manpower, in addition to other reasons.

3.07.3 Although shortfall in the utilisation of manpower was very high, the Company had been paying overtime both to operative and non-operative staff as indicated in the table below:

T A B L E -8

(Rupees in lakhs)

Year	Production of paper (MT)	Gross Wages to operatives.	Overtime to operatives	Gross salaries to non-operatives	Overtime to non-operatives.	Percentage O.T. to total wages & salaries		Total wages & salaries	Total O.T. paid	Percentage of O.T. to total wages & salaries
						Operatives	Non operatives			
1984-85	2874	97.41	22.70	37.56	12.22	23.3	32.5	134.97	34.92	25.9
1985-86	6145	120.02	24.95	41.39	13.43	20.8	32.4	161.41	38.38	23.8
1986-87	4944	130.78	14.50	46.42	7.33	11.1	15.8	177.20	21.83	12.3
1987-88	5675	160.92	22.83	51.82	6.57	14.2	12.7	212.74	29.40	13.8
1988-89	2180	173.00	9.57	58.34	5.56	5.5	9.5	231.34	15.13	6.5
1989-90	981	209.53	5.93	114.53	4.79	4.18	2.83	324.06	10.72	3.30
1990-91	2368	236.40	22.47	127.74	6.59	5.16	9.50	364.14	29.06	7.98

It would be seen from the above table that:

- Percentage of overtime payment to non-operative was higher than to operatives except in 1987-88 and 1989-90;

- Rs.22.70 lakhs was paid as overtime to operatives in 1984-85 against a production of 2874 MT while Rs.14.50 lakhs were paid against production of 4944 MT during 1986-87. The Management stated (March, 1990) that steps have been taken to reduce the overtime engagement in all sections of the plant, both operational and non-operational. However, during 1990-91 overtime payment both to operatives and non-operatives increased considerably over the amounts paid in the preceding 2 years though the production of paper was only 7% of the rated capacity vide table 6.

3.08 Material Management and Inventory Control

The Company had not laid down any system of control over inventory by prescribing minimum, maximum and reordering levels of various items of raw materials and stores.

T A B L E -9

(Rs.in lakhs)

Year	Raw Materials			Chemicals.			Fuel			Stores & Spares.		
	Closing Stock	Consum-ption	Invent-ory in terms of Months' Consum-ption	Closing Stock	Consum ption	Invent ory in terms of Months' Consum ption	Closing Stock	Consum ption	Invent ory in terms of Months' Consum ption	Closing Stock	Consum ption	Invent ory in terms months Consum ption
1984-85	58.66	70.28	l0	76.99	95.29	10	28.l2	ll2.29	3	356.95	l26.63	34
1985-86	56.64	l75.46	4	68.l7	l3l.62	6	38.l3	25l.80	2	269.69	l02.0l	32
1986-87	10.09	l45.66	l	3l.85	83.69	5	26.49	l39.70	2	243.37	63.8l	46
1987-88	68.76	116.01	7	46.47	l54.25	4	57.64	ll4.06	6	249.08	79.ll	38
1988-89	33.9l	44.98	9	l9.23	59.2l	4	33.62	56.ll	7	250.80	38.45	78
1989-90	ll.44	28.22	5	l4.68	49.9l	4	20.05	35.65	7	258.85	26.78	ll6
1990-91	l3.68	57.l5	3	37.72	l39.95	3	l0.15	l05.ll	l	250.67	48.72	62

Note:-Consumption and Closing Stock included Insurance Spares.

It would be seen that inventory holding particularly stores and spares was too high and resulted in blocking up of capital. The Management stated (March, 1990) "we are to hold material more than the normal holding because it is practically very difficult to procure material within a short time in the remote place like Nagaland". This holding also resulted in surplus and unserviceable stores as indicated below:

T A B L E -10

(Rs.in lakhs)

	CHEMICALS			COAL & FUEL			STORES AND SPARES			%OF UNSERVICEABLE STORES TO CLOSING STOCK				PRODUCTION
Year	Consumption.	Closing Stock	Unserviceable	Consumption.	Closing Stock	Unserviceable	Consumption.	Closing Stock	Unserviceable.	Chemicals	Fuel	Stores		M.T.
1984-85	95.29	76.99	NA	112.29	28.12	NA	126.63	356.95	NA	NA	NA	NA		2874
1985-86	131.62	68.17	NA	251.80	38.13	NA	102.01	269.69	NA	NA	NA	NA		6145
1986-87	83.69	31.85	3.23	139.70	26.49	1.74	63.81	243.37	22.13	10.14	6.57	9.09		4944
1987-88	154.25	46.47	3.23	114.06	57.64	1.74	79.11	249.08	27.86	6.95	3.02	11.19		5675
1988-89	59.21	19.23	3.23	56.11	33.62	1.74	38.45	250.80	34.29	16.80	5.18	13.67		2180
1989-90	49.91	14.68	1.76	35.65	20.05	0.04	26.78	258.85	39.44	11.99	0.20	15.24		981
1990-91	139.95	37.72	2.94	105.11	10.15	0.23	48.72	250.67	48.28	7.79	2.27	19.26		2368

Note:-Consumption and Closing stock included Insurance Spares.

It would be seen from the above table that percentage of unserviceable stores and spares had been registering an increase over the years.

4.00 FINANCIAL POSITION

The table below indicates the financial position of the Company for the five years ending 1990-91:

T A B L E -11

(Rs.in lakhs)

Particulars	1986-87	1987-88	1988-89	1989-90	1990-91
I.Capital & Liabilities					
A.Shareholders'Funds.					
i)Paid up Capital.....	4665.38	4665.38	4837.38	4837.38	4837.38
ii)Reserves & Surplus.....	15.00	15.00	1122.00	1122.00	15.00
B.Loan Funds:					
Unsecured.....	6293.82	6538.24	7138.24	7138.24	7138.24
C.Trade dues & other current liabilities including provisions....	3806.93	5178.03	5886.85	7611.54	9593.04
Total.....	14781.13	16396.65	18984.47	20709.16	21583.66
II. Assets.					
D. Gross Block.....	7282.05	7383.74	7456.02	7428.78	7430.86
E.Less:Depreciation.....	2875.47	3510.92	4153.88	4761.77	5392.57
F.Net Block.....	4406.58	3872.82	3302.14	2667.01	2038.29
G.Other tangible assets...	1068.62	1167.97	836.24	873.82	1470.37
H.Miscellaneous expenditure awaiting write off.....	55.85	47.52	36.69	25.87	15.05
I.Accumulated losses.....	9250.08	11308.34	14809.40	17142.46	18059.95
Total.....	14781.13	16396.65	18984.47	20709.16	21583.66
Capital employed.....	1460.69	(-)240.87	(-)1691.83	(-)3986.85	(-)5970.48
Net worth.....	(-)4625.55	(-)6675.48	(-)8886.71	(-)11208.95	(-)14222.62
J.Loss for the..... year after prior period adjustment.	2319.31	2058.26	2394.05	2333.07	2024.49

Note:1.Capital employed represents Net Block plus working capital.
2.Net worth represents paid up capital plus reserves and surplus less intangible assets.

-It would be seen from the above that:

-accumulated loss amounted to Rs.180.60 crores against paid up capital of Rs.48.37 crores at the end of 1990-91

-Net worth had been registering a negative trend and stood at minus Rs.142.23 crores on 31st March 1991 and

-while loss had increased to Rs.23.94 crores and Rs.23.33 crores during 1988-89 and 1989-90 as against Rs.23.19 crores and Rs.20.58 crores during 1986-87 and 1987-88, loss had decreased to Rs.20.24 crores during 1990-91 as against all the previous years.

It was observed in Audit that due to large losses, the Company could not repay principal and interest on loans timely with the result that it had to incur increasing liability for penal interest as indicated in the table below:-

(Rupees in lakhs)

Year	Penal interest*
1983-84	18.13
1984-85	83.28
1985-86	192.76
1986-87	315.13
1987-88	454.47
1988-89	616.54
1989-90	793.63
1990-91	975.78

* not provided in the accounts.

5.00 SUMMING UP

The project, with a rated capacity of production of 33000 MT of paper, started commercial production in July, 1982 as against the scheduled date of commission of October, 1977, resulting in a cost overrun of Rs.2161.10 lakhs over the 1977 estimates.

The project was started with unrealistic assumptions regarding availability of raw materials, electricity and skilled man-power.

Defective equipments were procured and there were delays in their installation. Additional costs were incurred on their repairs.

As a result of reasons mentioned above the Company incurred losses right from the very beginning due to very poor capacity utilization and consequently very high cost of production.

On 31.3.1991 the accumulated loss of the Company was Rs.180.60 crores and its net worth was (-)Rs.142.23 crores.

There is no feasible scheme before the management or Government for making the Company profitable.

P.K. Sarkar

(P.K.SARKAR)
Deputy Comptroller and Auditor General-cum-Chairman, Audit Board

New Delhi
The 14 FEB 1992

Countersigned

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

New Delhi
The 14 FEB 1992

ANNEXURE A

PROCESS FLOW CHART